



GRUPPO

CREDEM

2021 CONSOLIDATED FINANCIAL STATEMENTS

Laviana Fontana, (Bologna 1552 - Rome 1614), *Holy Family with Saints Catherine, Elizabeth and Giovannino*, detail, Credem art collection.

2021 CONSOLIDATED FINANCIAL STATEMENTS

GRUPPO

CREDEM

Credito Emiliano Spa
Credito Emiliano Banking Group - Credem
3032 - Joint stock company

Registered Office and Headquarters:

Via Emilia San Pietro No. 4 - 42100 Reggio Emilia
Fully paid-up share capital € 341.320.065
Taxpayer's Code 01806740153 - VAT Number 02823390352
ABI Code 03032
Bank enrolled in the Banks Register under No. 5350
Bank enrolled in the Banking Groups Register under No. 03032
Member of the Interbank Deposit Protection Fund
Tel. +39 0522 5821 - Telefax +39 0522 433969 - Telex BACDIR 530658 – Swift Code BACRIT22
Website: www.credem.it

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GOVERNING AND CONTROL BODIES

BOARD OF DIRECTORS

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

(*) Members of the Executive Committee

(**) Independent directors pursuant to Art. 148, paragraph 3, Italian Legislative Decree

BOARD OF STATUTORY AUDITORS

Chairman	Anna Maria Allievi	
Standing auditors	Giulio Morandi	Maria Paglia
Alternate auditors	Maurizio Bergomi	Riccardo Losi

SENIOR MANAGEMENT

General Manager	Nazzareno Gregori	
Joint General Manager	Angelo Campani	
Deputy General Managers	Giuliano Cassinadri Stefano Pilastrì	Stefano Morellini
Central Managers	Giuliano Baroni Paolo Magnani	Ivan Damiano Francesco Reggiani
Deputy Central Manager	Maurizio Giglioli	

MANAGER RESPONSIBLE for preparing the company's financial reports

Paolo Tommasini

INDEPENDENT AUDITOR

Ernst & Young S.p.A.



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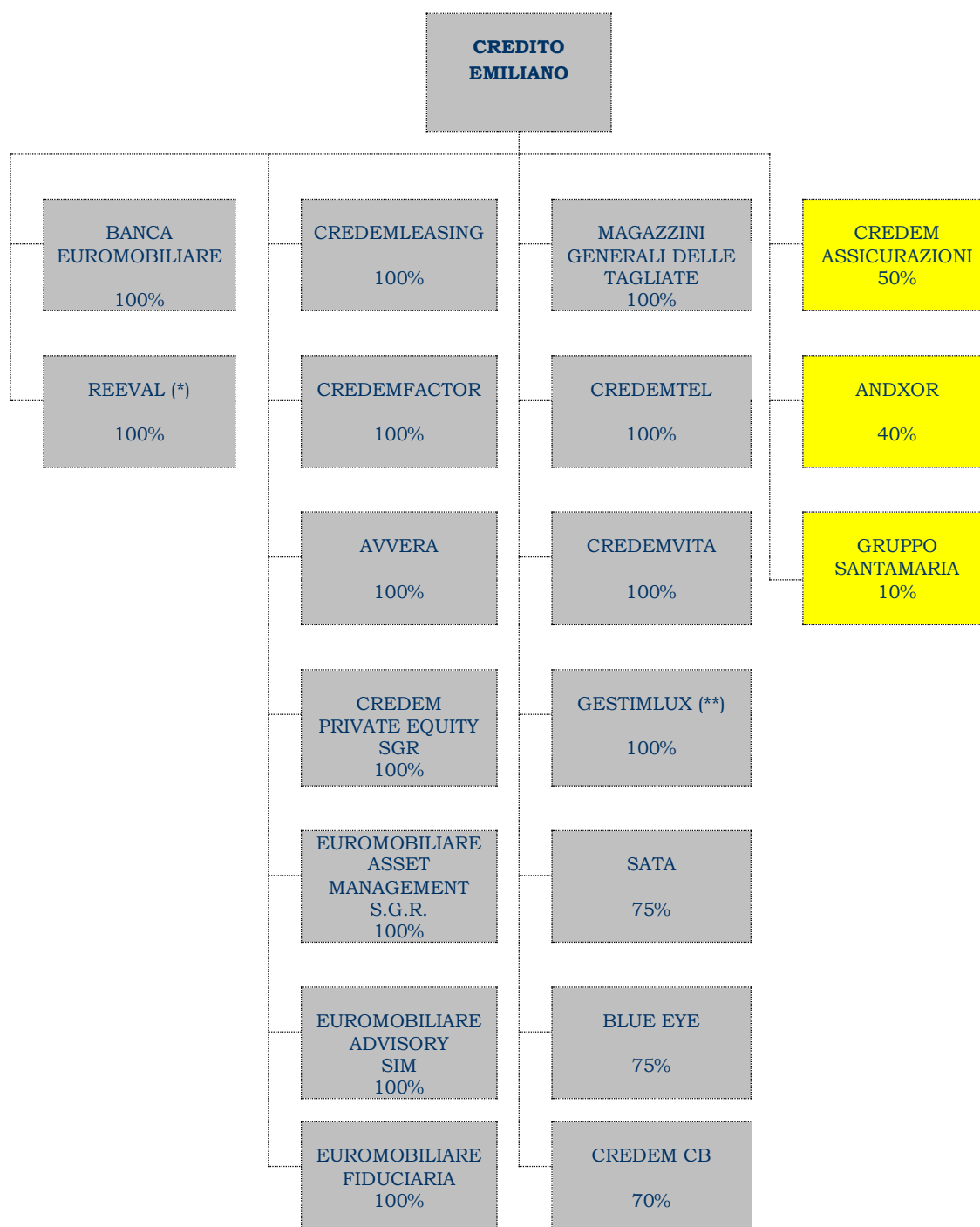
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2021 CONSOLIDATED FINANCIAL STATEMENTS

Giovanni Francesco Barbieri known as Guercino (Cento 1591- Bologna 1666), *Mystical Marriage of Saint Catherine in the presence of Saint Charles Borromeo*, detail, Credem art collection

REPORT ON OPERATIONS

SCOPE OF CONSOLIDATION



Notes:

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

(*) the company Reeval is an equity investment acquired following the merger of Cassa di Risparmio di Cento into Credito Emiliano and has been classified as "Non-current assets and groups of assets held for sale and discontinued operations" since it is in voluntary liquidation.

CONSOLIDATED FINANCIAL STATEMENTS – REPORT ON OPERATIONS

(**) company held for sale

In the first quarter of 2021, continuing its strategy of investment in technology and innovation, Credemtel increased its stake in Blue Eye Srl, a company specialising in advanced workflow solutions and Rpa - Robotic Process Automation platforms to automate repetitive activities (recording invoices, reconciling payments, accounting checks in general, analysing emails, performing calculations, opening and moving files, extracting unstructured data). An additional 55% of the share capital was purchased, which, combined with the 20% already owned, brought the shareholding to 75%.

In December 2021, said equity investment was consolidated using the line-by-line method.

In August 2021, Credemtel also increased its shareholding in Andxor Srl, while continuing its investment strategy in technology and innovation.

On the basis of the agreements originally signed at the time of the acquisition of the first stake in Andxor Srl (equal to 20%), Credemtel exercised the option right for the purchase of a further 20% of the Share Capital of the investee, thus reaching a total 40%. Andxor is continuing its growth strategy with appreciable results, sharing with Credemtel a plan of investments in technology and qualified professionals, proving to be an important partner in numerous digitalisation projects launched both by Credem and other Group companies, and for primary customers of Credemtel.

The increase in the shareholding is conducive to the ever greater development of the collaboration between Credemtel and Andxor regarding various technical and legal types of electronic underwriting.

To our Shareholders,

This section provides the usual brief preliminary overview of the macroeconomic scenario, the financial markets and major factors influencing the banking sector.

MACROECONOMIC SCENARIOS

After a widespread slowdown in economic activity in the third quarter, which in any case did not affect the euro area, the fourth quarter was characterised by a return to a more sustained recovery both in the United States and in other advanced countries and to a slowdown in the euro area.

The dynamics of the pandemic in some countries and persistent supply-side bottlenecks are generating downside risks to economic activity. Inflation has further increased almost everywhere, reflecting higher energy and intermediate input prices and a recovery in the demand.

In the fourth quarter of 2021, China recorded a GDP up by + 4% per year, slowing down compared to + 4.9% in July-September, closing the whole of 2021 with an increase of 8.1%, the best result of the last decade. While annual growth has been better than estimated, going forward the Chinese economy could come under pressure by a contraction in demand and supply *shocks*.

The GDP of the United States, in the fourth quarter, ran at an annualized pace of 6.9%, compared to 2.3% in the previous quarter. Performance was driven by consumer spending and corporate inventories to meet the demand. The overall growth in 2021 was therefore +5.7%, a record since 1984. The *Federal Reserve* has started the process of normalising monetary policy.

After two quarters of strong expansion, economic activity in the euro area slowed down in the latter part of the year, reflecting rising infection rates and the subsequent introduction of increasingly stringent containment measures, as well as persistent supply bottlenecks that are hampering manufacturing. Inflation reached its highest value since the launch of the Monetary Union (at 5.0% in December 2021), mainly affected by the exceptional increases in the energy component. The flash data show a GDP in December 2021 growing by 0.3% quarterly, compared to + 2.2% and + 2.3% in the previous two quarters. The annual growth, however, marks a + 4.6%. Germany is in difficulty, with its GDP falling by 0.7% quarterly, after +1.7% in the summer and +2.2% in the spring, with an annual growth of 1.4%, heavily affected by interruptions in the supply flows of manufactured goods and raw materials.

The Italian economy in 2021 grew by +6.5%, an increase that has not been recorded for 45 years. The decisive boost for growth came from the two middle quarters of the year (+2.7% and +2.6% respectively), while the fourth quarter showed a more modest trend, + 0.6% compared to the previous quarter. In particular, agriculture slowed down in the last part of the year while industry and services grew, but to a more moderate extent. However, it was the domestic demand (gross of inventories) that drove the economy, while exports slowed down. The change expected for 2022 is +2.4%. Inflation, again at the end of December 2021, was +4.2% on an annual basis. Risk factors are related to the pandemic (which has not yet been definitively concluded), high energy prices (and inflationary dynamics in general) and supply-side tensions.

As regards monetary policy, the Governing Council of the European Central Bank:

- In the meeting of 11 March, it had decided to significantly increase, starting from the second half of March and in the second quarter of 2021, the pace of the monthly purchases as part of the *Pandemic Emergency Purchase Program*, (PEPP). The objective was to counter the risk that the rise in yields, observed since the beginning of the year on international markets, would cause a premature tightening of financing conditions in the Eurozone.
- In the meeting of 10 June, it stated that it would hold net purchases of the pandemic programme in the third quarter “*at a significantly higher rate than in*

earlier months of the year". The aim was to avoid a premature tightening of financing conditions for the economy, given the impact of the pandemic on economic prospects.

- On July 8, a statement outlining its new monetary policy strategy was published. It is believed that the best way to maintain price stability is to pursue an inflation target of 2% over the medium term. This objective is symmetrical, in the sense that negative and positive deviations of inflation from the objective are equally inappropriate. In addition, an action plan was presented to include climate change considerations in its strategy. The ECB has indicated its intention to expand its analytical capacity in terms of macroeconomic models, statistics and monetary policy with reference to climate change and to also include climate considerations in its monetary policy operations.
- On July 14, it decided to start an analysis phase of the project for a digital euro. This phase, lasting 24 months, will focus on fundamental issues relating to the definition of technical issues and distribution. A digital euro must be able to respond to the needs of European citizens, while at the same time helping to prevent illegal activities and averting undesirable effects on financial stability and monetary policy.
- On 22 July, in support of its 2% symmetrical inflation target and in line with its monetary policy strategy, it confirmed that, for the third quarter, PEPP purchases would be conducted at a significantly faster pace than in the early months of the year.
- On 9 September, based on a joint assessment of financing conditions and inflation outlook, it considered that favourable financing conditions could be maintained with a moderately lower pace of net PEPP purchases than in the previous two quarters. This approach was also confirmed in the session of 28 October (for purchases in the fourth quarter of 2021).
- In the last meeting of the year (December 16, 2021), it announced the end of the PEPP for March 2022, preceded by a slowdown in the pace of monthly purchases during the first quarter of 2022. The reasons for the decision are due to the significant increase in inflation in the euro area (albeit mainly due to factors unrelated to the actions of the Monetary Authority) and the recovery in GDP. The Council also noted that, given the high level of uncertainty, the application of the monetary policy will be flexible and open to various options in relation to the evolution of the macroeconomic environment, while reiterating the need to maintain an accommodative stance.

With regard to the performance of the financial markets, the following should be noted:

- In the first quarter of 2021, the improvement of the global framework and the approval of the fiscal stimulus led to a sharp rise in long-term yields in the United States, which partly extended to the other advanced countries. In the eurozone, this increase was contained, thanks to the expansionary stance of monetary policy reaffirmed by the ECB Governing Council. Share prices have risen since January in all the main advanced economies.
- In the second quarter of 2021, the confirmation of the expansive monetary policy of the *Federal Reserve* and the ECB contributed to interrupting the increase in long-term yields under way since the beginning of the year. The improvement in growth prospects affected the performance of share prices which rose in the second quarter, in the United States, the Eurozone and the United Kingdom. The Japanese stock market index decreased. In the government bond market, implied volatility declined slightly.
- Long-term government bond yields increased in the major advanced economies in the third quarter. The fears related to the *Evergrande* case did not significantly affect the volatility of the markets; in the major advanced economies, share prices rose.
- In the fourth quarter, news on the spread of the Omicron variant impacted the performance of the financial markets, affecting stock prices and helping to widen the sovereign *spreads* in eurozone countries. The negative impact on the stock

markets of the initial news about the spread of the Omicron variant was at first significant, although temporary.

With regard to currencies, in 2021 the euro depreciated against the dollar by -7.7%, affected by:

- In the first quarter, the approval of the new fiscal stimulus package in the US (which prompted a depreciation of -4% at end-March 2021 compared to the end-2020 value).
- In the second quarter, indications of a faster rise in official interest rates came from the *Federal Reserve's* projections (which, after an appreciation phase, led to a depreciation of -2.9% at the end of June compared to the end of 2020).
- In the last two quarters, expectations of a relatively more expansionary monetary stance in the coming months by the ECB compared to the Fed.

Looking at Italy in more detail:

- Starting from the first half of February, the yields of Italian government bonds fell, largely driven by the reduction in the sovereign risk premium. Subsequently, they rose again, reaching levels slightly higher than those at the beginning of the year, reflecting a movement common to the main advanced economies, which in the Eurozone was however counteracted by the decisions of the Governing Council of the ECB in March. The *BTP-Bundspread* remained almost unchanged, at values lower than those observed before the pandemic.
- In the second quarter of 2021, the increase in the yields of Italian government bonds, observed since April, was interrupted in mid-May, following the statements of members of the Governing Council of the ECB who reiterated their intention to maintain favourable financing conditions. The *spread* has remained below the levels prior to the pandemic and the volatility implicit in derivative contracts on the Italian 10-year government bond was very limited. The *spread* as at 30 June was around 102 bps.
- In the third quarter, the *BTP-Bundspread* remained substantially stable (just above 100 bps).
- In the fourth quarter, the *spread* was affected by investors' increased risk aversion related to the resumption of contagion and expectations that the ECB would gradually reduce the pace of securities purchases, albeit in a still accommodative monetary policy environment. The *spread* at 30 December 2021 was around 136 bps.

With regard to the Italian stock market, the FTSE Mib closed 2021 with a +23.0% compared to the end of 2020. The market benefited from the disclosure of higher than expected earnings, which was only partially offset by fears about possible market rate hikes and the dynamics of energy prices.

Standard & Poor's, on 24 April 2021, maintained its *BBB rating* for Italy, with a *stable outlook*; on 23 October it maintained its *BBB rating*, raising its *outlook* to positive. *DBRS*, on 30 April validated the *BBB (high)* rating, with a *negative outlook*; in November it brought the *outlook* to stable. On 7 May, *Moody's* maintained its "Baa3" *rating*. The rating was also confirmed on 5 November. On 4 December, Fitch raised Italy's *rating* to 'BBB' from 'BBB-', with a *stable outlook*.

REGULATORY CONTEXT AND BANKING INDUSTRY PERFORMANCE

The Supervisory Authorities maintained, also for 2021, the temporary relaxation of some prudential restrictions aimed at supporting credit provided to the economy. At the same time, the Italian government also continued to support households and businesses.

With regard to banking supervision, we recall:

- On 12 January, the final guide outlining the supervisory approach to consolidation in the banking sector was published on the ECB's website (the public consultation was concluded on 1 October 2020). The ECB has stated that it will use its supervisory tools to facilitate sustainable consolidation projects. Such projects must be based on a credible business and integration plan, improve the sustainability of the *business* model and meet high standards of *governance* and risk management.
- On 28 January, the ECB published the results of the *Supervisory Review and Evaluation Process* (SREP) carried out in 2020. Based on the pragmatic approach adopted in 2020 following the outbreak of the pandemic, the ECB had decided to keep the *Pillar 2 requirements* (P2R) and the *Pillar 2 guidance* (P2G) stable and not to update the SREP scores, except in exceptional circumstances. The supervisory priorities for 2021 were also set: credit risk, capital strength, sustainability of business models and *governance*.
- On 29 January, the EBA and the ECB launched *EU-wide stress tests*, publishing final documents on methodology, *templates* and scenarios.
- On 2 March, the ECB made available a guide on the principles and methods for calculating the financial penalties to be used to sanction banks in the event of violation of prudential requirements. The publication is intended to mark a further step forward in the transparency of ECB supervisory policies and practices, also in line with the case law of the Court of Justice of the European Union.
- On 19 April, the ECB published the results of its *targeted review of internal models* (TRIM). The large-scale analysis focused on compliance with the regulations and the consistent application of the internal models by banks. The audit resulted in an increase of € 275 billion in risk-weighted assets over three years and in more than 5,000 warning to banks on the shortcomings to be addressed.
- On 10 June, the Basel Committee put up for consultation a document on the treatment of cryptocurrencies, with more stringent rules for banks. The Basel Committee proposes a risk weight of 1250% of the greater of exposures through net long positions and net short exposures, i.e. those managed through indirect investments (funds and ETFs) and derivative contracts.
- On 18 June, the ECB announced that exposure related to the mandatory reserve may be excluded from the financial leverage exposure until 31 March 2022.
- On 23 June, the EBA published the "*Report on Environmental, Social and Governance (ESG) risks management and supervision*". In the document, the EBA recommends integrating ESG factors and risks into the banks' business strategy, *risk management* and *governance*.
- On 29 June the ECB launched a public consultation on the revision of its harmonised policies for the exercise of options and discretions in the supervision of banks, as required by EU law.
- The ECB, on 27 July, decided not to extend its recommendation to all banks to limit dividends beyond September 2021. The Supervisory Authorities are again assessing each bank's capital and dividend plans as part of the regular supervisory process. According to the Authority, banks should continue to adopt prudence in their decisions on dividends and on the repurchase of treasury shares, carefully considering the sustainability of their *business* model.
- On 30 July, the ECB published the results of the 2021 stress test, which showed the resilience of the euro area banking sector in the face of adverse economic

developments. The CET1 Ratio (*Common Equity Tier 1*) of the 89 banks participating in the exercise would fall on average by 5.2 percentage points, from 15.1% to 9.9%, if they were exposed to a three-year stress period of challenging macroeconomic conditions. At the same time, the EBA also published the results of the individual banks subjected to the stress test at EU level: for the 38 banks participating in the EBA test, the average CET1 ratio decreased by 5 percentage points, from 14.7 % to 9.7%.

- On 17 December, the ECB announced that the support measures called "*liquidity relief*" (possibility of operating below 100% of the *Liquidity Coverage Ratio*) would expire on 31 December 2021.

It should be noted that the European Commission has started negotiations for a proposal for a Directive and Regulation to increase the digital resilience of the financial sector (*Digital Operational Resilience Acts*, DORA); the proposal aims to encourage the development of secure and reliable digital services by strengthening and harmonizing the technical security, *governance* and risk management controls deriving from the use of third parties for the provision of these services.

On 27 October, the European Commission adopted a proposal to update the *Capital Requirements Regulation & Directive*. The package includes the implementation of the latest Basel III guidelines, introduces explicit rules in the management of ESG (*Environmental, Social and Governance*) risks and finally provides for greater power for banking supervision. The aim of the new rules is to ensure greater resilience of EU banks to potential future economic *shocks*, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality.

Regarding the implementation of Basel III, the proposal aims to ensure that the "internal models" used by banks to calculate their capital requirements do not underestimate the risks, thus ensuring that the capital needed to cover these risks is sufficient. With regard to environmental, social and *governance* (ESG) risks, the proposal will require banks to systematically identify, communicate and manage ESG risks as part of their risk management. In this context, both the Supervisory Authorities and the banks will have to carry out regular climate stress tests.

Finally, the package provides more effective tools for the Supervisory Authorities that monitor the work of EU banks. It establishes a set of clear, solid and balanced eligibility requirements on the basis of which the Supervisory Authorities will assess whether high-level personnel have the skills and knowledge necessary to manage a bank. Additionally, regulators will have better tools to oversee *FinTech* groups.

The legislative package will be debated by the European Parliament and the Council.

With regard to Italy, the Government continued to support households and businesses with the extension of the Cassa Integrazione Guadagni (Wages Guarantee Fund) to almost all employees, facilitating transfers to the self-employed and professionals, interventions to support business liquidity (moratoria and guarantees), providing poverty support in addition to specific interventions for the sectors most affected by restrictions. It should be noted:

- On 27 April, the Italian Parliament approved the National Recovery and Resilience Plan (PNRR), which envisages total expenditure of € 235 billion, of which € 205 billion will be financed by NGEU funds and € 30 billion by national funds. The objectives of the NRPP are: digitalisation, innovation and competitiveness (21% of funds), ecological transition (30%), sustainable infrastructures (13%), education and research (14%), social inclusion (13%), healthcare (9%). In mid-July, the EU Council approved NRPP sent by the Italian Government at the end of April.
- On 20 May, the Council of Ministers approved the Decree-Law "Sostegni 2" which extended the already implemented support measures, as well as introducing new ones. In particular, the moratoriums guaranteed by the State were extended to 31 December 2021. The suspension was valid for the principal amount and not automatic. The measure has also extended the possibility of requesting guaranteed loans to the end of 2021. Those with existing loans of more than € 30 thousand, have the option to request an extension of the loan and guarantee

up to 10 years. For loans requested from 1 July 2021, the guarantee has been reduced from 100% to 90% for amounts within € 30 thousand, while it has decreased to 80% for loans of a higher amount.

- At the end of the year, the 2022 Budget Law, which maintains an expansive orientation towards households and businesses, was approved. Among the various interventions, mention should be made of the extension to 2025 of incentives to investments (Transition 4.0) and the extension to 30 June 2022 of public guarantees for loans to SMEs (albeit with a reduction of the maximum amount and the payment of a fee).

On 28 April, the Bank of Italy made available for consultation two supplements to the Circular 285, aimed at introducing:

- the systemic risk buffer (SyRB). The SyRB is a tool that can be used to deal with a wide variety of systemic risks such as, for example, the risks deriving from the propagation and expansion of *shocks* within the financial system, the risks deriving from the structural characteristics of the banking sector, linked to specific market developments and to the institutional organization of the national financial system, as well as the structural risks for the banking sector deriving from the real economy. It can be applied to specific sector exposures and there can be multiple SyRB ratios on different exposures. The reserve coefficient would assume multiple values of 0.5 percentage points and must consist of Common Equity Tier 1 capital;
- some measures based on the characteristics of customers or loans (*borrower based*). The intervention gives the Bank of Italy the possibility to impose on banks for the granting of new loans: 1) limits on the ratio of the value of the loan to the value of the asset given as collateral (*loan to value*, LTV); 2) limits on the ratio of the value of the loan to the borrower's income (*loan to income*, LTI); 3) limits to the ratio of the total debt of the debtor to its income (*debt to income*, DTI); 4) limits on the ratio of the loan instalment to the debtor's income (*debt service to income*, DSTI); 5) limits on the ratio of the debtor's total debt to its net wealth (*leverage*); 6) limits on the duration of loans; 7) restrictions on loan amortization requirements.

On 17 July, the decree governing the operations and powers of the *FinTech* Committee, the steering committee set up at the Ministry of Economy and Finance, and the conditions and methods for carrying out the *FinTech* experimentation in Italy, came into force. Italy has now a *regulatory sandbox*, a protected space dedicated to digital experimentation in the banking, financial and insurance sectors. The experimentation will allow *FinTech* operators to test innovative solutions, benefiting from a simplified transitional regime and in constant dialogue with the Supervisory Authorities: Bank of Italy, Consob, IVASS. At the same time, regulatory authorities will be able to observe the dynamics of technological development and identify the most appropriate and effective regulatory interventions to facilitate the development of *FinTech*, containing the spread of potential risks at an early stage. Finally, with the publication, on 25 November 2021, of the 37th update of Circular no. 285/2013, the Bank of Italy revised the provisions on remuneration and incentive policies and practices for banks and banking groups, implementing the changes introduced by the CRD V Directive in this area and the revised EBA Guidelines on sound remuneration policies of 2 October 2021, applicable from 31 December 2021.

Turning to the performance of the Italian banking system, in December 2021, loans to the private sector, adjusted to consider securitisations and other receivables assigned and derecognised from bank financial statements, rose by +2.1% year-on-year (it was +4.7% in December 2020). The growth rates were calculated by Banca d'Italia, including loans not recorded in bank financial statements as securitised and other receivables assigned and derecognised from bank financial statements. More specifically, loans to businesses increased by 1.6% YoY (+8.3% in December 2020). After the remarkable growth in the second half of 2020, driven by the extensive use of loans backed by government guarantees, the 2021 trend showed a

progressive slowdown. This trend is explained both by the resumption of repayments for loans, and by a lower demand for loans compared to 2020 (mostly used for debt restructuring purposes). Another factor that contributed to the slowdown in lending is the abundant cash in companies' current accounts, which has limited the use of bank credit.

On 31 December, the deadline for small and medium-sized enterprises to take advantage of the moratoria supported by a government guarantee expired: at that date, there were still moratoria in place for about € 33 billion, less than a quarter of the total amount granted since March 2020.

The Ministry of Economic Development and Mediocredito Centrale announced that there were almost 2.6 million requests for guarantee loans by businesses, artisans, self-employed persons and professionals, that were received by the Guarantee Fund in the period from 17 March 2020 to 11 January 2022, for a total amount of over € 221 billion. At 12 January 2022, 2,558,931 transactions had been accepted, of which 2,542,548 pursuant to the 'Cura Italia' and 'Liquidity' Legislative Decree.

With regard to lending to households, a positive and accelerating trend was recorded: in December 2021, the growth was +3.7% YoY (+2.3% in May 2020). Mortgages, again in December 2021, showed a 4.7% increase on an annual basis. The pandemic crisis has changed the characteristics of the requested real estate units. Furthermore, the demand for mortgages for the purchase of houses benefited from the extraordinary measures of the Government (those in favour of young people and *green* mortgages provided for by the DL Sostegni bis). In fact, in relation to the evolution of this market, according to data from the Revenue Agency, in the third quarter of 2021 the trend rate of sales in the residential sector was positive, recording a growth of 21.9% compared to the same quarter of 2020, with a total of over 172 thousand homes sold. Even in comparison with homes sold in the same quarter of 2019 (pre-Covid year), the trend rate remained broadly positive, with an increase of over 25%.

Consumer credit showed a limited recovery (+1.3% in December 2021), still suffering from the impact of the pandemic on households' durable and semi-durable consumption and borrowing decisions.

With regard to the level of risk, gross bad loans reached € 38.1 billion in December 2021 (€ 51.6 billion in December 2020, a decrease of 26.1% YoY). Bad loans, net of valuation reserve at December 2021 fell to € 15.0 billion from € 20.9 billion in December 2020 (-28.0% yoy). This trend also benefited from the sale of realised non-performing loans in the second half of 2021. In the third quarter, the flow of new impaired loans to total loans increased to 1.1% (from 1.0% in the second quarter). For loans to non-financial companies, the indicator rose to 1.8% (from 1.3%), reflecting the increase in companies operating in services and manufacturing; however, it remains at historically low levels. On the other hand, a new improvement in the quality of credit to consumer households was noted, with the indicator standing at 0.8%. In the same period, the percentage of total loans disbursed by significant banking groups represented by non-performing loans decreased slightly, both gross (3.6%) and net of value adjustments (1.7%). The coverage rate (the ratio between adjustments and the consistency of non-performing loans) stood at 53.9%.

Turning to direct deposits of Italian banks, private sector deposits continued to show a considerable upward trend. In summary, deposits increased by +6.9% year-on-year in December 2021 (it was +11.1% in December 2020, also year-on-year). The high degree of uncertainty associated with the crisis led to a significant increase in the propensity to save and an accumulation of non-risky liquid assets. Household deposits increased 5.1% in December 2021. Corporate deposits closed the year with growth well above that of the private sector (+11.5% in December 2021); part of the loans in the sector, requested to deal with the pandemic and the uncertainty of the economic situation, constituted an important liquidity *buffer* deposited with the banks.

More specifically, demand liquidity instruments held in current accounts posted performance of +9.7% YoY in December 2021. Fixed-term deposit instruments fell 9.3% YoY, while deposits repayable with advance notice recorded a contained but

positive trend (+0.9% in December 2021). Repurchase agreements closed at +5.9% (again in December 2021).

Within fixed-term deposits, the bond segment continued to decline, standing at -5.1% year-on-year in December 2021, as issues by banking groups were lacking due to the still wide liquidity made available by the Eurosystem.

With regard to assets under management, the good performance of the markets and the operators activities led to significant inflows of € 64.8 billion in December 2021 (note that the net inflows into open-ended funds amounted to € +18.9 billion in 2020). According to Assogestioni, net deposits were positive for equities (€ +31.8 billion, accounting for 29% of total assets under management), balanced assets (€ +23.2 billion, accounting for 13% of total assets under management) and bonds (€ +12.4 billion, accounting for 35% of total assets under management). Flexible funds recorded outflows of € -1.8 billion (representing 19% of total assets under management) and monetary funds (-0.4 billion euros, accounting for 3% of total assets under management). The total assets of open-end funds in December 2021 rose to € 1,263.3 billion (€ 1,116.5 billion in December 2020); the trend was positively affected by the evolution of net deposits and the effect of market performance. The flows, described above, were concentrated on foreign funds (€ 58.9 billion)

In December 2021, according to ANIA data, the new production of individual and collective life policies in Italy amounted to € 105.4 billion, up by 9.5% compared to the previous year. Segment I products were down by 5.9% (accounting for 59% of total deposits), while Segment III products were up (+38.7% yoy, representing 40% of total production). With regard to the distribution channels for life insurance policies, bank and post office branches were partially stable (-1.7% year-on-year, accounting for 62% of total inflows), while the network channel showed a strong progress (+38.9% year-on-year, accounting for 18% of total inflows).

At the same time, household securities in deposit (at nominal value) posted a decline of 10.4% yoy in December 2021.

According to the Bank of Italy surveys, in the first nine months of 2021 the profitability of leading Italian groups almost doubled compared to the same period of 2020 (ROE of 7.6% compared to 3.9% in September 2020). The growth in ROE, valued net of extraordinary items, mainly reflected the decrease in value adjustments on loans (-47.2% on an annual basis). In the first nine months of 2021, the increase in commissions and revenues deriving from trading activities more than offset the decline in the interest margin (-3.4% yoy). The brokerage margin recorded + 5.0% on an annual basis, while operating costs fell (-2.8%); the operating result increased by about a quarter (+ 23.3% compared to September 2020). The CET1 *Ratio* stood at 15.3%.

In the near future, banks will be engaged on several fronts, all very challenging: managing the transition to a new normal after the pandemic, rethinking their business models in light of the digitalisation process, accurately measuring and monitoring the financial risks generated by climate change.

Digitalisation is radically changing the structure of the financial system, allowing the entry of new operators, creating new ways of interacting with customers, stimulating process and product innovation. For banks, the possible applications not only make back-office operations more efficient, but also allow them to make full use of the huge amount of information available to propose the most suitable products for their customers' needs. The use of technology can also contribute to making the entire credit cycle more efficient (from disbursement to monitoring, from restructuring to recovery). At the same time, new technologies expose intermediaries to risks: fraud, cyber attacks, improper use of artificial intelligence are threats against which it is necessary to defend themselves. A new area of work is linked to financial risks from climate change, whose assessment and management are one of the main challenges that the regulatory authorities, supervisory authorities and intermediaries must face. All the players involved are required to make a considerable effort to ensure that the financial sector accurately assesses the extent

of current and future exposure to these risks, so as to seize the opportunities associated with the process of decarbonisation of the economic system. A correct measurement of these risks first of all requires reliable and comparable data to assess the impact that transition and physical risks can have on the sectors and activities financed. It is in particular on this aspect that the efforts of the Regulatory Authorities at European and international level are focusing. At the same time, the Supervisory Authorities are carrying out an intense activity to encourage banks to adopt appropriate organizational controls that allow them to measure, monitor and manage the financial risks deriving from climate change.

MAIN EFFECTS OF COVID-19

In 2021, in an environment of great uncertainty, the Group consolidated and rationalised the success factors tested during the previous financial year: Credito Emiliano was able to model the mechanisms implemented during the first phase of the Covid-19 pandemic, turning them into best practices. Some controls, initially impromptu, were integrated into the Group's operating processes and were further strengthened to ensure and improve operational continuity.

In particular, the Group acted on the following lines of action:

- Prevention of risks in the workplace.
- Strengthening of digital channels.
- Consolidation of *remote working*.
- Development of *early warning* systems on credit.
- Institutionalisation of *quarterly rolling forecast* systems in planning processes.

As of 23 April 2021, Decree-Law no. 52, which contains the "Urgent measures for the gradual recovery of economic and social activities in accordance with the need to contain the spread of the COVID-19 epidemic". Nothing specific is introduced with reference to the operations of the banks, which continue as envisaged by the previous decrees.

On 30 December, the Decree Law no. 229 which introduces urgent measures to contain the spread of the COVID-19 epidemic and provisions on health surveillance, was issued.

On the same date, the Circular of the Ministry of Health no. 60136 was issued, providing some clarifications on the terms of quarantine or isolation.

Other interventions took place at the beginning of 2022. In particular, the Decree Law No. 1 of 7 January 2022 allows, starting from February 1 and until March 31, except for extensions, access to banking and financial services exclusively for those in possession of the *basic green pass* (vaccine certification), that is also obtainable with a molecular or antigenic vaccine. Therefore, starting from 1 February, after having been informed of this in advance, it is forbidden for customers without a *basic green pass* to access the Bank's premises. The same decree introduces the vaccination obligation for all those who have reached the age of 50 with effect from 15 February 2022.

In order to facilitate the verification operations, a "widespread" check has been provided by the employee/consultant who will receive the customer before starting any type of operation, through the appropriate "Verification C19" APP developed by the Ministry of Health and installed on company phones.

The Group has taken the necessary measures to comply with all regulatory provisions.

At present, and without prejudice to future studies, the level of protection adopted by the Group throughout the territory is considered consistent and adequate at the highest possible level regardless of the regional classification adopted by the Ministry of Health.

The Group's main activities are listed below in more detail.

"PANDEMIC MANAGEMENT" SCHEME				
INTERVENTION AREA	BUSINESS CONTINUITY	MONITORING, PLANNING AND CONTROL	SUPPORT TO STAKEHOLDERS	GOVERNANCE AND COMMUNICATION
ACTIVITIES	Activation of the Crisis Committee on business continuity issues, safety in the workplace, staff organization, cyber risk, monitoring of supplier service levels	Increase of monitoring activities (indicators of risk appetite framework, liquidity, commercial trends)	Adherence to state projects on customer support (eg: Moratoria and Guarantees)	Dedicated information on the company website and on corporate social networks
	Remote Working as an approach of preference for all "eligible Workers" Customer support activities (e.g. advisory via hangouts, digitalization of commercial processes)	Monthly adjustment of the forecast for 2020, with impact analyses taking into account different scenarios	Support to employees (psychological, insurance policy extension)	A "Covid19 Bulletin" created in favor of employees, containing information regarding the prevention and safety rules governing working methods
	Workplace safety and cyber risk	"Covid-19 Reporting" institutionalized with the European Central Bank, structured on different templates: detailed information on monthly final figures on the income statement, balance sheet, capital ratios, and information on business continuity, update on credit situation and concessions granted to customers, information on market risk, moratoria and state guarantees	Charitable initiatives: fundraising in favor of civil protection, with a company contribution that joined that of employees	Customer awareness with dedicated information to support both access to the branches and how to use remote channels

BUSINESS CONTINUITY

Crisis Committee

The Crisis Committee, which had met periodically since the early stages of the pandemic in order to monitor the situation and ensure operational continuity, ensuring that the Institute is fully operational, did not hold meetings in 2021.

Remote Working

The extension of the state of emergency has further strengthened the will to maintain the tool of agile/remote work, already developed within the Credem Group even before the health emergency. Credem was among the companies awarded by the *School of Management* of the Politecnico di Milano with the "Smart Working Award 2020" for the implementation of initiatives to redesign space and working methods from an "agile/remote" perspective and for the use of a new managerial philosophy based on giving people back flexibility and autonomy in choosing the spaces, times and tools to be used, in exchange for greater accountability in terms of the results.

Business continuity

Operational continuity was guaranteed in compliance with all the measures necessary for the protection of public health: safety rules for access to premises, social distancing, individual protection systems, information to customers and employees on the rules of conduct. From 15 October, access to the workplace has been forbidden to those without a *green pass* (employee or external staff who access the premises for work reasons) and, consequently, it has become mandatory to show it to the persons in charge of controls. In the larger offices, control was entrusted to an external company, while in the smaller sites a control officer was appointed.

Activation of new digital processes

The programme to digitise business processes has been improved through greater use of Video Calling, Digital Signature and Certified email system (PEC).

Cyber risk

The Information Security Functions maintained and monitored the level of *cyber security* protection by reviewing the process and the *patching* technologies on the *clients* to adapt them to the VPN connectivity to reduce the risks deriving from the new context.

MONITORING, PLANNING AND CONTROL

In 2021, the Group maintained the following monitoring activities, already activated in the first phase of the pandemic:

- Monthly monitoring by the function responsible for the *risk management* of all RAF (*Risk Appetite Framework*) indicators, the monitoring of the liquidity profile and the framing of *funding* needs as well as the monitoring of production trends on the main commercial aggregates: Deposits, Loans, *Assets Under Custody* and *Assets Under Management*.
- Quarterly projection of income statement and balance sheet data, prepared centrally by the Planning and *Risk Management* functions, taking into account the updated macroeconomic scenario and the progressive evolution of the final figures. The projections also include a more severe scenario, consistent with the *stress testing* methodologies adopted as part of the ICAAP process, to verify the resilience of economic *targets* and capital *ratios*, and all the impact variables of the IFRS9 model for the determination of *expected credit losses*.
- *Credit monitoring*: in order to anticipate and deal with the impacts of the pandemic on the Income Statement, on the Balance Sheet and in particular on Credit, the Credito Emiliano Group has planned, for 2021 and 2022, to:
 - verify the real and concrete repayment capacity after end of all the moratorium measures;
 - verify the start of payments after the pre-amortisation period, in particular on guaranteed loans up to € 30,000 which benefited from a simplified valuation.The impact of the COVID emergency on asset quality and credit strategy is also constantly monitored through the Group's periodic *Credit Strategy* Committee, in particular with a focus on 4 areas:
 - observatory: macroeconomic, sectorial, regulatory and *asset quality*;
 - risk management: the overall monitoring system has been strengthened and expanded, using an extensive set of indicators in order to proactively identify positions of fragility, or possible future difficulties when the government measures run out, evaluating the correct actions and classifications;
 - *forward looking* valuation: new evaluation methodology combining a sectoral view with an assessment of the resilience of the individual company;
 - dedicated strategies and initiatives for each segment.

The *ad hoc* processes structured on each individual measure granted are accompanied by the monitoring and risk management activities, which have been expanded and strengthened since the beginning of the pandemic, and which are subject to continuous updates. The approach is proactive, promptly identifying potentially problematic positions within the emergency context, including those under suspension or benefiting from COVID government measures, even in the absence of overdue positions.

STAKEHOLDERS SUPPORT

In the course of 2021, the initiatives aimed at protecting customers continued with a timely management of the extensions which made it possible to extend the period of coverage of the moratorium where possible. The automatic resolution process was implemented on loans of less than € 30 thousand, provided for by the Liquidity Decree Law. This demonstrates that the Group has promptly put in place an additional system to better support its customers. The amount of initiatives implemented by the Group since the beginning of the Covid-19 pandemic, as regards the moratoria that fall within the scope of the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis" published by the EBA (EBA/GL/2020/02) as amended, with loans subject to other lending measures and new loans exceeds EUR 6 billion.

Details of the loans subject to COVID-19 support measures are provided below, with reference to the Explanatory Notes for more detailed information on the existing moratoria (figures in Euros):

	values in €		
	Gross exposure	Overall value adjustments and total provisions	Net exposure
A. BAD LOANS	1,567,231	462,854	1,104,377
a) Subject to forbearance in compliance with the GLs	-	-	-
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	-	-	-
c) Subject of other forbearance measures	-	-	-
d) New Loans	1,567,231	462,854	1,104,377
B. UNLIKELY-TO-PAY LOANS	35,648,447	7,938,328	27,710,119
a) Subject to forbearance in compliance with the GLs	225,903	44,566	181,337
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	1,006,438	410,114	596,324
c) Subject of other forbearance measures	23,145,623	4,888,580	18,257,043
d) New Loans	11,270,483	2,595,068	8,675,415
C) IMPAIRED OVERDUE LOANS	2,211,781	342,121	1,869,660
a) Subject to forbearance in compliance with the GLs	22,752	1,354	21,398
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	253,281	31,360	221,921
c) Subject of other forbearance measures	67,490	9,240	58,250
d) New Loans	1,868,258	300,167	1,568,091
D) NON-IMPAIRED LOANS	11,115,279	47,136	11,068,143
a) Subject to forbearance in compliance with the GLs	18,697	2,160	16,537
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	2,555,490	18,502	2,536,988
c) Subject of other forbearance measures	586,520	15,050	571,470
d) New Loans	7,954,572	11,424	7,943,148
E) OTHER NON-IMPAIRED LOANS	4,151,319,843	9,742,705	4,141,577,138
a) Subject to forbearance in compliance with the GLs	9,230,632	80,551	9,150,081
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	619,008,454	3,406,155	615,602,299
c) Subject of other forbearance measures	136,290,140	3,470,138	132,820,002
d) New Loans	3,386,790,617	2,785,861	3,384,004,756
TOTAL (A+B+C+D+E)	4,201,862,581	18,533,144	4,183,329,437

With regard to employees, the Group has made available a company psychological support with extensive information webinars dedicated to better management of the acute phases of the pandemic, has taken out a health policy to cover the risk of Coronavirus infection and will reimburse the flu vaccination for the 2020-2021 season.

In 2021, the Group supported the vaccination campaign, contributing to the expenses for setting up and maintaining the Reggio Emilia vaccination hubs, and also activated a partnership with Banco Alimentare to deal with the requests received.

COMMUNICATION

Customers were supported through dedicated initiatives to inform the various segments regarding the issues of their respective interest: by way of example, to be noted is the support provided for managing investment choices in the wealth management area, the information on moratoria and state guarantees for companies, the possibility of extending the insurance policy to COVID-19 events for private customers. This area also includes broad information on Ecobonus and Superbonus: Credem, supported by two historical partners, Crif and Deloitte, provides customers with support for the technical and regulatory/tax analyses necessary for customers to obtain the assignment of the receivable envisaged by the Relaunch Decree (Legislative Decree 34/2020, converted by Law 77/2020).

Through specific channels on the company intranet, employees were constantly informed on regulatory changes, supported in daily operations, and guided in managing emergencies and any critical issues that could progressively arise. The digitalisation of internal processes was improved, Mobile Banking and digital channels were renewed, encouraging the development of an omnichannel service model.

MAIN EVENTS OF THE CREDEM GROUP

The main events relating to the Credem Group in 2021 are illustrated below:

- *Sale of the investment in Cedacri to ION*

On 5 March 2021, the shareholders of Cedacri, including Credito Emiliano, with a 3.9% shareholding, signed a binding agreement for the sale of their respective investments in Cedacri to ION, the main Italian operator in the *outsourcing* market IT services for banks and financial institutions. The *Enterprise Value* of € 1.5 billion includes a net financial position and other liabilities of approximately € 320 million; the completion of the transaction in the second quarter of 2021 resulted in a net capital gain of € 36.3 million recognised under equity.
- *Assigned ratings*
 - On 30 April, Fitch Ratings confirmed Credito Emiliano's long-term *rating* at 'BBB-' and its *Viability Rating* at 'bbb-'. The *Outlook* remains "stable" in line with the rating assigned to Italy.

The confirmation for Credem comes from the excellent capital position able to absorb the pressure on asset quality and profitability, following the economic deterioration caused by the pandemic, even in more adverse scenarios than the base one assumed by the agency.
 - On 12 May, Moody's Investors Services (Moody's) carried out a *rating* action on some Italian banks. In this regard, Credem's *Baseline Credit Assessment* was confirmed at "Baa3"; the long term *outlook* on Deposits was improved from "Negative" to "Stable".

Moody's rating action reflects the expectations that Credem will continue to have both a lower level of non-performing loans compared to many domestic competitors, as well as a solid capital position and excellent profitability levels.
 - On 17 December, Fitch Ratings revised up the *Long-Term Issuer Default Rating* (IDR) of Credem to "BBB" from "BBB-" and the *Viability Rating* (VR) to "bbb" from "bbb-". The long-term *outlook* on IDR is stable. The *rating* action follows the *upgrade*, on 3 December 2021, of Italy's sovereign *rating* to 'BBB'/Stable from 'BBB-'/Stable. The *rating* upgrade mainly reflects the benefits of a stronger and more stable environment, which should translate into reduced risks and support the Bank's credit quality *performance*, historically better than the domestic sector average, as well as its well-established positioning in the *wealth management* and insurance sectors, which provides greater diversification in revenues than most of its national competitors.
- *Eligibility of the new Board of Directors - Fit & Proper process*

On 6 May 2021, the Board of Directors of Credem, chaired by Lucio Iginio Zanon di Valgiurata, following the appointments made by the Shareholders' Meeting of 29 April, carried out checks to ensure that the individual Directors met the requirements and eligibility criteria.

These checks, which were carried out within the regulatory deadline of 30 days from the appointments, were also positive in relation to the overall adequacy of the Body.

In line with the provisions of the Decree of the Ministry of Economy and Finance no. 169/2020, the Board of Directors defined the Bank's *governance* structure: please refer to the press release for further information regarding the composition of the Committees established.
- *Merger project with Fondazione Cassa di Risparmio di Cento*

The Extraordinary Shareholders' Meeting of Credem, on 21 June 2021, approved the plan for the merger by incorporation of Cassa di Risparmio di Cento into Credito Emiliano and the related amendment to art. 5 of the Articles of Association (number of shares and relative nominal value) functional to the merger swap, which was resolved at 0.64 shares of Credito Emiliano for each share of Cassa di Risparmio di Cento. The merger plan was approved on 7 May

2021 by the Boards of Directors of Credito Emiliano and Cassa di Risparmio di Cento, subject to authorization received from the European Central Bank pursuant to art. 57 of the Consolidated Banking Act.

The merger will allow both companies to benefit from significant synergies, thanks to the strong local roots of Cassa di Risparmio di Cento and the wide and competitive range of specialized services provided by the Credem Group.

The Ferrara-based banking group is a leading banking entity, controlled by Fondazione Cassa di Risparmio di Cento, with a history of over 160 years in support of the territory: at the end of 2020, it served over 71 thousand customers through 408 people, a network of 42 branches and 5 *Private* and *Wealth Management* Centers, mainly located in the provinces of Ferrara, Modena, Bologna and Ravenna, with total customer deposits of € 4.1 billion and customer loans of € 3 billion.

On 19 July, Credito Emiliano Spa communicated the new amount of the share capital, i.e. € 341,320,065.00 – fully subscribed and paid up – following the capital increase to service the exchange ratio of the merger transaction through incorporation of Cassa di Risparmio di Cento SpA, for which no. 8,927,958 shares with a nominal value of € 8,927,958 were issued.

On 13 December, following the authorisation by the Bank of Italy, the sale of the entire investment held by Credem in I.FI.VE.R SpA, equal to 55% of the share capital, was completed. The sale had already been agreed and endorsed during the procedure that led to the incorporation of Cassa di Risparmio di Cento and is part of the Group's broader integration plan. In fact, Credem took over by executing the agreements finalised at the time by the merged company with ViViBanca and at the same time disclosed to the market; please see the press release for further information related to the counterparties.

- *Call T2*

On 24 June 2021, Credito Emiliano Spa received authorization to exercise the *call* option on the amount of € 50 million *Tier 2 Callable Notes*, maturing on 21 October 2026, and issued in 2016 - (ISIN) XS1506498200. The call was authorised in view of the gradual reduction in the calculation of equity and the absence of prejudice to compliance with capital constraints on a consolidated basis. The bank has repaid in full the amount of all bonds outstanding at the effective date of the *call* (21 October 2021), but at 30/06/2021, these bonds are no longer counted in *Tier Total*.

- *Covered Bond placement*

On 30 June 2021, as part of the Covered Bonds Programme, updated on 18 December 2020, Credem placed € 750 million of Covered Bonds, fully backed by the Group's residential mortgages. The Bonds issued have a term of 7 years and envisage an annual gross coupon of 0.01%, corresponding to a *mid-swap* rate for the same term plus a *spread* of 14 basis points. The dividend entitlement and settlement date was 7 July 2021. 54% of the issue was placed with Italian institutional investors while the remaining 46% with foreign investors, mainly in Germany and Austria, Nordic countries, BeNeLux and Asia.

- *Outcome of Inspection Activities*

In the period 1 December 2020 - 16 April 2021, with reference to Credemvita SpA, the Italian Insurance Institute (IVASS) conducted, pursuant to art. 189 of Legislative Decree no. 209 of 7 September 2005, inspections concerning the *governance* structures, the methodologies and assumptions used to calculate the *best estimate of liabilities* and the solvency requirement (SCR), with particular reference to life underwriting risk and market risk. The company's exposure to strategic risk over the 2018-2020 time horizon was also monitored.

The inspection analyses have highlighted an overall satisfactory position of the company, with positive technical coordinates and a governance and control system adequate to the company's risk profile. The limited areas for improvement are mainly attributable to the calculation of the SCR for market risk and the outsourcing model adopted for the *risk management* function.

The Company sent its "Considerations" to the Authority about the contents of the report on 16 July 2021.

On 14 April 2021, the Bank of Italy launched an inspection at the Bank's headquarters and some branches throughout Italy, aimed at assessing compliance with the regulations and the Supervisory guidelines on transparency of transactions and fairness of customer relations. The on-site assessment was concluded on 16 July 2021, with no evidence of sanctions, but requiring the adjustment of some processes.

The Group was also subject to an inspection by Consob, which began on 16 December 2020 and concluded at the beginning of August 2021. The inspection concerned the state of compliance with the new legislation following the transposition of Directive 2014/65/EU (known as MiFID II), with regard to the following profiles: procedural structures defined in relation to *product governance* and procedures for assessing the adequacy of transactions carried out on behalf of customers. The meeting to present the results is scheduled for 15 March 2022, from the preliminary technical note, no penalties are set forth.

On 7 September 2021, the Group received notice of the start of an inspection by the ECB, which began on 25 October 2021 and ended at the beginning of February 2022. The inspection is part of a specific campaign on credit and counterparty risk launched by the European Supervisory Authority on a sample of banks with the aim of verifying the identification, management, monitoring and control of the support measures granted for the COVID-19 emergency and related to debtors classified as non-financial corporations. The preparation and sharing of the inspection report by the Authority will take a few weeks, but no significant impacts are expected from the preliminary evidence.

Stress Test Results and SREP requirement

On 30 July, as part of the *stress tests* published by the Supervisory Authorities, Credem was again confirmed by the European Central Bank as one of the strongest institutions on a continental level. The theoretical impact on soundness capital ratios resulting from a potential severely negative economic outlook has been calculated to be less than 300 bps. This result ranks the Group among the best 5 banks in the year, as estimated by the European Central Bank, and among the best 16 banks within the 101 major European credit institutions involved by the European Banking Authority (EBA) and the European Central Bank (ECB). This result is added to the decision of the ECB itself in November 2020 to maintain the Pillar 2 (P2R) requirement of Credito Emiliano at 1% for 2021, the lowest in Italy and among commercial banks in Europe, with the consequent requirement Overall SREP (which indicates the minimum capital level to be respected for the activities carried out by the Group), for 2021 at 7.56%, confirming the solidity of the Group at the top of the system. This decision was also confirmed for 2022, at the end of the SREP risk assessment and measurement process which once again confirms the strength of the Group also in terms of European comparison.

Transparency Exercise Results

On 3 December, the European Banking Authority (EBA) and the European Central Bank (ECB) announced the publication of the results of the “*EU-wide Transparency Exercise*” 2021, carried out with reference to the data at June 2021. This exercise involved, together with other European financial institutions, also the “Credito Emiliano - Credem” Banking Group, consolidated at the level of Credito Emiliano Holding SpA. Information relating to the Group is available on the website of the European Banking Authority at the following address: <https://www.eba.europa.eu/risk-analysis-and-data/eu-widetransparency-exercise>.

Green Bond placement

On 13 January 2022, Credem successfully launched its first *greenbond* issue, intended for institutional investors, for an amount equal to € 600 million. The operation has obtained great favour from the market with a request of almost 2 times the offer. The *green bond* will have a duration of 6 years with maturity on

January 19, 2028, and the possibility of early redemption in the penultimate year, with a *spread* of 105 basis points above the reference *mid swap* rate. An annual coupon of 1.125% is payable. The bond issue was placed by a syndicate composed of Crédit Agricole – which also acted as *green structuring advisor and global coordinator* of the Group's ESG *framework* – as well as Société Générale, Natixis and Barclays as *joint lead managers*. 59% of the issue was placed with Italian institutional investors, while the remaining 41% was placed with foreign investors, mainly France (20%) and Germany/Austria/Switzerland (9%). With this issue, the Group continues to support projects that have a positive environmental impact, contributing to the achievement of the objectives reaffirmed by the international community also during the Glasgow summit.

Market shares

The latest available system data were used (and hence the market shares also refer to the same date). More specifically:

- Loans and direct customer deposits: December
- Total deposits: December

As for the *core* direct deposits, the “deposits” figure was used (updated at the reporting date), given the different timings of the return flows of bonds and repurchase agreements broken down by counterparty.

Other related parties

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

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

BROKERAGE ACTIVITIES: LOANS

In the context of reference illustrated in the introduction, at the System level, the overall loans show increasing volumes compared to the previous year. Credem Group, as shown in the table below, continues to show, also for 2021, a much steadier evolution in the aggregate compared to the Industry.

LOANS TO CUSTOMERS	€/million		% change	
	2021	2020	Group	Industry (*)
(€/million)	33,156	29,299	13.2	0.8

(*) the industry figure includes Italian residents net of public administrations and repurchase agreements with central counterparts (source: Bank of Italy)

The total loans of the Group compared to the same period of the previous year increased by 13.2% (+ 8% net of the contribution of Cassa di Risparmio di Cento). As regards the *eligible* loans for TLTRO3 (*Targeted Long Term Refinancing Operations*) with a time horizon of December 2021, we can define the pre-established objective as largely achieved, with an overall growth of around € 900 million after 15 months. The goal was achieved in spite of the fierce competition. The new target of net disbursements of eligible assets in December 2021, following the merger by incorporation of Cassa di Risparmio di Cento, was calculated and reported at the *Combined Entity* level.

The Group confirms the importance of risk oversight, boosted by the introduction of indicators that increase the effectiveness of the monitoring and the early detection of the signs of a potential increase in credit risk, on which timely action was taken. With the extension of the government's measures with the Decreto Sostegni Bis and the still unstable environment, these monitoring tools are maintained also in 2022, with a *focus* on the assessments of potential financial distress as moratoria and other measures issued to cope with the fallout of Covid-19 are exhausted.

As regards the breakdown of gross loans by type of customer, please refer to the more detailed tables contained in the Separate Report on Operations, while at Group level, the contributions of individual companies to book value are shown below (in €/million).

LOANS PER COMPANY (€ Mln)	2021		2020		change
	amount	% impact	amount	% impact	%
Credito Emiliano*	32,252	85.0	28,520	85.7	13.1
Credemleasing	3,031	8.0	2,838	8.5	6.8
Credemfactor	1,293	3.4	1,132	3.4	14.2
Banca Euromobiliare	450	1.2	382	1.1	17.8
Avvera	868	2.3	355	1.1	144.5
Other	57	0.2	33	0.1	72.7
Aggregate	37,951	100.0	33,260	100.0	14.1
Consolidation adjustments	-4,795		-3,961		
Consolidated	33,156		29,299		13.2

* 7.7% the figure net of the contribution of Caricento

As shown in the table, all companies made a positive contribution to the increase in volumes, also to a greater extent than the trends indicated, at the System level, in the specific operating sectors, contributing to the *performance* of the Group. Analysing the volumes of performing loans, in 2021 the overall increase in loans to the Credem Group continued.

With reference to Credembanca:

- Aggregate figures, including Cassa di Risparmio di Cento, confirm the long-term trends that characterise the Credem Group's lending offer are confirmed, in particular the heavy concentration on positions with better *ratings*.
- The portfolio of small businesses managed by branches or *Small Business* centres also shows a high quality and a growth in loans and drawdowns compared to December 2020.
- The portfolios of micro businesses and income generating households, despite a context of greater economic difficulty due to the impact of the pandemic, show an increase in total uses of 9%.
- Finally, with regard to loans to private customers and consumer households, there was a very positive trend in outstanding residential mortgages, which increased by 15% compared to the same period last year.

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

- Avvera, driven by the sale of the salary back loans and targeted loans, achieved an overall growth of 144.5% in volumes.
- Credemleasing, with a growth close to 7%, in line with the performance of the rest of the Group, represents over 9% of total loans.
- Credemfactor, with a growth of more than 14% in loans.

The breakdown of loans by residual maturity (in %; since 2018 this figure also includes financial assets measured at amortised cost) is shown below.

LOANS BY RESIDUAL MATURITY (%)	2021	2020	2019
On demand	8.6	7.9	9.9
Up to 1 year	32.4	32.6	38.1
Over	59.0	59.5	52.0
	100.0	100.0	100.0

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

MARKET SHARES relating to Italian banks (%)	2021	2020	2019
Total cash loans (*) of which:	2.026	1.797	1.674
– Non-financial companies	2.062	1.849	1.807
– Consumer households	2.181	2.051	1.945
– Income generating households	1.492	1.308	1.132
– Total “core” share	2.081	1.902	1.827

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

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

CLASSIFICATION OF LOANS RELATING TO THE CORPORATE REGULATORY FUNCTION (INTERNAL MODEL)		2021	2020	2019
C1	No risk issues at the moment nor, most likely, over the medium/long term	24.8	26.3	26.1
C2	No risk issues at the moment nor, most likely, over the medium term	30.9	35.0	32.1
C3	No risk issues at the moment nor, most likely, over the short term	21.9	20.9	21.9
C4	Risk compatible with possibility for reduction/slight worsening over the short term	12.0	10.7	11.7
C5	Risk situation with symptoms of worsening already evident	6.3	4.9	5.6
C6	Situation highlighting evidently problematic aspects	2.3	1.7	1.8
C7	Highly problematic situation with potential risk of default	1.6	0.3	0.5
C8	Highly problematic situation with short-term risk of default	0.3	0.2	0.2
		100.0	100.0	100.0

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

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

CLASSIFICATION OF LOANS RELATING TO THE RETAIL REGULATORY FUNCTION		2021	2020	2019
C1	No risk issues at the moment nor, most likely, over the medium/long term	1.6	1.9	1.8
C2	No risk issues at the moment nor, most likely, over the medium term	46.2	49.0	48.2
C3	No risk issues at the moment nor, most likely, over the short term	6.4	3.8	3.5
C4	Risk compatible with possibility for reduction/slight worsening over the short term	20.2	20.6	19.0
C5	Risk situation with symptoms of worsening already evident	14.6	14.4	16.0
C6	Situation highlighting evidently problematic aspects	3.4	5.7	5.7
C7	Highly problematic situation with potential risk of default	7.1	4.2	5.0
C8	Highly problematic situation with short-term risk of default	0.5	0.4	0.7
		100.0	100.0	100.0

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

As explained in more detail in the Explanatory Notes to the Consolidated Financial Statements, IFRS 9 requires financial assets to be classified in three *stages*, in order of increasing deterioration in creditworthiness; these categories are associated with progressively more severe measurements of impairment.

The following table shows the classification of loans to customers, which has been in force since 1 January 2018:

CLASSIFICATION OF CREDITS BY STAGE		2021	2020	2019
Stage 1	€ mln	30,913	27,249	24,766
Stage 2	€ mln	1,864	1,629	1,427
stage 3	€ mln	379	421	491
Stage 1	%	93.2	93.0	92.8
Stage 2	%	5.6	5.6	5.3
stage 3	%	1.1	1.4	1.8

With regard to non-performing loans (*stage 3*), the following is noted:

NON-PERFORMING LOANS						Performing loans	TOTAL LOANS
€/million		Bad loans	Unlikely to pay	"Past-due exposures"	Tot. Non-performing loans		
Nominal values	2021	398	378	43	819	32,866	33,685
	2020	445	378	53	876	28,985	29,861
Expected losses	2021	296	136	8	440	88	529
	2020	320	126	10	456	107	562
Estimated recoveries	2021	102	242	35	379	32,777	33,156
	2020	126	253	43	421	28,878	29,299
						Coverage - "extended" version*	
Coverage	2021	74.4	36.0	18.8	53.7	62.7	
	2020	71.8	33.2	19.6	52.0	61.0	

(*) The *coverage* in the "extended" version, that is not expressing accounting coverage, includes the equity *shortfall*, calculated as the difference between ELBE - *Expected Loss Best Estimate* (represents the best estimate of the expected loss for each exposure, given the current economic circumstances and the *status* of the exposure itself) and net adjustments to loans.

In 2021, despite the gradual exhaustion of the support measures, flows to *Non Performing Loans* (NPLs) recorded a decline in inflows which once again confirm the excellent resilience of the Group's loan portfolio. This figure is further confirmed in relation to the *NPL ratio* indicator which records a further decrease compared to the previous year, going from 2.93% to 2.43%.

The overall *coverage ratio* on *Non Performing Loans* (NPLs) measured at amortised cost increased compared to the same period last year from 52% to approximately 53.7%.

With regard to non-performing loans, the following is noted:

- An overall *stock* of non-performing loans, down in 2021, even considering the addition of the receivables acquired as part of the merger with Cassa di Risparmio di Cento. This decrease is mainly attributable to the disposal of bad loans, which took place in June and November for a total *Gross Book Value* of € 41 million. As regards the recovery activities on bad loans, in 2021 the level of collections is slightly down compared to 2020; in this regard, it is useful to remember that the pandemic and the related restrictive measures have greatly affected the activity of the judicial courts and the recovery in general.
- An exposure of likely defaults is slightly down compared to the corresponding period of the previous year. Also in this case the trend remains positive despite the entry of the receivables acquired as part of the merger with Cassa di Risparmio di Cento.

- An overall *stock* of overdue impaired loans in sharp decline compared to the corresponding period of the previous year, which essentially depends on the lower entries recorded in the period.

The cost of credit of the Credem Group, in December 2021, amounted to € 31.5 million (108 million euros in 2020). In the face of analytical write-downs on *non-performing* positions for € 54 million (a slight increase compared to December 2020), in fact, following the improvement in the macroeconomic context, there has been a recovery of around € 23 million in the provision for write-downs on performing positions.

The cost of credit, expressed in percentage terms, in relation to net loans is further improved (0.1%) compared to the same period of the previous year (0.4%).

The IFRS 9 methodological *framework* is subject to continuous monitoring by the Group in order to assess its consistency with macroeconomic and portfolio developments on a quarterly basis.

The strategy for the management of *Non Performing Loans* will be directed towards a reduction of the *vintage* in line with regulatory changes (SREP *letter*, Addendum, Calendar Provisioning) that penalise the oldest non-performing exposures.

To support credit risk management, an *early warning* system is in place which uses new algorithms to prevent the degradation of positions by operating from an anticipatory and predictive point of view. The monitoring of past-due positions has been further strengthened with dedicated central structures that allow timely recovery actions to be carried out in order to limit the transition to NPLs.

The table below shows the percentage change in non-performing loans compared to the banking system for the comparison periods:

BAD LOANS (%) ON NET LOANS	2021	2020
Credem	0.3	0.4
Industry	1.0	1.4

BROKERAGE ACTIVITIES: DEPOSITS

Moving on to the analysis of deposits, according to ABI data, in Italy, in December 2021, the overall aggregate (deposits from resident customers and bonds) grew by +5.4% yoy, with a more marked change on deposits to the detriment of bonds, which fell in the last 12 months (-4.4%).

In this context, an above average trend is confirmed for the Credem Group.

CUSTOMER AND INSTITUTIONAL DEPOSITS	€/million		% change	
	2021	2020	Group	Industry
- current accounts and savings accounts (*)	33,641	30,321	11.0	
- others	932	495	88.5	
Deposits	34,574	30,815	12.2	6.1
Bonds and subordinated debt	2,536	2,609	-2.8	-3.7
Banking direct deposits (**)	37,110	33,425	11.0	5.1
Insurance reserves (**)	8,665	7,807	11.0	
Indirect deposits at countervalue	59,136	50,830	16.3	
Total Deposits	104,910	92,062	14.0	
Direct customer deposits (***)	34,576	30,819	12.2	
Indirect customer deposits (***)	47,100	40,405	16.6	
Total customer deposits (***)	90,340	79,031	14.3	

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

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

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

As shown in the table, direct deposits amounted to over € 37 billion, an increase of 11.0% compared to the previous year, with deposits up 12.2% compared to 2020 (+ 6.5% net of the Cassa di Risparmio di Cento component).

Customer deposits continue to represent the Credem Group's preferred overall *funding* channel, both through the contribution of ordinary retail customers and through corporate customers.

With regard to deposits at maturity, the recall for € 50 million of the "Tier 2" bond, which took place on 21 October 2021, should be noted.

There were no new bond issues dedicated to retail customers.

As regards institutional funding, please refer to the discussion in the next chapter dedicated to the activities of the finance area.

To focus the attention more effectively on the trend of direct deposits, we provide the following information:

- The contribution of individual companies to the consolidated results (€/million):

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DEPOSITS BY COMPANY	2021		2020		change
	amount	% impact	amount	% impact	%
Credito Emiliano-customers	33,120	94.5	29,589	94.8	11.9
Credemleasing	54	0.2	37	0.1	43.9
Credemfactor	62	0.2	46	0.1	35.4
Banca Euromobiliare	1,753	5.0	1,504	4.8	16.6
Other companies	42	0.1	39	0.1	n.s.
Aggregate	35,031	100	31,215	100	12.2
Consolidation adjustments	-455		+397		
Direct customer deposits	34,576		30,819		12.2
Banking direct deposits	37,110		33,425		11.0

(*) figures referring to the “customers” component only

- Breakdown by maturity (in %):

BREAKDOWN BY MATURITY (%)	2021	2020	2019
On demand	92.0	91.4	87.9
Up to 1 year	1.1	3.4	3.7
Over	6.9	5.3	8.4
	100.0	100.0	100.0

With regard to indirect deposits, and especially assets under management, the System shows assets under management at a new all-time high: according to Assogestioni data, assets at the end of 2021 stood at € 2,583 billion, compared to € 2,392 billion at the end of 2020. Assets are mainly concentrated in open-ended and closed-ended funds, with equities and bonds particularly popular with savers.

The Credem Group also closed 2021 with a growth in assets under management of +19.5% (+12.7% without Cassa di Risparmio di Cento), thanks to the positive contribution of all the companies in the *wealth/asset management* area and the incessant activity of the networks.

Production was mainly concentrated on house mutual funds and, to a lesser extent, on third-party asset management. The trend in assets under custody was also positive.

The following table shows the contribution of indirect funding by company (figures in millions of euros, shown at market value).

BREAKDOWN OF INDIRECT DEPOSITS BY COMPANY	ASSETS UNDER MANAGEMENT		ASSETS UNDER CUSTODY		TOTAL	
	amount	% chg. last year	amount	% chg. last year	amount	% chg. last year
Credito Emiliano - customers	34,265	17.5	7,887	7.8	42,151	15.7
Euromobiliare A.M. SGR	10,480	18.6			10,480	18.6
Banca Euromobiliare	9,309	13.6	3,894	23.2	13,204	16.2
Euromobiliare International Fund SICAV (*)	4,348	42.0			4,348	-6.5
Euromobiliare Advisory SIM	18	42.0			18	38.9
Credem Private Equity	177	424.4			177	424.4
Total indirect aggregate	58,597	15.2	11,781	12.4	70,378	14.7
Consolidation adjustments	-23,260		-18		-23,278	
Total indirect customer deposits	35,337	19.5	11,764	12.4	47,100	16.7
Total indirect deposits at countervalue	35,337	19.5	23,799	13.9	59,136	16.4
(*) company for which Credem International (Lux) carries out administrative and management support services						

During 2021, the Wealth Management Area further strengthened its strategy which focuses on the development of the Bancassurance model, on the expansion and specialisation of the range of products and services, as well as on investments in tools and skills. All of the above aimed at a specialised service model, of high quality and in line with the best practices of the market.

Euromobiliare AM SGR's collaboration activity with the American startup Noonum fits into this context, through an agreement executed in October as part of the Corporate Venture Capital (CVC) initiative. The company is active in the field of artificial intelligence, language analysis and digital learning systems aimed at supporting financial analysis and building investment portfolios. The common objective is to develop innovative technologies and models to be applied in the management of portfolios and to further increase the quality of products and services of the companies within the Wealth Area.

The project aimed at integrating ESG criteria into the company's processes and range of products, building an articulated offer on all types of productions, from investment policies to individual and collective management, is nearing completion. At the end of 2021, the inflows of the Group's management companies and insurance companies into sustainable investment instruments amounted to approximately € 4.2 billion, an increase of 167.5% compared to the same period last year. Euromobiliare AM SGR, Euromobiliare Advisory SIM and CREDEMVITA have formalised their adherence to the PRI - Principles for Responsible Investments promoted by the United Nations, for the purpose of aligning the governance and the range of products and services to the best international standards in terms of ESG. With regard to the development of the range and the service model, the main innovations are:

- in June, the placement of the ELTIF Plus fund was completed, which is part of the context of widening the offer in the area of products that invest in the real economy, giving the possibility to subscribers, including Retail, to also benefit from the advantages of fiscal nature guaranteed by the relevant legislation;
- in the second half of the year, CREDEMVITA launched its Multiramo range, with a specialised approach to the various customer segments;
- the offer of protection products has expanded with the launch of the Pet Insurance, Cybersecurity and Company Protection policies.

CREDEMASSICURAZIONI has also launched a digital platform dedicated to the analysis of customer protection needs, which also allows the signing of insurance protection contracts via digital signature and web collaboration.

Please refer to the comments in the section dedicated to the individual product companies for a more in-depth examination of the main trends related to managed volumes.

It is worth highlighting that the breakdowns of managed assets do not show insurance assets which, following the line-by-line consolidation of Credemvita, are recorded in these financial statements as a source of funding for the Group. For this reason, this component is represented separately in the introductory table of this chapter.

The same aggregate, indirect deposits, broken down by product type, shows the following trend (€/million):

BREAKDOWN OF INDIRECT DEPOSITS BY TYPE OF PRODUCT	2021	2020	% '21-'20
Portfolio management	6,729	6,169	9.1
Mutual investment funds	10,655	8,870	20.1
SICAV	4,348	4,649	-6.5
Other and third party products	13,605	10,255	32.7
Indirect customer deposits - assets under management	35,337	29,943	18.0
Indirect customer deposits - assets under custody	11,764	10,463	12.4
Indirect customer deposits	47,100	40,405	16.6
Indirect deposits at countervalue	59,136	50,830	16.3

The best *performer* is to be attributed to mutual funds, which grew 20.1% compared with the previous year, followed by asset management (+9.1%). The contribution of third-party products was also positive, while SICAVs recorded a decrease of -6.5%.

Finally, it should be noted that the Group's products *performed* on average in line with or above the *benchmarks*, contributing to the stability of the Group's market share.

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

DEPOSITS MARKET SHARE (%)	2021	2020	2019
Direct deposits (*)	1.756	1.630	1.475
Indirect deposits	1.486	1.425	1.308
Overall customer deposits (*)	1.588	1.505	1.370
<i>of which:</i>			
<i>Direct deposits of consumer and income generating households</i>	<i>1.460</i>	<i>1.322</i>	<i>1.307</i>
<i>Indirect deposits of consumer and income-generating households</i>	<i>4.148</i>	<i>3.926</i>	<i>3.816</i>
<i>Total deposits of consumer and income generating households</i>	<i>2.471</i>	<i>2.285</i>	<i>2.251</i>

(*) Includes institutional counterparties

With regard to the Group's positioning, the market share of open UCITS recorded by Assogestioni at the end of December, with regard to the Gross Assets under Management, stood at 1.22%.

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

FINANCE AREA ACTIVITIES

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

The use of the refinancing channel through the ECB at the end of 2021, was entirely represented by participation in TLTRO3 operations, for a total amount of € 8.29 billion. During the first quarter of the year, an additional TLTRO3 transaction was carried out in the amount of € 740 million, following the ECB's decision of December 2020 which increased the amount of financing that can be obtained by the banks. In July 2021, following the merger by incorporation with Cassa di Risparmio di Cento, the participation in the TLTRO III operations increased at Group level by € 450 million, equal to the amount of TLTRO III loans in place obtained from the merged bank.

During the year, the Bank continued to carry out weekly funding transactions in euro and in US dollars for limited amounts, as part of its process and procedure *backup* plan.

In July 2021, a new € 750 million issue was placed as part of Credem CB's Covered Bank Bonds programme. The total nominal value of the *Covered Bonds* outstanding at 31 December 2021 is confirmed at € 1.6 billion.

In October 2021, Credem exercised the early repayment option provided for the € 50 million subordinated Tier 2 bond issued in 2016.

Based on the exchange rate at 19 January 2022, an inaugural issue of *Green Senior Preferred*, aimed at institutional investors, was placed for a nominal € 600 million.

The management of the bond portfolio, at an individual level, favoured the investment in securities of Italian and European issuers. The percentage of the total portfolio represented by Italian issuers was about 44% at the end of 2021.

In the course of 2021, a position was created in government bonds issued by the US Treasury, denominated in USD, for a total value of Euro 1.85 billion.

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

In 2021, refinancing of the securities portfolio by means of repurchase agreements continued, both in euro and in currencies other than the euro.

The Banking Group has maintained a surplus of liquidity deposited in the accounts held with the ECB for the whole of 2021, also in consideration of the use of repurchase agreements carried out mainly on Government securities in euro.

FINANCIAL ASSETS - SECURITIES (€/mln)	2021	2020
Held for trading	60	22
HTCS (*)	6,593	3,516
HTC (**)	7,033	5,055
	13,686	8,593
Hedging derivatives	619	639
Loans to banks	8,949	8,309
Bank deposits	12,586	8,010

(*) Assets held both to collect contractual cash flows and for the sale of assets

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

PROPERTY

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

PROPERTY	2021	2020
Land		
- operational use	136.7	133.9
- investment purposes	2.6	2.6
Owned properties:		
- operational use	125.5	111.1
- investment purposes	3.00	1.00
Rights of use acquired through leases	136.7	133.9

The increase shown in the last year is attributable to the business combination with the former Cassa Risparmio di Cento.

With regard to the alignment between statutory and tax values for fixed assets recognised in the financial statements at 31 December 2020 and already present in the financial statements for the previous year, as per Italian Law Decree no. 104/2020, please refer to the paragraph commenting on the economic results.

CONSOLIDATED FINANCIAL RESULTS

The economic results of 2021 are affected by the consolidation of the Cassa di Risparmio di Cento starting from 01/07/2021, which contributed to the Group's results for the entire second half of the year.

For details related to the accounting impacts of the transaction, please refer to section G of the explanatory notes; it should therefore be noted that in this chapter the changes compared to 2020 are calculated on a non-homogeneous perimeter.

INCOME STATEMENT €/million	2021	2020	% Change
- Interest margin	496.3	493.0	0.7
- Non-interest margin (*) (****)	840.4	709.2	18.5
Net interest and other banking income (*)	1,336.7	1,202.2	11.2
- Personnel expenses	-550.7	-513.1	7.3
- Other administrative costs (*)	-231.9	-192.4	20.5
Operating expenses (*)	-782.6	-705.5	10.9
Gross operating profit	554.1	496.7	11.5
- Amortisation	-93.2	-86.4	7.9
Operating profit	460.9	410.3	12.3
- Provisions for risks and charges (**)	-7.5	-8.7	-13.7
- Extraordinary income/charges (**) (***)	44.6	-42.7	n.s.
- Net value adjustments to equity invest. and goodwill	-0.3	-0.1	n.s.
- Net value adjustments to loans (****)	-31.5	-106.3	-70.3
Profit before tax	466.2	252.5	84.6
- Profit/loss pertaining to non-controlling interests	-0.2	-0.1	n.s.
- Income taxes for the year	-113.6	-50.8	123.6
Net profit	352.4	201.6	74.8

This reclassification was performed considering management accounting data that could not be directly deduced from the financial statements' schedules and the Explanatory Notes to the financial statements.

(*) costs and the non-interest margin are shown net of indirect taxes and taxes recovered from customers (€ 116.1 million at December 2021; € 101.0 million at December 2020); contributions to national funds of € 51.3 million were written off against expenses (€ 38.4 million at December 2020);

(**) The component related to the contribution to the Resolution Fund (€ 2.7 million in 2021, € 2.1 million in 2020) allocated to Provisions for Risks and Charges was reclassified to extraordinary charges;

(***) The negative goodwill component, or badwill for € 95,6 million is reclassified under extraordinary income

(****) Value adjustments to (recoveries on) loans included in financial assets measured at amortised cost relating to securities (€ -0.8 million; € -1.1 in December 2020) and those included in financial assets measured at *fair value* through other comprehensive income (€ +0.5 million; € +1.1 million in December 2020) were recognised in the non-interest margin.

KEY:**Interest margin**

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

Non-interest margin

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

Operating profit

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

Profit before tax

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

RATIOS (%)	2021	2020
Non-interest margin / operating income	62.9	59.0
Operating expenses / operating income	58.5	58.7
Personnel expenses / operating income	41.2	42.7
ROA*	0.5	0.4
ROE**	10.9	6.9

(*) ROA year X = item 310 Profit (Loss) for the year/total assets

(**) ROE year X = $\frac{\text{Net profit} / (\text{shareholders' equity at year } x-1 + \text{shareholders' equity at year } x)}{2}$

Shareholders' equity: algebraic sum of

120 Valuation reserve

125 Valuation reserve pertaining to insurance companies

150 Reserves

160 Share Premium Reserve

170 Share capital

180 Treasury shares (-)

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

The brokerage margin was supported by the significant *performance* of all revenue components, which allowed growth of more than 11% compared to 2020. The

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percentage of revenues attributable to the Cassa di Risparmio di Cento for 2021 is low (based on management data, it represents approximately 2% of the Group's revenues).

The financial margin grew 0.7% year-on-year, benefiting from a very strong trend in lending volumes, although prices were still affected by the impact of state-guaranteed loans and the high level of competition.

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

RATES	2021	2020
Average interest rate on loans	1.51	1.67
Average interest rate on deposits	0.04	0.03
Customer "spread"	1.47	1.64

The financial margin was also positively impacted by the contribution of TLTRO3, partly offset by the negative effect of the growth in direct volumes, which continues to develop at a very fast pace. The growth of the securities portfolio, which at Banking Group level exceeded € 14 billion, maintaining high diversification and an increase in average *rating* levels, contributes to the overall *performance* of the aggregate.

The service margin, as shown in the table below, grew by 18.5%. The breakdown by contribution area (in millions of euros) highlights the growth of all the main components:

BREAKDOWN BY AREA OF CONTRIBUTION	2021	2020	% change
- Management and brokerage	470.5	388.6	21.1
- Banking services (*)	225.5	188	19.9
NET FEE AND COMMISSION INCOME	696	576.6	20.7
Securities trading, exchange rates and derivatives	54.0	54.2	-0.4
Life segment insurance management (**)	65.3	54.6	19.6
Reclassified balance of other operating income/charges (**)	25.1	23.8	5.5
NON-INTEREST MARGIN	840.4	709.2	18.5

(**) The revenues resulting from fast track applications have been reclassified under net fee and commission income, after deducting operating profit.

(**) The items illustrated in the above table are net of the corresponding items for Credemvita, which are summarised in "life segment insurance management".

Particularly significant was both the growth in management and brokerage commissions (+ 21.1%), and the component of banking services (+ 19.9%), which, as we recall, had been affected in the comparative year by the contraction due to the period of general shut-down, while in 2021 it benefits from the progressive reopening and the increase in volumes. The significant growth in managed deposits and the positive market effect support the dynamics of management and brokerage commissions, as well as the contribution deriving from the insurance component, which marks a + 19.6% compared to the previous year, confirming the role central to both *Bancassurance* and the *business* model adopted by the Group, which has always hinged on the diversification of revenues.

The contribution of the *trading*/finance area to the service margin was substantially stable.

As regards the negative components of income, costs show an overall growth of 10.9%. They include some non-linear components (personnel and administrative expenses incurred in the second half of the year for Cassa di Risparmio di Cento, integration costs related to the merger, and expenses to support the Group's projects). Net of the extraordinary items, the dynamics of costs would remain linear. In detail:

- Personnel expenses amounted to € 550.7 million, an increase of 7.3% and include non-recurring expenses relating to the personnel of Cassa di Risparmio di Cento for € 7.2 million.
- Other administrative expenses amounted to € 231.9 million, up by 20.5% compared to the same period of the previous year and include integration costs related to the merger for € 15.3 million.
- Depreciation and amortisation, equal to 93.2 million euros, are up by 7.9%, reflecting the constant attention paid to investments to support the planning activity and the evolution of the service model.

These dynamics of revenues and costs have allowed an increase of the Operating Result equal to 11.1%.

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

- Systemic charges for € 51.3 million;
- The income related to the *badwill* deriving from the integration transaction with Cassa di Risparmio di Cento equal to € 97.1 million.

Provisions for risks include the extraordinary part of systemic charges (€ 2.7 million), as well as some minor adjustments related to Group companies.

Adjustments on loans remain at extremely low values, record non-recurring positive components, relating to an update of credit *policies* and confirm, as already highlighted in the chapter on loans, the absence of significant signs of credit deterioration.

Net profit exceeds € 352 million, achieving the best result ever.

GROUP STRUCTURE AND CONTRIBUTION OF COMPANIES/BUSINESS AREAS

The following table shows the evolution of the territorial presence of the Group, the data for 2021 include the branches deriving from the consolidation of Cassa di Risparmio di Cento:

LOCAL PRESENCE	2021	2020	2019
Credembanca	434	410	440
Banca Euromobiliare	20	20	18
TOTAL BRANCHES	454	430	458
Regions	20	19	19
Provinces	93	90	90
“Credempoint”	62	62	54
Banca Euromobiliare Financial Outlets	14	14	16
TOTAL FINANCIAL OUTLETS	76	76	70
Financial advisors with Credembanca mandate	526	512	506
Financial advisors with Banca Euromobiliare mandate	322	321	325
TOTAL EXTERNAL FINANCIAL ADVISORS WITH MANDATE	834	833	831
CORPORATE CENTRES	37	37	37
SMALL BUSINESS CENTRES	58	57	57
FINANCIAL AGENTS RESIDENTIAL MORTGAGES	239	209	193
FINANCIAL AGENTS "SALARY-BACKED LOANS" and SPECIAL PURPOSE AGENTS (WITH COLLABORATORS)	444	253	202

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

The widespread territorial structure, highlighted in the previous table, supports the various *businesses* of the Group, which are divided into several companies and which we can ideally aggregate by identifying four main *businessareas*:

- *Commercial and Private Banking*
- *Parabancario*
- *Asset Management and Bancassurance*
- *Different activities*

All the main *businesses* have provided an increasing contribution to the consolidation, contributing to the extraordinary result achieved by the Group in 2021 (figures in millions of euros):

DIFFERENT ACTIVITIES										
CONTRIBUTION BY COMPANY TO THE CONSOLIDATION (millions of euros)	 CREDENTEL			 NAUZZONI GEBRÜDER DREI TÄGLICHE			OTHER*			inc.% of the consolid.
	dic-21	dic-20	% change	dic-21	dic-20	% change	dic-21	dic-20	% change	
NET BANKING INCOME	30.9	26.3	17.6%	5.5	5.3	3.5%	4.5	1.9	134.8%	3%
OPERATING EXPENSES	-23.7	-20.2	17.3%	-4.6	-4.5	2.4%	-3.6	-1.2	192.2%	4%
OPERATING PROFIT	7.2	6.1	18.8%	0.9	0.8	9.3%	0.9	0.7	35.1%	2%
PROFIT BEFORE TAXES	7.4	6.2	20.3%	0.9	0.8	7.4%	1.0	0.7	32.6%	2%
NET PROFIT	5.6	4.8	16.4%	0.8	4.1	-79.6%	0.7	0.5	24.3%	2%

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

The following pages provides an analysis of the main aggregates and the contribution of the individual companies (€/million): We would like to point out that the income statement and balance sheet figures provided herein have been obtained from the accounts drawn up in accordance with IAS/IFRS for all companies analysed.

Commercial and Private Banking

Banking is the main source of revenues of the Group, contributing to more than 80% of the consolidated operating income. Profits, before consolidation adjustments, represent 61% of the consolidated profit (Credem Banca's contribution to the consolidation net of the related adjustments is € 194.3 million).

In the first half of 2021, the Credem Group announced the creation of the Private Hub, a new organizational entity for the management of large assets (consisting of Private Banking Credem and Banca Euromobiliare) which confirmed its prominent position on the national scene, with € 41.7 billion of assets at the end of December (+ 15.8% yoy) and over € 2 billion of net inflows.

COMMERCIAL AND PRIVATE BANKING										
CONTRIBUTION BY COMPANY TO THE CONSOLIDATION	 									inc.% of the consolid.
	dic-21	dic-20	% change	dic-21	dic-20	% change	dic-21	dic-20	% change	
NET BANKING INCOME	973.7	923.6	5.4%	72.0	60.6	18.8%	36.3	21.2	71.4%	81%
OPERATING EXPENSES	-742.3	-671.1	10.6%	-55.4	-46.8	18.3%	-21.7	-17.2	25.9%	94%
OPERATING PROFIT	231.4	252.5	-8.3%	16.6	13.8	20.3%	14.7	4.0	267.8%	57%
PROFIT BEFORE TAXES	248.5	110.2	125.5%	13.5	10.2	32.8%	10.2	4.6	120.8%	58%
NET PROFIT	199.5	97.2	105.3%	9.5	6.8	39.5%	7.1	3.0	134.8%	61%

Credem Banca

Please refer to the individual report for comments on the results relating to the Parent Company, while in this chapter we will comment on the *businesses* relating to commercial *banking* (retail and corporate) and *Private Banking*, based on management control data.

Volumes (€/million)	2021 (Retail + Private)	2021 (of which Retail *)	2021 (of which private customers **)	2020 (Retail + Private)	% '21-'20 ***
Gross loans	16,964	15,988	976	15,350	10.5
Direct deposits	25,115	20,659	4,455	21,916	14.6
Indirect deposits	43,363	22,636	20,726	37,427	15.9
Total deposits	68,477	43,296	25,182	59,343	15.4
of which Assets under management	34,190	18,944	15,246	29,042	17.7
of which Assets under custody	9,173	3,692	5,480	8,385	9.4

(*) Including the contribution of Cassa di Risparmio di Cento

(**) The volumes of the private segment refer to the part pertaining to Credem Banca and, as for retail, include the contribution of Cassa di Risparmio di Cento.

(***) The change on a like-for-like basis, including the contribution of *Private Banking* for both years and excluding the contribution of Cassa di Risparmio di Cento based on the management information available, would see the following increases: Gross loans: +5.6%; Direct deposits: +7.5%; Indirect deposits: +10.5%; Total collection: +9.4%; Asset under management: +12.1%; Assets under custody +5.1.

Volumes (€/million)	2021 (Corporate*)	2020 (Corporate)	% '21-'20**
Gross loans	9,779	8,748	11.8
Direct deposits	6,420	6,746	-4.8
Indirect deposits	1,233	812	51.9
Total deposits	7,653	7,557	1.3
of which Assets under management	370	271	36.6
of which Assets under custody	863	540	59.6

(*) Including the contribution of Cassa di Risparmio di Cento

(**) The change on a like-for-like basis, excluding the contribution of Cassa di Risparmio di Cento, would see the following increases: Gross loans: +7.0%; Direct deposits: -7.8%;

Retail

Within the Branch network, work to optimise the sales outlets of the branch network continued: 11 branches were closed in areas where other branches are present or in areas with low development prospects, which could be served by sales outlets in neighbouring areas. Following the merger with Cassa di Risparmio di Cento, 37 branches were acquired, of which 3 were subsequently closed due to territorial overlapping with Credem branches.

In terms of Financial Advisory, 2021 saw the network grow further, with 526 agents operating; in 2022, recruitment activities will continue.

During 2021, the branch network acquired approximately 78,700 new customers, with an acquisition rate of 7%, in line with what was recorded in 2020, with a customer retention of 93.02%.

Large sums of liquidity remained deposited in the accounts pending a stabilisation of the situation and greater certainty for the future. However, 2021 was characterised by an important work by the network which allowed a constant flow of subscriptions to managed savings products during all months of the year. Stocks

of assets under management recorded an annual increase of 12.1%, also benefiting from the positive trend of the financial markets.

In 2021, lending continued to grow steadily, with both Household, Small Business and Small Economic Operators segments taking a significant role. Total loans amounted to € 15,988 million, up 5.6% on the previous year. The short term has undergone the shift of credit requests over the medium term, a phenomenon evident throughout the market. The disbursements were driven by the large contribution of the Business segment and the home mortgage segment which represents one of the reference drivers of the strategy adopted by the Credem Group to support households needs.

Private Banking

In the first half of 2021, the Credem Group has announced the creation of the Private Hub, a new organisational entity that brings together under one coordination the networks of Banca Euromobiliare and the new Private Business Unit of Credembanca, while maintaining the distinctiveness of the respective brands with the aim of:

- managing the Group's private banking *in an "integrated and unified" manner*.
- strengthening the distinctive positioning of Credembanca and Banca Euromobiliare towards private customers, with an increasingly broad and high-quality consultancy aimed at the total assets of customers, also through synergies with all the Group companies active in Wealth Management.
- accelerating growth in the *private banking* sector by maximizing synergies between the two structures to increase the level of specialization and focus of the *business*.
- Becoming a hub that attracts the best private bankers *and financial advisors* active in the market.

The customer assets (excluding loans) increased from € 21.6 billion at the end of December 2020 to € 25.2 billion at the end of 2021. This performance is due both to the excellent development of net deposits and to the contribution of the market effect.

In the period in question, assets under management also rose standing at € 15.2 billion, driven in particular by inflows on UCITS and insurance products (both Group and third-party). Direct deposits amounted to € 4.4 billion. As a result of the trends described above, assets under management as a percentage of the total stood at 60.5% at the end of the year, up from 58.4% at the end of 2020.

In 2021 the growth of the network continued, which today has 291 private bankers. In 2021, new entries with a high professional profile and per capita portfolio were concluded, with the aim in the medium term of continuing to strengthen the network.

The main initiatives of 2021 include:

- The continuation of the project programme for the evolution of the advisory service model and the expansion of the offer towards extended wealth advisory services (real estate, *private equity*, *family&corporate business*, insurance, *real estate*) and the strengthening of services on assets under custody.
- The creation of unique structures between the *Private Banking* of Credembanca and that of Banca Euromobiliare, to provide specialised services focused on *private* needs.
- Investments in internal/external marketing to raise awareness of the potential of the new company.
- The completion of projects to digitise procedures and processes in support of the commercial networks in the investment insurance field, the digitisation of forms for off-branch offers, the implementation of a new digital platform for exchanging contracts between bank and customer and the extension of digital signatures to all processes.

Corporate

In 2021, the number of Business Centres remained stable, with optimal coverage of the main industrial centres.

2021 saw the progressive reduction of the measures to support the economy by the Government and an improving economic situation, but with an unstable situation still due to the pandemic scenario. Support to businesses continued in 2021, with a significant increase in loans (+7% growth in the aggregate, after six years already in strong development). Growth was driven by the medium term on both the MID Corporate and Large Corporate segments.

The credit portfolio continues to be characterised by quality, sectoral diversification and the distribution of risk.

Banca Euromobiliare

RELEVANT INFORMATION		2021	2020	2019
Assets under management	€/million	9,459	8,290	7,710
Total assets	€/million	15,047	12,951	12,053
Financial advisors	no.	309	321	325
Market share in terms of:				
- Number of financial advisors	%	1.62	1.66	1.67
- Total assets	%	1.84	1.65	1.64
Employees	no.	246	228	227
Branches	no.	20	20	19
Shareholders' equity not including profit	€/million	125.5	118.8	113.1
Profit before tax	€/million	13.5	10.2	7.2
Net profit	€/million	9.5	6.8	4.8

The creation at Group level of a new service model for all *private* customers, through the development of a *Private Banking Hub*, involved the revision of the organizational model. Group coordination was set up to manage Banca Euromobiliare and the Parent Company's *Private Banking* channel in synergy. During the year, the position of *District Leader* was set up, aimed at overseeing *intracompany* synergies and coordinating the various points of sale according to territorial logic.

As part of the strategic project for the evolution of *wealth management* services, a pilot version of the new advisory procedure for investment and wealth services was implemented.

Customer assets at the end of December exceeded € 15 billion, a significant increase compared to the 2020 figure. This trend is attributable both to very positive net inflows, amounting to approximately € +709 million, and to a positive market effect (approximately +8.6%). The contribution of both the *Private Banking* channel and the Financial Advisory of commercial resources was decisive, strengthened by new recruitments and remodelled by the generational turnover which led to a reduction in the number of advisors and an increase in the workforce.

The assets under management recorded an increase in absolute value (€ +1,172 million, equal to +14.1%), while the inflows were concentrated in Asset Management, Group/third-party UCITS and Group insurance products.

Assets under custody grew (€+740 million, equal to + 22.9%), as was direct deposits (€ 188 million, equal to 13.2%). Direct loans amounted to € 432 million, compared to € 369 million in December 2020.

The net result for 2021 was € 9.5 million, the result of a growing brokerage margin, which, as in the previous year, was driven by the margin from services. Net commissions and fees increased further both for the recurring component and for the part attributable to *performance*.

The *trading* result was positive thanks to the sale of a title from the proprietary portfolio.

Administrative expenses increased compared to the previous year, due to the strengthening of the workforce, higher IT costs and real estate expenses.

Avvera

RELEVANT INFORMATION		2021	2020	2019*
Brokered mortgages and loans	€/million	646	515	520
Disbursed loans	€/million	548	294	42
Employees	no.	127	99	63
Shareholders' equity not including profit	€/million	65.6	27.5	25.9
Profit before tax	€/million	10.2	4.6	2.5
Net profit	€/million	7.1	3.0	1.7

(*) At the end of April 2019, Creacasa was authorised to carry out activities related to disbursing loans to the public pursuant to Articles 106 et seq. of the Consolidated Banking Law (TUB) and changed its company name to Avvera.

Assofin data show a growing mortgage market at System level (+10.8% compared to 2020); the sector is driven by "purchase mortgages" (+27.3%), in contrast to the negative figure for "other mortgages". The Consumer Credit segment also recorded a strong rebound in 2021 compared to 2020, marked by the beginning of the economic-health emergency (growth of 17.3%, 8.7% and 27.2% respectively for Loans for specific purposes, Salary-backed loans and Personal loans). Loans and consumer credit volumes are also expected to grow in 2022, driven by Special purpose loans, while the recovery for Personal Loans could be slower, also following the effects of the recession on creditworthiness.

In 2021, the results obtained by Avvera in the brokerage of mortgages to private customers recorded an all-time high, with brokered volumes of € 646 million (+ 25% on the previous year). Early extinctions increased physiologically (+ 12%). Transfers to bad loans were numerically very limited. Salary-backed loans amounted to € 308.5 million, an increase of 11.5% compared to 2020. For Personal Loans, disbursements amounted to € 60.5 million, while for Special purpose loans, the latest segment launched at the end of 2020, disbursements totalled € 178.6 million.

At the end of 2021, the Avvera agency network specialised in mortgages was made up of 239 agents (52 new hires, compared to 22 exits). The agency network specialised in the Salary-backed loans is made up of 61 agents (both Individuals and Legal Persons). The Multi-product network, specialised in the placement of Special purpose loans, but also active in the Personal Loans and Salary-Backed Loans, is made up of 27 agents. To these 355 collaborators are added.

The Avvera shareholders' meeting on 13.12.2021 has approved a capital increase of € 35 million, bringing the share capital to € 38.2 million. Shareholders' equity thus stand at € 65.5 million.

The net result for the period was € 7.1 million, higher than the 2020 figure (€ 3.0 million). This result is driven by the increase in net interest and other banking income (+71% on the previous year), thanks to the full implementation of Salary-backed loans, Personal loans and Special purpose loans, and the positive commercial development of mortgage brokerage activities. These effects offset the significant weight of project costs and investments (administrative expenses and depreciation up by + 26% compared to 2020), in addition to adjustments on loans.

Parabancario

Parabancario, Credemleasing and Credemfactor contribute to 10% of the Group's profits:

NON-BANKING							
CONTRIBUTION BY COMPANY TO THE CONSOLIDATION (millions of euros)	 CREDEMLEASING			 CREDEMFACTOR			inc.% of the consolid.
	dic-21	dic-20	% change	dic-21	dic-20	% change	
NET BANKING INCOME	59.5	51.6	15.2%	22.3	20.4	9.3%	6%
OPERATING EXPENSES	-17.1	-15.6	9.6%	-11.5	-10.9	5.4%	3%
OPERATING PROFIT	42.3	36.0	17.7%	10.8	9.5	13.7%	12%
PROFIT BEFORE TAXES	39.3	24.1	63.4%	11.8	6.7	77.0%	11%
NET PROFIT	26.1	16.0	63.2%	8.1	4.6	78.0%	10%

Credemleasing

RELEVANT INFORMATION		2021	2020	2019
Number of contracts stipulated	no.	5,273	3,750	4,647
- Movables		4,944	3,439	4,327
- Real estate		329	311	320
Amount of contracts stipulated	€/million	1,015.2	800.8	880.4
- Movables		742.9	545.3	557.4
- Real estate		272.3	255.5	323.0
Domestic market share	%	5.11	5.20	3.15
Leasing receivables	€/million	3,031	2,838	2,681
Sales outlets	no.	17	17	17
Employees	no.	105	104	103
Shareholders' equity not including profit	€/million	226.4	210.3	190.4
Profit before tax	€/million	39.3	24.1	27.7%
Net profit	€/million	26.1	16.0	18.9

In 2021, the leasing and long-term rental market has finalised investments for a value of approximately € 28.8 billion; +13.6% of new contracts driven by a renewed climate of confidence on the part of companies, which is reflected in the positive trend of the main macroeconomic variables. Investments in the securities segment prevailed: the vehicles segment showed an expansion in volumes financed of 18.6% (+ 26% the volumes financed in car rental and + 34.7% in leased industrial vehicles). The capital goods sector also recorded a 47.9% increase in volumes, driven by the dynamics of financial leasing, which represents 90% of the sector. The real estate sector recorded a 9% increase in the value of new contracts, with a strong recovery in finished properties, while "under construction" recorded a slight contraction. Lastly, the "air, sea and rail" segment, which in 2020 had seen a strong increase in new contracts in the yachting segment, recorded a 53.9% decrease in the value of financed volumes.

Compared to 2020, the Company recorded an increase of 26.8% in the total value of the investments financed and of 40.6% in the number of new executed contracts.

The securities sector accounts for 73% of new contracts and continues to be

composed predominantly of capital goods (representing 79% of volumes, up 99.1% from 2020). Vehicles recorded a 31.2% increase in the value financed, driven by investments in industrial and commercial vehicles. In analogy with the System, the nautical product shows a decline compared to the same period of the previous year (-78.4%), while the real estate sector shows a growth in volumes of 6.6%. The market share for financial leasing alone stands at 5.11%.

The income statement shows the increase in the financial margin, which benefits from the increase in average productive capital (+7.9% compared to 2020) and from the financial dynamics of market rates. The trend in commission income connected with the management of leasing contracts was also positive. Adjustments to loans show significant write-backs mainly attributable to performing loans, the valuation of which incorporates the effects of the updates made to the IFRS 9 models following the improvement in macroeconomic scenarios.

Administrative costs increased due to the component related to the management and disbursement of leasing contracts; the *cost income* stood at 28.8% and confirmed a good level of operating efficiency. This resulted in a significant increase in net profit.

Credemfactor

RELEVANT INFORMATION		2021	2020	2019
Receivables sold (flows)	€/million	4,492	3,822	3,730
Outstanding amounts	€/million	1,438	1,233	1,228
Loans	€/million	1,268	1,107	1,084
Employees	no.	75	75	66
Shareholders' equity not including profit	€/million	84.4	79.8	74.5
Profit before tax	€/million	11.8	6.7	7.8
Net profit	€/million	8.1	4.6	5.3

The Italian factoring market, according to Assifact data, grew by about 10% in terms of *turnover* (annual change recorded in November 2021), while *outstanding* and investments remain at the levels of 2020, penalised by the explosion of the pandemic.

In 2021, the Company confirmed the positive trend expressed in previous years in the main summary operating indicators.

A *turnover* flow of € 4.5 billion was acquired, an increase of 17.5% compared with the previous year. As a result of this increase, market share rose to 1.77% in November compared with 1.65% a year earlier.

The component of credit transfers with recourse, in 2021, increased by 4.1%, reaching 33.1% of the total *turnover*. The breakdown of *turnover* by geographic area of the assignor shows, in line with the past, that commercial activities are mostly concentrated in the areas of the North West, North East and Centre.

Specific loans at the end of the period amounted to € 1.3 billion, realising, compared to the previous year, an increase of 14.6%.

From an asset quality point of view, impaired loans at book value, compared to 2020, recorded an increase substantially ascribable to the increase in the past due component with the coming into force of the new default rules effective from 1/1/2021.

Ordinary business activities generated net interest and other banking income of € 22.1 million, up by 9.6% compared to the same period of the previous year.

Personnel expenses are up by 6.2%, considering the increase in personnel related

to the Company's structural development; Other administrative costs increased by 1.7% compared to the previous year.

Net adjustments to loans had a positive impact on the income statement, totalling € 856 thousand, due to writebacks on performing loans, following the implementation of improved macroeconomic scenarios.

Asset Management and Bancassurance

The range of services dedicated to customers is completed by the companies in the *Wealth Management* area, which represents 15% of consolidated revenues, but contributes increasingly to the Group's profitability, accounting for 29% of the consolidated profits:

ASSET MANAGEMENT AND BANCASSURANCE													
CONTRIBUTION BY COMPANY TO THE CONSOLIDATION (millions of euros)	EUROMOBILIARE ASSET MANAGEMENT SGR			EUROMOBILIARE KESTAD B 3 B			CREDEM CREDIMUTUA			OTHER*			inc.% of the consolid.
	dic-21	dic-20	% change	dic-21	dic-20	% change	dic-21	dic-20	% change	dic-21	dic-20	% change	
NET BANKING INCOME	100.6	60.3	66.9%	21.7	17.3	25.6%	65.3	54.6	19.4%	10.7	9.9	7.8%	15%
OPERATING EXPENSES	-16.8	-17.6	-5.0%	-11.6	-11.0	5.2%	-15.6	-14.5	7.6%	-3.3	-3.3	0.8%	5%
OPERATING PROFIT	83.8	42.6	96.6%	10.1	6.3	61.4%	49.6	40.1	23.7%	7.4	6.6	11.2%	33%
PROFIT BEFORE TAXES	83.8	44.4	88.8%	10.2	6.3	61.0%	49.6	40.4	22.9%	0.7	0.2	322.4%	31%
NET PROFIT	59.6	31.2	90.9%	7.4	4.6	58.8%	34.4	27.6	24.5%	0.5	0.0	n.s.	29%

(*) Other companies in the Asset Management and Bancassurance area are: Euromobiliare Fiduciaria, Euromobiliare International Fund Sicav, Credem Assicurazioni (consolidated at PN), Credem Private Equity

Euromobiliare Asset Management SGR

RELEVANT INFORMATION		2021	2020	2019
Total assets under management in Mutual Funds	€/million	10,480	8,838	7,570
Assets managed by E. International Fund	€/million	4,649	4,348	4,649
SICAVs managed directly	€/million	2,965	4,139	2,965
Employees	no.	58	61	60
Shareholders' equity not including profit	€/million	196.7	165.8	113.3
Profit before tax	€/million	83.8	44.4	73.2
Net profit	€/million	59.6	31.4	51.7

The Company's data are in line with the overall performance of the System, which shows positive flows.

Net inflows at December 2021, as regards Italian funds, SICAVs and hedge funds were positive overall by € 920 million.

The growth in funds more than offset the contraction in the SICAVs (respectively +1.378, -458 million), hedge funds remained stable.

Total assets relating to UCITS were up on the whole compared to the end of the previous year, with a decrease in the weight of bond a products in favour of flexible, balanced and equity products.

The Company's market share, in terms of asset management (including Italian funds and SICAV), is 1.18%, slightly down against the figure recorded at the end of 2020 (source: Assogestioni).

The net result amounted to € 59.6 million, an increase of 90.9% compared to 2020, thanks to the higher commissions up by + 67.7% (of which management fees + 22.0% and performance fees +200.5%), and lower overheads (-4.9%).

Overheads amounted to € 16.3 million, down compared to 2020 (-4.9%) mainly due to the decrease in personnel expenses.

Euromobiliare Advisory Sim

RELEVANT INFORMATION					2021	2020	2019
Individual portfolios managed under delegation	€/million				7,061	6,400	6,345
Direct management	€/million				18,140	13,064	10,619
Employees	no.				56	54	52
Shareholders' equity not including profit	€/million				25.1	20.5	14.2
Profit before tax	€/million				10.2	6.3	9.2
Net profit	€/million				7.4	4.6	6.3

The result for the year ended 31 December 2021 benefited from the positive dynamics of the financial markets and the contribution of net inflows from Group banks. The result achieved confirms the strength and resilience of the Company both in terms of business operations and in terms of the contribution of the *performance* commission component, linked to the asset management service (€ 5.4 million).

The positive dynamics of the financial markets and net inflows supported the growth of the *stocks (assets under management)*, relating to the delegation of the portfolio management service provided to the banks of the Group, which at the end of 2021 exceeded € 7 billion. The *stocks* also benefited from the merger with Cassa di Risparmio di Cento.

In the course of the year 2021, the *stocks*, for which the Company provides investment advisory services to the Group's banks, also grew sharply, closing at higher levels than in 2020; the trend in independent non- *captive* advisory services was also positive.

With regard to portfolio management, the management mandate received from Banca del Piemonte continued, as well as the stocks relating to other non-captive customers (Luxembourg insurance companies that distribute in Italy under the Free Benefit regime).

Also this year the Company received the recognition from the German Institute of Quality and Finance as proof of the quality of the services offered. In the year 2022, the Company will complete the first stages of its ESG *Transition* path, which will be completed with the adjustment of its Service Model in August to implement the MiFID adjustments in terms of ESG.

Credemvita

RELEVANT INFORMATION					2021	2020	2019

Premiums collection (gross flows)	€/million	1,334	993	890
Insurance reserves*	€/million	8,665	7,807	7,360
Number of active policies	no.	133,694	127,625	125,207
Employees	no.	67	64	58
Shareholders' equity not including profit	€/million	324.0	296.1	261.1
Profit before tax	€/million	49.6	40.4	43.0
Net profit	€/million	34.4	27.6	30.2

(*) "Insurance reserves" include technical provisions, financial liabilities measured at *fair value* and *non-financial products not linked to segregated accounts*.

In 2021, Credemvita recorded growth in commercial results, in particular due to:

- Total gross *premiums collected* amounted to € 1,334.3 million, up 34% compared to the last year (of which, € 459.3 million attributable to Segments I and V policies subject that can be revalued; € 802.5 million to Unit-Linked products; € 25.3 million to life insurance and credit protection policies; € 47.2 million to the Pension Fund).
- More specifically, total premiums written for the year also benefited from the favourable trend of the new multi-branch policies, in place from May 2021, which collected approximately € 180 million overall, of which 60% attributable to the *Unit* component and for the 40% to be revalued with guaranteed capital.
- Services rendered amounted to approximately € 685.5 million, slightly up by 4% compared to the previous year.
- Net inflows of +€ 648.9 million, a significant increase compared to the previous year, +93% which recorded net inflows of € 336.5 million, thanks to the *performance* of *Unit Linked* products (Net inflows +€ 470.4 million compared to net inflows of +€ 137.7 million in 2020), which accelerated considerably from the first few months of the year.

The economic result shows a net profit in 2021 of € 34.4 million, an increase compared to 2020, which had shown a less pronounced trend following the pandemic crisis. The change is mainly due to the increase in the core business aggregates due to:

- Revenue growth for the *business* lines of revaluable products, *Unit Linked* and Pension Fund, with an accelerated pace on *Unit* policies thanks also to the presence of *overperformance commissions*.
- Revenues from the portfolio of temporary policies in the event of death and *credit protection* down due to an increase in claims recorded in the period but recovering during the year.
- Increased operating costs to execute planned strategic projects and to bring in new professionals.

Shareholders' equity increased and incorporated the 2020 profit (€ 27.6 million) and the change in the valuation reserves of financial assets, net of components allocated to insured parties (€ 0.3 million after tax).

Credemassicurazioni

RELEVANT INFORMATION		2021	2020	2019
Premiums issued	€/thousand	49,905	49,834	47,065
Active policies	no.	277,009	271,376	269,805

Employees	no.	24	21	23
Shareholders' equity not including profit	€/million	60.1	54.6	44.7
Profit before tax	€/million	18.2	18.6	12.2
Net profit	€/million	12.8	12.9	8.5

Credemassicurazioni has collected premiums of approximately € 49.9 million at the end of 2021, in line with the previous year:

- Individual protection products recorded an increase in premiums of 1% compared to 2020, achieving € 41.0 million (accounting for around 82% of total premiums collected, in line with 2020);
- CPI Products, with premiums of € 6.7 million (representing 13% of total volumes, down compared to 2020), were down by -4% compared to the previous year;
- Leasing products recorded premiums of € 2.2 million (+4% compared to 2020).

Credemassicurazioni reported an IFRS net profit of € 12.8 million at 31 December 2021, in line with the result for 2020, which had posted a profit of € 12.9 million. This result is attributable on the one hand to an increase in the volume of overall revenues (earned premiums reported an increase of €+0.8 million compared to the previous year, + 2%) and on the other to a physiological progress of the average loss ratio which stands at a *loss ratio* of 15.2%, an increase compared to the previous year (10.0%).

Shareholders' equity, which at 31 December 2021 amounted to € 60.1 million (excluding the profit for the period), recorded an increase of € 5.5 million against the figure of the previous year. This increase is mainly due to the combined impact of the increase in reserves due to the carrying forward of the profits of previous years net of dividends paid out (€ +6.8 million) and to changes in valuation reserves of financial assets after tax (-€ 1.3 million).

Credem Private Equity

RELEVANT INFORMATION		2021	2020	2019
Shareholders' equity not including profit	€/million	7.0	6.8	6.4
Employees	no.	3	3	2
Profit before tax	€/million	0.8	0.3	0.5
Net profit	€/million	0.6	0.2	0.4

In the first half of 2021, the Company was still heavily involved in the launch of a new fund called "Eltifplus". The Relaunch Decree of May 2020 further opened options with respect to the strengthening of the capacity of long-term savings plans (PIR) to bring private savings to the business world and the Company has positively assessed this opportunity by applying them also to ELTIF. The placement, managed by Credem and Banca Euromobiliare, was carried out from 15 March to 14 June 2021. The deposits amounted to € 132.2 million.

It should also be noted that the SGR manages two closed-end alternative investment funds, placed on 10 January 2019 for a total of € 98.7 million, of which € 72.8 million relates to the Elite Fund and € 25.8 million to the Credem Venture Capital II. For the Élite fund, a call-back fund, after an initial 10% at the time of placement, the Company made a further call of 10% of the nominal amount subscribed in 2020 and one of 25% at the end of 2021, to which all subscribers adhered. The recalled percentage at the end of 2021 is 45% overall.

In 2020, two minority interests were acquired in two companies, BrandOn S.r.l. and Vista Vision S.r.l. During 2021, numerous *targets* were analysed by the SGR, and, at the end of the year, an (indirect) majority stake in Regas Srl was acquired, through the acquisition of a majority stake in Transition SpA, in the 'as part of a *leveraged buy out transaction*.

The SGR closes the financial statements with commissions (and net profit) on the rise, thanks to the increase in the NAV of the funds, net of project costs, especially consultancy costs, for the construction of the new "Eltif" fund.

Euromobiliare Fiduciaria

RELEVANT INFORMATION		2021	2020	2019
securities under custody	€/million	1,500	1,040	1,228
fiduciary mandates	no.	677	633	625
employees	no.	7	8	8
shareholders' equity not including profit	€/million	4.0	3.8	3.7
profit before tax	€/million	0.2	0.1	0.1
net profit	€/million	0.1	0.1	0.1

2021 represented a positive year for Euromobiliare Fiduciaria and one of further development of its activities, confirming the validity of the choices and guidelines adopted by the company in the context of the more comprehensive offer of *private banking* services by the Group.

During the year both the number of mandates increased, rising from 633 at the end of 2020 to 677 at the end of 2021, and, in particular, total assets under custody, which, with net inflows during the year of around € 80 million, enabled the Company to reach the threshold of € 1,500 million in total assets at 31 December 2021.

This growth confirms the company's *business* model, which is based on collaboration with the Group's networks and, in particular, with the *Private Banking* division. Also in 2021, the synergies activated in the context of extraordinary transactions involving end customers and the use of Euromobiliare Fiduciaria services made it possible to intercept important funding flows.

The 2021 financial year closed with net commissions up and equal to approximately € 1.3 million, personnel costs down by € 0.8 million, while other administrative expenses increased, equal to 0.7 million euros, the increase of which is largely attributable to projects connected with regulatory and *compliance* adjustments. Both pre-tax profit and net income, equal to Euro 0.1 million, showed a slight improvement compared to the previous year.

Finally, among the main corporate events, to be noted is also the change of registered office within the Municipality of Milan following a more comprehensive reorganisation of the real estate area by the Group.

Other assets

Lastly, the Group is also characterized by the presence of companies not strictly linked to the banking sector, but still significant, both in terms of contribution to the Group and in terms of the possibility of expanding the range of products offered to customers:

DIFFERENT ACTIVITIES										
CONTRIBUTION BY COMPANY TO THE CONSOLIDATION (millions of euros)	 CREDENTEL			 MAGAZZINI GENERALI DELLE TAGLIATE			OTHER*			inc.% of the consolid.
	dic-21	dic-20	% change	dic-21	dic-20	% change	dic-21	dic-20	% change	
NET BANKING INCOME	30.9	26.3	17.6%	5.5	5.3	3.5%	4.5	1.9	134.8%	3%
OPERATING EXPENSES	-23.7	-20.2	17.3%	-4.6	-4.5	2.4%	-3.6	-1.2	192.2%	4%
OPERATING PROFIT	7.2	6.1	18.8%	0.9	0.8	9.3%	0.9	0.7	35.1%	2%
PROFIT BEFORE TAXES	7.4	6.2	20.3%	0.9	0.8	7.4%	1.0	0.7	32.6%	2%
NET PROFIT	5.6	4.8	16.4%	0.8	4.1	-79.6%	0.7	0.5	24.3%	2%

(*) Sata; Credem Cb; Blue Eye Solution

Magazzini Generali delle Tagliate

RELEVANT INFORMATION		2021	2020	2019
Property, plant and equipment	€/million	27	27	27
Storage revenues	€/million	5.5	5.3	5.1
Employees	no.	29	28	28
Shareholders' equity not including profit	€/million	25.1	20.9	20.1
Profit before tax	€/million	0.9	0.8	0.8
Net profit	€/million	0.8	4.1	0.7

The production of Parmigiano Reggiano continued to increase throughout 2021, while that of Grana Padano decreased due to a specific decision to direct production towards the food milk market. Prices are holding at previous levels with strong

concern from producers about the widespread price increases that are affecting strategic supplies for the sector.

The trend of inventories highlights the increasingly important use of the two facilities, plus significant efforts to replace and segment customers.

Investments continue on two levels, the first of maintaining an adequate level of equipment and the second of planning the expansion and structural improvement of the Montecavolo site. The activity as a whole is affected by the difficulties encountered in finding industrial spare parts as well as materials for use.

The income statement shows a positive result beyond expectations, underlining how it was possible to recover the increase in costs to be able to meet the increasingly stringent needs of customers, as well as to absorb the investments made to maintain an adequate update industrial. However, costs and investments led to a contraction in the net result compared to 2021.

Credemtel

RELEVANT INFORMATION		2021	2020	2019
Revenues from services and sale of software	€/million	30.9	26.3	27.2
Employees	no.	99	99	87
Shareholders' equity not including profit	€/million	29.7	24.8	19.7
Profit before tax	€/million	7.4	6.2	7.2
Net profit	€/million	5.6	4.8	5.2

After increasing its stake in Blue Eye Solutions to 75%, a company specialised in developing advanced *workflow* solutions and Rpa - *Robotic Process Automation* platforms, Credemtel has acquired an additional 20% of Andxor Srl, a company that has gained considerable expertise and knowledge in solutions that provide an absolute guarantee of the authenticity and immutability of the original document (encryption, digital signatures, timestamp and *identity*).

The main *businesses*:

- *Electronic Document Management (GED)*: represents 76.6% of total turnover with a constant growth trend. Through the subsidiaries, the offer was expanded and strengthened in areas considered "strategic" in the Company's growth project such as the BEPlatform created with Blue Eyes Solutions and, first of all, through the *Supply Chain* service platform created with Sata. As planned, the commercial launch of the new *Supply Chain Management* service began during the year. Other areas considered of great interest are those related to the world of electronic signatures, in their various declinations, increasingly an enabling factor for the digitalisation of processes and operations at a distance, in which the synergy with the associated company Andxor srl continues.
- *Interbank Corporate Banking (ICB)* accounts for 19.7% of total turnover and offers to banks. In addition to Credem, at the reporting date, three banks are served directly in the capacity of Struttura Tecnica Delegata (STD – Delegated Technical Structure), with the addition of a fourth bank under a specific partnership agreement with SIA (Società Interurban Automazione). The commercial proposal is based on two products, both multi-user, multi-bank and multi-company, developed with different technologies: *Client-server* and *Web-based*. Both products are being constantly upgraded based on regulatory developments.
- *Other services*: collaboration and commercial exchanges between buyers and suppliers. These account for 3.7% of total revenues and are broken down as follows: Telepass, Professional Services (e.g. preparation and management of

websites for a number of Group companies, provision of professional services in support of the Parent Company's IT departments, and the PagoPA service (the electronic payments system set up by the Digital Italy Agency (AgID) to make any payment to the Public Administration simpler, safer and more transparent).

Costs in line with the growth in revenues and consequently gross operating profit and operating margin for the period significantly improved compared to the previous year (respectively with increases of 17.3% and 13.9%).

Pre-tax profit for the period, amounting to € 7.4 million, was up by 20.3% from the previous year.

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

GestimLux data is not commented upon, as it is a company under disposal.

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

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

	SHAREHOLDERS' EQUITY	of which: PROFIT FOR THE YEAR
Balances at 31 December 2021 of Credembanca	2,566,478	199,476
Surpluses compared with book values:		
Companies consolidated line-by-line	898,139	159,634
Companies valued under the equity method	24,778	6,632
Dividends collected during the year		-3,498
Goodwill	12,520	
Elimination of intercompany profits and other adjustments	-42,456	-9,817
Balances at 31 December 2021 of the Group	3,459,459	352,427

OWN FUNDS, REGULATORY RATIOS AND LIQUIDITY RATIO

OWN FUNDS AND REGULATORY RATIOS		2021	2020	2019
"Statutory" shareholders' equity	€/million	3,459.5	3,133.6	2,883.8

The change in statutory shareholders' equity, compared to 31/12/2020, is mainly due to:

- the assumed capitalisation of the profit for the year (€ 135.4 million);
- the result of the valuation of "assets held to collect cash flows and for sale" (€ -19.4 million);
- the negative balance of the *fair value* valuation of cash flow hedging derivatives (€ -27.4 million);
- the negative balance of the actuarial valuation of staff termination indemnity (€ -0.8 million);
- the capitalisation of personnel expenses relating to payment plans based on financial instruments (€ 4.6 million);
- the change in Credemassicurazioni's shareholders' equity not incorporated in profit/loss for the year (€ -0.7 million);
- the capital gain on the sale of the investment in Cedacri in June 2021 (€ 36.3 million);
- the share capital increase for the merger of Cassa di Risparmio di Cento (€ 47.7 million).

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

BANKING GROUP		2021	2020	2019
Total own funds		3,169	2,932	2,567
- of which Common Equity Tier 1	€/million	2,868	2,580	2,220
- of which Tier 1 Capital	€/million	2,868	2,580	2,202
Capital absorption relative to the following risks:				
. credit and counterparty		1,340	1,184	1,048
. market		6	5	27
. operational		153	136	131
Total capital requirement		1,324	1,500	1,324
CET1 capital ratio (**)	%	15.3	15.6	14.8
Tier 1 capital ratio		15.3	15.6	14.8
Total capital ratio		16.9	17.7	17.2
Minimum supervisory requirement (***)				
CET1 capital ratio		7.0	7.0	7.0
Tier 1 capital ratio		8.5	8.5	8.5
Total capital ratio		10.5	10.5	10.5

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

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

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

CREDEM HOLDING SCOPE		2021	2020	2019
Total own funds		2,993	2,746	2,340
- of which Common Equity Tier 1	€/million	2,591	2,340	2,039
- of which Tier 1 Capital	€/million	2,654	2,393	2,089
Capital absorption relative to the following risks:				
. credit and counterparty		1,340	1,184	1,048
. market		20	18	27
. operational		153	136	131
Total capital requirement		1,513	1,337	1,206
CET1 capital ratio (**)	%	13.7	13.5	12.7
Tier 1 capital ratio		14.0	13.9	13.0
Total capital ratio		15.8	15.5	14.9
Minimum supervisory requirement (***)				
CET1 capital ratio		7.0	7.0	7.0
Tier 1 capital ratio		8.5	8.5	8.5
Total capital ratio		10.5	10.5	10.5

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

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

More specifically, the change in the capital situation (compared to 31/12/2020) reflects:

- in positive terms:
 - the capitalisation of the profit for the year;
 - the capital gain on the sale of the investment in Cedacri;
 - the decrease of the deduction relating to credit *shortfalls* regarding the retail and corporate portfolios;
 - the change in reserves relating to securities classified under “assets held to collect cash flows and for sale”.
- in negative terms:
 - the increase of risk, with specific regard to credit risk, in relation to the similar rise in loans to customers;
 - the impact of the merger of Cassa di Risparmio di Cento;
 - the allocation of dividends proposed for the authorisation of the Board of Directors.

The data confirm the Group's excellent capital position, despite the merger with Cassa di Risparmio di Cento (which had an impact of around 40 bps including *badwill*), the significant expansion of RWAs which grew by over two billion euros in 2021 and a further increase in coverage, consistent with the *addendum* and *calendar provisioning*.

CET1 at *holding* level therefore stood at 13.7% and, compared to the SREP 2021 requirement, reported a buffer of 614 bps.

In this regard, please note that the additional requirement assigned by the Supervisory Body (the *Pillar 2 Requirement*), compared to the regulatory levels of capital in force in 2021, would be equal to 1%, however, the so-called "*capital relief*" introduced following the spread of the Covid-19 pandemic remain in effect. The requirement may, by virtue of these measures, be met with a minimum of 56.25% of CET1 capital and with 75% of Tier 1 *capital*. This decision has taken retroactive effect starting from 12 March 2020 and is also extended for the following year. It resulted, therefore, in the following minimum ratios for 2021: 7.56%, 9.25% and 11.5% at the level of CET1 *ratio*, Tier 1 *Ratio* and *Total Capital Ratio*, respectively.

On this supervision issue, please note that on 8 January 2021, the European Central Bank revoked the use of the standardised approach for the so-called *Equity Exposure*. The impacts of the revocation had been already anticipated and already fully transposed in the capital ratios at 31 December 2020. Following this revocation, the equity investment in Credemvita is weighted at 370%. The decision follows the one made on 1 March 2018 when the European Central Bank had authorised the Group not to deduct the entire equity investment held in the insurance company Credemvita from the calculation of the regulatory own funds. This authorisation, deriving from the application of Article 49 of the (EU) Regulation no. 575/2103 (the "CRR") is applicable if the Group forms part of the list of those which, on the basis of the supervisory parameters, carry out significant activities both in the banking sector and investment services sector, and the insurance sector (financial conglomerates). In this regard, reference is made to the decision of the Supervisory Authority, which included the Credem Group among the above parties as from October 2017.

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

CONGLOMERATE MARGIN	2021	2020	2019
A. Total shareholders' equity of the conglomerate	3,180	2,851	2,444
B. Capital requirements of the banking components	2,012	1,775	1,668
C. Required Solvency margin of the insurance components	259	216	231
D. Total capital requirements of the conglomerate (B+C)	2,271	1,991	1,899
E. Surplus (deficit) of the conglomerate (A-D)	909	860	546

The shareholders' equity of the financial conglomerate Credem exceeds the total of the capital requirements by € 909 million. In the calculation of the capital requirements of the financial conglomerate, for 2021, a Total Capital Ratio of 11.5% was adopted, as communicated by the European Central Bank in November 2020 following the outcome of the *Supervisory Review and Evaluation Process* (SREP), in force for 2021.

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

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

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

REGULATORY INDICATORS%	2021	2020	2019
Liquidity coverage ratio (LCR)	205	199	210
Net stable funding ratio (NSFR) (*)	136	125.0	128.0
Leverage ratio (**)	5.1	5.1	5.8
Minimum supervisory requirement			
Liquidity coverage ratio (LCR)	100	100	100
Net stable funding ratio (NSFR) (*)	100	100	100
Leverage ratio (**)	3	3	3

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

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

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

The same is confirmed for the indicators envisaged by the CRR in terms of liquidity: LCR and NSFR are improving, compared to an already optimal situation in 2020.

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

At the end of April 2021, as set forth in Circular 285 of 17 December 2013, in the part regarding "supervisory review process" (Pillar II), the ICAAP ("*Internal Capital Adequacy Assessment Process*") report, together with the various specific documents requested, was sent to the Supervisory Authority. The purpose of this report is to assess capital adequacy in relation to the total risks assumed in current and ordinary operations, it concerns the situation at the end of 2020 with a forward-looking assessment of the situation, on a three-year basis.

Again at the end of April, based on the provisions of Directive 2013/36 (CRD IV), the ILAAP Report was submitted to the Supervisory Authority.

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

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

COMPLIANCE, ANTI-MONEY LAUNDERING and PRIVACY ACTIVITIES

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

Also in 2021, the involvement and commitment of the Function in the various project activities was particularly relevant, mainly: of a regulatory nature, in the governance area (e.g. Shareholders' Rights), provision of investment services (MiFID II and Product Governance). Of particular impact on the operations of various Group companies are those relating to the monitoring of banking regulations (e.g. transparency) and, more generally, support for the implementation of emergency measures linked to Covid-19.

During the year, the Parent Company's Anti-Money Laundering function carried out institutional monitoring activities for Credembanca and for all Group companies to which the anti-money laundering regulations apply, such as: analysis of regulatory changes, contribution to *business* projects and to the activation of new products, personnel training, monitoring of risky situations (including *sanctions*), assistance, system and operating controls, self-assessment and reporting. The commitment to specific projects aimed at finalising the adaptation of the processes, as required by the IV Directive on the matter and the related implementing measures, also continued. To be noted is, among other activities, the updating of the *Policy* and the related Regulations, the continuation of the monitoring activity on the correct use of the Government-secured loans to deal with the COVID-19 emergency, which also characterised last year, Consolidation of the systems for monitoring and supporting operations also continued, including the adoption of summary *dashboards* to more accurately monitor specific risks and the activation of the *chatbot* virtual assistant, which enables direct assistance to be focused on the most deserving situations.

The *Data Protection Officer* is responsible for verifying the overall adequacy of the personal data protection system. In 2021, assisted by the dedicated support office, it has continued its activity of monitoring the reference regulations within a group scope that includes banks, asset management companies, Euromobiliare Advisory SIM, Credemleasing, Credemfactor, Credemvita, Credemassicurazioni, Avvera, Euromobiliare Fiduciaria and Credemtel. The main activities include: consultancy to the Data Controller (Board of Directors) and to the various managers and internal offices of the Bank and the Group companies, participation in project activities, first and foremost the regulatory project dedicated to compliance with the Regulation on the protection of personal data (GDPR) called EUPRIV, constant updating of internal regulations, monitoring of complaints, controls, promotion of the culture of data protection.

RISK MANAGEMENT

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

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

From June 2014, a structured reference framework was adopted, through the implementation of a process disciplined by a specific internal Group Risk Appetite Framework (RAF) Regulation.

The RAF is assessed by the Parent Company's Board of Directors with relation to the business model and the strategic plan and envisages the approval of risk objectives and tolerance thresholds, in line with the ICAAP (Internal Capital Adequacy Assessment Process) and the internal control system.

The Board of Directors of the Parent Company assesses all types of risk at consolidated level and approves the taking of the risks broken down by company and *business units* identified as relevant to the Group's risk contribution in the RAF. The RAF identifies the risk appetite that the Bank intends to pursue at Group level and to maintain over time, both during the normal course of business and in particularly stressed market conditions.

The RAF is implemented through a list of indicators (RAF Indicators or Level I Indicators), which consider all relevant risks, separately and jointly, and which cover the following areas: Capital, Liquidity, Asset Quality (credit, market and interest rates, operations) and Profitability. For each of the RAF indicators, the following are defined:

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

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

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

In accordance with the RAF process, the trend of the risks assumed on average in 2021 is illustrated, distinguishing between the following risk families: market and interest rate, credit and operations:

- With regard to the *market risk of the trading book and the interest rate risk of the banking book*, no substantial changes in the overall risk profile were recorded. The management of financial risks takes place through the definition of a structure of limits, which represents a direct expression of the acceptable level of risk with reference to the individual business areas/lines, and in accordance with the provisions of the RAF. The specific or issuer risk is monitored by means of concentration limits per sector and rating class, also in terms of credit spread sensitivity. All limits are monitored on a daily basis by the Risk Management department.
Credembanca's average VaR on the trading book (confidence interval of 99%, 10-day holding period, multiplication ratio of 3) increased compared to the previous year, while the trading book operations remained at low levels. The main positions in debt securities (government securities and securities of financial issuers/covered bonds) are placed in the HTCS and HTC portfolios. With regard to Banca Euromobiliare, the capital requirement for market risk is substantially insignificant.
- With regard to *interest rate risk*, the Group has adopted a Policy for the interest rate risk of the banking book which, on a consistent basis with European legislation, uses the measurement metrics of the Economic Value (EV) sensitivity and of the Interest Margin sensitivity within the RAF. The interest rate risk of the banking book, measured through the sensitivity of VE, increased in 2021 compared to 2020, with an average of 2.4% of equity; the figure remains within the defined risk appetite framework. As regards the other companies, the most significant contribution to the interest rate risk of the group's banking book is generated by Credemleasing, which recorded an average sensitivity of economic value of 1% of equity, down from 2020 and below the company's risk appetite.

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

CORPORATE RISKS	2021		2020	
	average	max	average	max
Banking Book interest rate risk vs. Own Funds (EV sensitivity method 200 bps)				
- Banking Group	2.5%	5.4%	1.9%	4.1%
generic market risk of the Trading Book				
- Credem (VaR method)	4.3	14.2	2.9	7.6
issuer risk (standard Supervisory approach, € mln)				
- Credem	0.4	0.9	0.1	0.1

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

CREDIT RISK	2021	2020
- Credembanca	1,168	947
- Credemleasing	90	78
- Other Companies	138	105
	1,396	1,130

The comparison with the previous year shows an increase partly linked to the increase in exposures to Corporate and Retail customers (increase in risk) and partly due to the increase in the weighting coefficient of Risk Weighted Assets (increase linked to a methodological aspect).

With regard to operational risk, the consolidated supervisory requirement, calculated using the TSA method, is around € 163.9 million.

INTERNAL AUDITING

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

AUDITING ACTIVITIES PROVIDED	2021	2020	2019
a) BY COMPANY			
Banks:	85.5%	87.0%	86.6%
. branches and corporate centres	34.2%	36.0%	32.0%
. financial advisors	28.0%	27.4%	28.7%
. others	23.3%	23.5%	25.9%
Other companies	14.5%	13.0%	13.40%
b) BY AREA OF INTERVENTION			
. “customer” finance, executive and <i>fraud management</i>	55.6%	56.1%	46.0%
. governance, support and “property” finance	11.4%	11.1%	11.4%
. loans, legislation, collections and payments	24.1%	24.4%	31.6%
. information technology	6.2%	6.1%	8.3%
. co-ordination and methodology	2.6%	2.4%	2.7%

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

Particular attention was paid to monitoring the risks related to the Covid-19 emergency, continuing the activities undertaken in 2020.

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

The supervision of the *Corporate Centre* is carried out using *risk-based* criteria, and seeks to assess the regularity and effectiveness of the production and management processes and the consistency of internal controls with respect to the level of risk of the underlying *businesses*. Specific attention was paid to emerging and important areas such as *Cyber Security*, *Data Governance*, Monitoring of the *outsourcers*, as well as topics relating to the SREP *Pillars*, particularly *governance*, risk management and liquidity.

In 2021, the Function continued to invest in the automation of compliance controls, to increase the level of efficiency and to guarantee wider coverage for analysis activities. The use of *Advanced Analytics* was further extended, to continuously fine-tune anomaly indicators in the preventive identification of irregular behaviour.

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

PERSONNEL

The strategy pursued in 2021 was to increase the workforce, with a view to sustaining the Group's important objectives to increase volumes. Headcount increased from 6,219 at 31/12/2020 to 6,608 at 31/12/2021, an overall increase of 347. The main areas of intervention regarded:

- The incorporation of the staff of the former Cassa di Risparmio di Cento.
- The acquisition of the stake in two new companies: SATA and Blue Eye Solutions.
- The equilibrium of Credem Banca's sales network to maintain adequate levels of service offered to customers and to extend the territorial scope, including through raising the effectiveness of the network of sales outlets;
- The strengthening of IT structures with a view to developing new procedures for the *business*, make the changes to processes envisaged by legislation/regulations and better manage so-called "ICT risk";
- The strengthening of Avvera's structure and of Banca Euromobiliare's sales network, to support the Companies' development plan.
- The strengthening of the workforce of the majority of the other Group companies, to sustain their respective development plans.
- The measure, which has already been in place for several years, seek to reach a voluntary agreement for early retirement, and has enabled the Group to then hire young high school and university graduates.

NUMBER OF EMPLOYEES BY COMPANY	2021		2020		changes
	number	% impact	number	% impact	
Credito Emiliano	5,676	85.9	5,375	86.4	301
Credemleasing	105	1.6	104	1.7	1
Credemfactor	75	1.1	75	1.2	0
Banca Euromobiliare	246	3.7	228	3.7	18
Euromobiliare A.M. SGR	58	0.9	61	1.0	-3
Euromobiliare Advisory SIM	56	0.8	54	0.9	2
Credem Private Equity	3	0.0	3	0.0	0
Credemvita	66	1.0	64	1.0	2
Credemassicurazioni	24	0.4	21	0.3	3
Magazzini Generali delle Tagliate	29	0.4	28	0.5	1
Credemtel	99	1.5	99	1.6	0
Euromobiliare Fiduciaria	7	0.1	8	0.1	-1
Avvera	122	1.8	99	1.6	23
S.A.T.A	16	0.2			
Blue Eye Solutions	26	0.4			
Consolidated	6,608	100	6,219	100	

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

Investments continued on the Group identity. The focus was on providing support to management in achieving the company's *mission* and values. In this regard, the use of the "*multidegree*" assessment was confirmed, in which all Group staff make a self-assessment on certain behavioural aspects considered key to the company and they are assessed on the same topics by their managers, their *peers* and for the managers, by their direct reports. Based on the result obtained by this comparison of opinions, measures have been envisaged to improve areas in which behavioural aspects are lacking (such as training, *coaching* by line managers).

In addition to this, as regards management training, we have continued to invest in *leadership*, *coaching*, *feedback*, *trust* on *error management* and *mentoring*, considered important levers to enable a boss to adopt the company's *leadership* model and increase staff *performance*. The investment in training courses on *lean management* was also confirmed, with a view to making internal processes increasingly efficient.

The services covered by the company *welfare* plan, structured to meet purchasing power, health and well-being, protection, personal support and *work-life balance* needs, were consolidated, and new initiatives have been developed, which have involved an increasing number of people. The focus areas have been prevention in terms of health care, parenthood, and in particular fatherhood, physical fitness, *remote working*, mobility, sociality, legal and tax advice, *caregivers*, psychological support and "save time" solutions. The corporate volunteering initiative was confirmed, with the participation of 300 people who volunteered during working hours and days on the web.

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

In order to deal with the healthcare emergency linked to Covid-19, significant use was made of *remote working*, which benefited over 91% of the Group's staff. This new way of working was accompanied by an important training course on behavioural skills, psychological and physical health support, as highlighted in the introduction in the chapter on the pandemic.

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

ORGANISATION & IT

For the whole of 2021, the planning, organisational and technological development activities were very intense and continued to be impacted by the ramifications of the pandemic which have again affected the *deployment* methods (definition of user requirements, IT and UAT developments carried out entirely in *remote work mode*). The main areas of intervention are highlighted below.

STRATEGIC PROGRAMS

Main interventions carried out, broken down by Strategic Area:

WEALTH

- Digitalisation of the sales and post-sales processes of the Network of Private Bankers and Financial Advisors (Credem and Banca Euromobiliare) with particular focus on the Business Unit dedicated to Private Banking (created at the beginning of 2021).
- Implementation of the new holistic consultancy model, supported by an engine and a platform developed with the best market players (UBS and Prometeia) to enable the logic of *Robo-4-Advisor*

BANKASSURANCE

- Developed a new Bancassurance platform, that allows a consultancy approach on insurance protection and a modular offer of products, supported by *end-to-end* digitalisation of the sales processes of stand-alone protection products.

CREDIT

- Strengthening of the strategy of “centralisation” with the Company Avvera of the offer of consumer credit products for households and private individuals (for example, the creation of the “Targeted” product). In addition, activities continue to obtain a group approach for customers shared with the Parent Company.
- Automation of credit granting and of the monitoring of the exposures of corporate and private clients, in order to process *instant lending* algorithms, starting from captive clients and then extending these automatisms to *prospects* in ecosystems and *open banking* logic.

DIGITALISATION

- Companies: a programme of relationship digitalisation is underway, with the aim of setting up a single Company HUB for customers (*Supply Chain*, ERP, Leasing, Factor), exploiting the opportunities arising from the Group's “*Federation of Business*” and, as far as possible, the possibilities offered by PSD2.;
- Private individuals: Credem's new *Mobile APP* has been released, in which further investments are underway (e.g. the introduction of *personal financial management* and advanced CRM platforms), with a view to building the *responsive* platform introduced with the new App.
- *Digital Marketing*: initiated the definition of numerous *customer journeys* based on the introduction of a new way of interacting with customers, through the use of *Salesforce Marketing Cloud*, which connects all *touchpoints* with the customer to offer a *unique* experience. . Through the introduction of *Marketing Cloud* it will be possible to manage one-to-one *marketing activities* towards customers, in an efficient way and on different channels, and to conduct analyses on the effectiveness of communications, ability to customise contents, channels, engagement times and study of data.

PAYMENT SYSTEM

- A strategic study was carried out to define the technical and functional evolution of our payment systems and the e-money sector. The Transformation Programme will start the next year.

NEW DISTRIBUTION MODEL

In conclusion, the first step of optimising the *cost/ income* of the Distribution Network, through various levers:

- Rationalised the branches , with the aim of reducing the number of “micro” points of sale, favouring the establishment of customer service poles and

developing, at the same time, the enabling factors for a more digital relationship

- Migration of customer transaction process to digital (for example, the installation of Advanced ATMs and CSAs (Self Assisted Cash Points), creation of the "Remote Operator";
- Digitised with the use of digital signature of more than a hundred sales processes in the underwriting mode, to encourage more and more (also in the light of the pandemic context still in progress) the development of remote and omnichannel relationship with the customer
- Increased the commercial effectiveness through revision of the customer segmentation and customers' portfolio model, aimed at specialising and concentrating the Network on activities with greater added value

EXTRAORDINARY TRANSACTION

The activities for the acquisition and integration of the Cassa di Risparmio di Cento into its operating model by Credem Banca were completed at the end of July. Transaction successfully completed and customer *attrition* rates are currently very low.

Caring activities for customers and the sales network are continuing.

"EMERGENCY" LINES

Alignment to the various decrees issued following the pandemic emergency continues (including compliance with the new budget law) continued.

The new organisational and collaboration methods, to support a full remote-working context were finalised.

The project for joining the "Ecobonus 110" initiative was started and completed, in partnership with Deloitte and Crif.

NRRP: a study was launched to support our customers to access these subsidized loan formulas.

REGULATORY PROJECTS

Following the Bankit inspection at the beginning of 2021, a timely project was activated aimed at remedying the findings, albeit in a very positive context.

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

TECHNOLOGICAL EVOLUTION

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

Various data extraction and processing solutions were implemented through activities defined by Data Governance; the company continues its path of disseminating the "data culture" in the company. Numerous analytics solutions were completed, such as dashboards to support ongoing projects for proper data monitoring, or predictive solutions for different business phenomena;

Cyber Security: investments continued to strengthen the protection of the Group and customers in the face of growing cyber threats through the adoption of dedicated methods and tools, the updating of systems and hardware equipment, the inclusion of specialised professionals;

An intense programme of "acceleration" of technological capabilities has been launched with the aim of increasing the delivery speed of IT solutions, to support the various projects (eg. Cloud, Identification Management, automation test, etc.)

After two years of experimentation, we started to scale up the Agile culture and methodology, both in software development and functional definition, with the involvement of all employees.

Investments for the renovation of core banking systems continue.

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

SHAREHOLDERS, SHARES AND RATINGS

The following changes took place during the year regarding Share Capital:

Date	Share capital in €	No. of shares	Situation
Dec-20	332,392,107	332,392,107	at year end
Dec-21	341,320,065	341,320,065	at year end

The breakdown of shareholdings at 31/12/2021 was the following:

	% of ordinary
Credito Emiliano Holding S.p.A.	77.55
Other shareholders	22.45

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

Comparison with market	31/12/2021	31/12/2020	31/12/2019	change % 21-20
Credem Share Price (€)	5.82	4.41	5.19	32
FTSE Italia Banche (Index)	10,041	7,388	9,364	36
FTSE Italia All-Share (Index)	27,347	24,233	23,506	23

The table below illustrates the main figures and stock market indicators relative to the Credem share:

Share data		2021	2020	2019
Ordinary shares	no.	341,320,065	332,392,107	332,392,107
Shareholders' equity per share	€	10.14	9.43	8.46
Net profit per share	€	1.03	0.61	0.61
Dividend per share	€	0.30	0.20	-
Share prices				
- low	€	4.14	3.24	4.16
- high	€	6.67	5.42	5.48
- official year-end	€	5.82	4.41	5.19
Stock market indexes				
DIVIDEND / SHARE PRICE (DIV/P)				
- low	%	4.4	3.7	-
- high	%	7.3	6.2	
SHARE PRICE/EARNINGS PER SHARE (P/E)				
- low	no.	4.0	5.3	6.9
- high	no.	6.5	8.9	9.0
- official year-end	no.	5.6	7.9	9.2

With regard to the periodic reviews, and in particular to measures relating to reviews of Italian debt (incidentally illustrated in more detail in the introduction), the current situation of the opinions of the rating agencies is shown below:

Agency	Latest review	Short-term debt	Medium/long-term debt	Outlook	Other	Rating
FITCH Ratings	17/12/21	F3	BBB	Stable		
Moody's	12/05/21	P-3	Bank Deposits: Baa3 Counterparty Risk Rating: Baa2	Stable		

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

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

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

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

With regard to the 2021 statutory and consolidated financial statements, the main activities performed by the office of the Manager in question regarded:

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

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

NON-FINANCIAL STATEMENT

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

BUSINESS OUTLOOK AND SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

2021 closed with a strong rebound in the world economy, after the recession from Covid-19, the deepest decline in GDP in peacetime. While all the major economies have left behind the most difficult economic and social periods, the intensity of the recovery is not uniform, while the risks that could turn 2022 into a more difficult year than expected is increasing.

It is clear that vaccines have been the key to getting out of the acute phase of the pandemic, but these are not equally widespread in all countries. A first direct consequence between very buoyant demand (and gradual normalisation of production processes) and restrictive measures to stem the virus was the *mismatch* between demand and supply that led to an increase in price levels and supply bottlenecks that hampered some manufacturing output. High international commodities prices and a shortage of some intermediate goods are leading to an increase in production prices. In addition, strong demand for natural gas in Europe and China, reduced inventories, cold winter temperatures and geopolitical tensions pushed the price of energy further.

Projections for 2022 based on available macroeconomic data (Prometeia's December 2021 forecast report, update February 2022, before the outbreak of the conflict), assume an annual evolution of world GDP at +3.9%, of US GDP at +3.7% and of EMU at +3.5%.

With regard to the Italian economy, the main dynamics for the full year 2022 are as follows:

- Gross domestic product should show + 3.6% on an annual basis, also benefiting from a still expansive Budget Law and funds from the Next Generation EU program.
- Household consumption is expected to rise 3.8% at the end of the year, showing a recovery, without however reaching the pre-pandemic level.
- Investments should show strong growth overall, with +7.3% yoy. Investment in machinery and transport equipment is expected to close the year with +6.0%, while the construction component with +8.7%. In a nutshell, the trends in investments should benefit from the measures confirmed also in 2022 by the Government and the arrival of European funds aimed at improving digital technologies and the redevelopment of the building stock. The latter would also benefit from improved energy efficiency linked to the “eco-bonus” measures.
- Exports are expected to reach +6.5% this year, in line with the trend in global trade (forecast at +4.0% in 2022).
- Inflation is expected to be positive (+3.5%).

Further risks for the dynamics of the global economy are linked to the conflict between Russia and Ukraine. The war events, which occur rapidly in these hours, have far-reaching consequences on growth and inflation, as well as repercussions on households and businesses. The price of some raw materials and energy may increase further than current valuations, with negative impacts on households' disposable income and their expectations. Regarding businesses, the impact of the crisis will vary by sector or by individual company, with some sectors more affected than others by sanctions and rising production costs. According to several parties, the conflict could lead to a lower GDP for Europe of -0.3/0.4% (already the estimates of the Forecast Report of Prometeia of February 2022 predicted, in the event of a conflict in Ukraine, an increase of 3% of GDP and 5.5% of inflation), also due to the domino effect of financial sanctions. The final result will also depend on the ability of the monetary authority to deal with the slowdown in the economy and the development of inflation. At the moment the European Central Bank has announced that it is doing everything necessary to ensure liquidity and full access for citizens to means of payment.

As regards the main banking aggregates, the following was forecast: (pre-conflict estimates):

- After the strong accumulation of deposits recorded in 2020 and 2021, the improvement in the economic situation should lead to a decrease in current

account deposits due to a greater propensity towards consumption and a lower risk aversion of households who will tend towards more profitable forms of investment. A +0.5% of total deposits and the stability of current account deposits are assumed. For the stock of bonds, a +1.5% is assumed, as the redemptions of the TLTRO will determine a return to bond issues by the banks.

- After a very positive trend in the demand for loans by businesses for 2020 and a contained but positive trend in 2021, 2022 should show a +2.0% on an annual basis, due to the expected decisions already made and therefore the already available internal resources to finance any investments.
- A positive trend in loans to households (+ 3.8% in 2022, again on an annual basis) both for investments related to housing and for a greater consumption of durable goods.
- In a scenario, which may still be conditioned by the health situation and by the evolution of the ongoing conflict between Russia and Ukraine, banking management may be affected by various factors:
- Dynamics of inflation.
- Measures implemented by the Government, European Authorities and monetary and supervisory institutions.
- Development of financial and stock markets (very sensitive to news on infections and vaccines, to European and US monetary policy manoeuvres, to geopolitical tensions and developments in the conflict in Ukraine).
- Evolution of the BTP-Bund spread;
- dynamics of the Italian political scenario;
- Rate curve dynamics and banking spread trends.
- Evolution of credit risk and criticality of individual banking entities; to be noted is that 2022 is the year of the end of the support measures adopted.
- impacts of numerous rules and regulatory measures that are affecting the European financial system;
- Changes in purchasing habits and the use of banking services tried during the lockdown that are accelerating the digital transformation of the institutions, but also, at the same time, that could increase competition from non-banking operators.

In this challenging general framework, the Credem Group expects to be able to maintain the main management guidelines in the medium term. In the shorter term, even though the Credem Group does not have exposures towards Russia in its own securities portfolio and not even at credit level towards Russian companies and institutions, the impacts deriving from the current war crisis situation on the main economic and equity aggregates cannot be excluded.

The medium-term strategic guidelines include:

- Maintenance of significant rates of commercial development of deposits and, in particular, of the assets under management segment.
- Further strengthening of the insurance sector;
- Selective progress of credit;
- Review of the service model (focusing on a multi-channel approach and digitalisation);
- Distribution and production enhancement of the Wealth Management business (which led, among other things, to the establishment of a Private Banking Hub);
- Confirmation of significant investments in regulatory compliance and development of the information system, as well as significant marketing investments;
- Activation of systematic initiatives aimed at improving the efficiency of processes and structures (also stabilising the processes “tested” during the pandemic);
- Confirmation of a solid risk profile and capital level;
- Maintenance of an adequate diversification of the securities portfolio to monitor capital volatility;
- Diversification and stabilisation of revenues (expansion of the product range, sales channels and integration with the development of ESG products).

With regard to credit risk, this is subject to frequent monitoring and the implementation of *early warning* systems to promptly detect any deterioration in the

scenario. A worsening of creditworthiness, upon expiry of the public support measures, may determine an increase in analytical write-downs, offset by a stabilisation of the component relating to *performing* loans.

In 2022, the Group will continue the process of integration with the former Cassa di Risparmio di Cento, which will allow the development on a new territory, the implementation of cost synergies favoured by the adoption of a single IT platform and the diversification of the offer with benefits for all stakeholders.

Lastly, it should be emphasised that the operating procedures for performing centralised and commercial activities will continue in compliance with the applicable prevention measures, both in reference to the personnel of the Group and to customers.

ALTERNATIVE PERFORMANCE INDICATORS (API)

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

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

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

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

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

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

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

ALTERNATIVE PERFORMANCE INDICATORS		31/12/2021	31/12/2020
Operating expenses	A	-783	-705
Total revenues	B	1,337	1,202
Cost to income ratio	(A/B)	58.5%	58.7%
Interest margin	A	496	493
Total Assets	B	67,579	56,650
Financial margin on Total Assets	(A/B)	0.7%	0.9%
Non-interest margin	A	840	709
Total Assets	B	67,579	56,650
Margin "from services" on Total Assets	(A/B)	1.2%	1.3%
Interest margin	A	496	493
Net banking income	B	1,337	1,202
Financial margin on net banking income	(A/B)	37.1%	41.0%
Net profit	A	352	202
Total Assets	B	67,579	56,650
Profit on Total Assets (ROA)	(A/B)	0.5%	0.4%
Net non-performing loans	A	379	421
Shareholders' equity	B	3,459	3,134
Intangible assets	C	465	445
Texas ratio	(A/(B-C))	12.7%	15.6%
Shareholders' equity	A	3,459	3,134
Direct customer deposits	B	34,576	30,819
SE on Direct deposits	(A/B)	10.0%	10.2%
Shareholders' equity	A	3,459	3,134
Loans to customers	B	33,156	29,299
SE on Loans to customers	(A/B)	10.4%	10.7%
Shareholders' equity	A	3,459	3,134
Financial assets	B	33,156	29,299
SE on Financial assets	(A/B)	10.4%	10.7%
Shareholders' equity	A	3,459	3,134
Total Assets	B	67,579	56,650
Shareholders' Equity on Total Assets	(A/B)	5.1%	5.5%
Net non-performing loans	A	379	421
Shareholders' equity	B	3,459	3,134
Net impaired loans on shareholders' equity	(A/B)	11.0%	13.4%
Net non-performing loans	A	379	421
Receivables from customers	B	33,156	29,299
Net NPL ratio	(A/B)	1.1%	1.4%
Loans to customers	A	33,156	29,299
Direct customer deposits	B	34,576	30,819
Loans to customers on Direct customer deposits	(A/B)	95.9%	95.1%
Value adjustments to loans	A	-32	-106
Loans to customers	B	33,156	29,299
Cost of credit	(A/B)	0.10%	0.36%
Net profit	A	352	202
Shareholders' equity (annual average net of dividends)	B	3,222	2,939
Return on shareholders' equity (ROE)	(A/B)	10.9%	6.9%

CONSOLIDATED
FINANCIAL STATEMENTS
AT 31/12/2021

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The purpose of the Explanatory Notes to the financial statements is to illustrate, analyse and in some cases supplement the information contained in the financial statements. They contain the information required by the IAS/IFRS standards and the circular issued by the Bank of Italy no. 262 of 22 December 2005, as amended. Furthermore, all additional information retained necessary to give a truthful and correct representation is also provided.

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

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

BALANCE SHEET INCOME STATEMENT

CONSOLIDATED BALANCE SHEET

Assets	31/12/2021	31/12/2020
10. Cash and cash equivalents	230,954	236,759
20. Financial assets measured at fair value through income statement	82,362	41,764
a) Financial assets held for trading	59,970	21,616
c) Other financial assets measured at fair value, as per mandatory requirements	22,392	20,148
30. Financial assets measured at fair value through other comprehensive income	6,593,183	3,516,442
35. Financial assets pertaining to insurance companies measured at FV pursuant to IAS 39	7,064,627	6,703,061
40. Financial assets measured at amortised cost	49,137,481	42,572,066
a) Due from Banks	8,948,886	8,218,477
b) Loans to customers	40,188,595	34,353,589
45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,688,198	1,243,142
50. Hedging derivatives	211,101	273,385
60. Change in value of macro-hedged financial assets (+/-)	82,769	130,215
70. Equity investments	48,592	45,690
80. Reinsurance technical reserves	17,489	17,298
90. Property, plant and equipment	460,230	442,225
100. Intangible assets	465,095	444,605
of which:		
- Goodwill	291,343	289,786
110. Tax assets	416,641	403,673
a) Current	187,737	198,126
b) Deferred	228,904	205,547
120. Non-current assets and groups of assets held for sale and discontinued operations	5,807	-
130. Other assets	1,074,658	579,920
Total Assets	67,579,187	56,650,245

The figures in the Balance Sheet and the Explanatory Notes for the year ended 31 December 2020 have been restated in order to implement the 7th update of 29 October 2021 of Bank of Italy Circular 262 of 22 December 2005, with respect to the reclassification of Current accounts and sight deposits with banks and Current accounts and sight deposits with central banks (excluding the mandatory reserve) from the item "Loans to banks" to the item "Cash and cash equivalents".

continued: CONSOLIDATED BALANCE SHEET

Liabilities and shareholders' equity	31/12/2021	31/12/2020
10. Financial liabilities measured at amortised cost	52,726,659	43,591,800
a) Due to banks	12,585,576	8,009,508
b) Loans to customers	37,716,918	33,081,710
c) Debt securities issued	2,424,165	2,500,582
15. Financial liabilities pertaining to the insurance companies measured at amortised cost pursuant to IAS 39	111,894	108,872
20. Financial liabilities held for trading	33,148	18,263
35. Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	4,406,981	3,698,395
40. Hedging derivatives	408,084	365,281
50. Change in value of macro-hedged financial liabilities (+/-)	104,158	200,515
60. Tax liabilities	197,349	196,154
a) current	70,279	61,604
b) deferred	127,070	134,550
70. Liabilities included in disposal groups classified as held for sale	162	-
80. Other liabilities	1,628,574	1,002,286
90. Provision for staff termination indemnity	69,845	72,739
100. Provisions for risks and charges:	174,411	153,146
a) Assets pledged and received as collateral	8,044	7,219
b) Post-retirement benefit obligations	1,485	1,714
c) Other provisions for risks and charges	164,882	144,213
110. Technical reserves	4,257,810	4,108,760
120. Valuation reserves	87,226	135,687
125. Valuation reserves pertaining to insurance companies pursuant to IAS 39	(14,221)	(14,509)
150. Reserves	2,374,932	2,202,834
160. Share premium reserve	321,800	283,052
170. Share capital	341,320	332,392
180. Treasury shares (-)	(4,025)	(7,463)
190. Minority interests (+/-)	653	446
200. Profit (loss) for the period (+/-)	352,427	201,595
Total liabilities and shareholders' equity	67,579,187	56,650,245

CONSOLIDATED INCOME STATEMENT

Items	31/12/2021	31/12/2020
10. Interest income and similar revenues	584,077	552,239
of which: interest income calculated using the effective interest rate method	556,242	525,578
20. Interest expense and similar charges	(94,447)	(66,177)
30. Net interest income	489,630	486,062
40. Fee and commission income	823,948	695,881
50. Fee and commission expenses	(189,007)	(178,536)
60. Net fee and commission income	634,941	517,345
70. Dividends and similar income	166	473
80. Net profit (loss) from trading	14,390	25,495
90. Net profit (loss) from hedging	(46)	2,641
100. Gains (Losses) on disposal or repurchase of:	37,392	22,707
a) Financial assets measured at amortised cost	3,135	16,656
b) Financial assets measured at fair value through other comprehensive income	34,257	6,048
c) Financial liabilities	-	3
110. Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	1,735	(317)
b) Other financial assets measured at fair value, as per mandatory requirements	1,735	(317)
115. Profit (Loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	151,868	128,431
120. Net interest and other banking income	1,330,076	1,182,837
130. Net value adjustments/recoveries for credit risk of:	(28,220)	(102,819)
a) Financial assets measured at amortised cost	(28,723)	(103,944)
b) Financial assets measured at fair value through other comprehensive income	503	1,125
135. Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39	-	(411)
140. Profits/losses from contractual changes without derecognitions	(829)	(741)
150. Net profit from financial activities	1,301,027	1,078,866
160. Net premiums earned	479,851	474,760
170. Net other operating income/charges from insurance activities	(500,495)	(489,075)
180. Net profit from financial and insurance activities	1,280,383	1,064,551
190. Administrative costs	(949,898)	(844,864)
a) Personnel expenses	(550,682)	(513,117)
b) Other administrative expenses	(399,216)	(331,747)
200. Net provisions for risks and charges	(13,021)	(13,476)
a) For credit risk relating to commitments undertaken and guarantees given	(2,839)	(4,761)
b) Other net provisions	(10,182)	(8,715)
210. Net value adjustments to (recoveries on) property, plant and equipment	(43,909)	(41,157)
220. Net value adjustments to (recoveries on) intangible assets	(49,303)	(45,247)
230. Other operating income/charges	225,578	124,179
240. Operating expenses	(830,553)	(820,565)
250. Gains (Losses) on equity investments	6,337	6,453
280. Gains (Losses) on disposals of investments	10,014	2,087
290. Profit (loss) before tax from continuing operations	466,181	252,526
300. Tax expense (recovery) on income from continuing operations	(113,588)	(50,797)
310. Profit (loss) after tax from continuing operations	352,593	201,729
330. Profit (loss) for the period	352,593	201,729
340. Profit (Loss) for the period attributable to minority interests	(166)	(134)
350. Parent Company's profit (loss) for the period	352,427	201,595

	31/12/2021	31/12/2020
Basic Earnings per Share (basic EPS)	1.05	0.61
Diluted Earnings per Share (diluted EPS)	1.05	0.61

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Items	31/12/2021	31/12/2020
10. Profit (loss) for the period	352,593	201,729
Other income after tax without reversal to Income Statement	(12,412)	(1,244)
20. Equity securities measured at fair value through other comprehensive income	(11,623)	139
70. Defined benefit plans	(789)	(1,383)
Other income after tax with reversal to Income Statement	(35,836)	46,056
120. Cash flow hedges	(27,354)	12,760
140. Financial assets (other than equity securities) measured at fair value through other comprehensive income	(8,105)	27,949
145. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	288	4,685
160. Share of valuation reserves of equity investments valued at equity	(665)	662
170. Total other income after tax	(48,248)	44,812
180. Comprehensive income (Item 10+170)	304,345	246,541
190. Consolidated comprehensive income attributable to minority interests	166	129
200. Consolidated comprehensive income attributable to Parent Company	304,179	246,412

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance at 31.12.2020	Initial balance changes	Balance at 01.01.2021	Allocation of previous year's results		Changes during the year										Group shareholders' equity at 31/12/2021	Shareholders' equity of non- controlling interests at 31/12/2021
						Changes in reserves	Transactions on shareholders' equity							Comprehensive income for the year 31/12/2021			
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in shareholdings				
Share capital	332,427	X	332,427	-	X	X	8,928	-	X	X	X	X	8	X	341,320	43	
- ordinary shares	332,427	X	332,427	-	X	X	8,928	-	X	X	X	X	8	X	341,320	43	
- other shares	-	X	-	-	X	X	-	-	X	X	X	X	-	X	-	-	
Share premium reserve	283,053	X	283,053	-	X	-	38,748	X	X	X	X	X	-	X	321,800	1	
Reserves	2,203,127	-	2,203,127	135,434	X	40,869	-	(3,438)	-	X	-	X	69	(665)	2,374,932	464	
- profit	2,203,127	-	2,203,127	135,434	X	40,869	-	(3,438)	-	X	X	X	69	(665)	2,374,932	464	
- other	-	-	-	-	X	-	-	X	-	X	-	-	-	X	-	-	
Valuation reserves	121,161	-	121,161	X	X	(594)	X	X	X		-	-	-	(47,583)	73,005	(21)	
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	-	X	-	-	
Treasury shares	(7,463)	X	(7,463)	X	X	X	-	3,438	X	X	X	X	X	X	(4,025)	-	
Profit (loss) for the year	201,729	-	201,729	(135,434)	(66,295)	X	X	X	X	X	X	X	X	352,593	352,427	166	
Group shareholders' equity	3,133,588	-	3,133,588	-	(66,295)	40,275	47,676	-	-	-	-	-	36	304,179	3,459,459	-	
Minority shareholders' equity	446	-	446	-	-	-	-	-	-	-	-	-	41	166	-	653	

Gains from the sale of shares in the company Cedacri were reported in the item "Changes in reserves"; on 5 March 2021 an agreement was signed by all shareholders for the sale of 100% of the share capital of Cedacri to ION Investment Group Limited, including the share held by Credem equal to 3.9%; this sale was carried out in June 2021 and resulted in a capital gain, net of the related tax effect, of € 36.3 million, recorded under item "Other reserves" as the equity instruments for which the choice has been made to classify them in the category "Financial assets measured through comprehensive income" are measured at fair value and the amounts recognised as a balancing entry in equity (Statement of Comprehensive Income) must not subsequently be transferred to the income statement, even in the event of disposal.

On 24 July 2021, i.e. the date of merger of Cassa di Risparmio di Cento into Credito Emiliano, 8,927,958 shares of Credito Emiliano were issued for the capital increase dedicated to the former shareholders of Cassa di Risparmio di Cento. The shares were recorded at the price of € 5.34, the closing price of the Credem share on 23 July 2021, for a total capital increase, including share premium, of € 47,7 million.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 31/12/2019	Initial balance changes	Balance as at 01/01/2020	Allocation of previous year's results		Changes during the year									Shareholders' equity as at 31/12/2020	Shareholders' equity of non- controlling interests as at 31/12/2020
						Changes in reserves	Transactions on shareholders' equity							Comprehensive income for the year		
				Reserves	dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivative s on treasury shares	Stock options	Changes in shareholdings			
Share capital:	332,394	X	332,394	-	X	X	-	-	X	X	X	X	33	X	332,392	35
a) Ordinary shares	332,394	X	332,394	-	X	X	-	-	X	X	X	X	33	X	332,392	35
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	-	X	-	-
Share premium reserve	283,053	X	283,053	-	X	-	-	X	X	X	X	X	-	X	283,052	1
Reserves:	1,999,601	-	1,999,601	201,310	X	3,391	-	(2,120)	-	X	-	X	283	662	2,202,834	293
a) profit	1,999,601	-	1,999,601	201,310	X	3,391	-	(2,120)	-	X	X	X	283	662	2,202,834	293
b) other	-	-	-	-	X	-	-	X	-	X	-	-	-	X	-	-
Valuation reserves	77,023	-	77,023	X	X	-	X	X	X		-	-	(12)	44,150	121,178	(17)
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	-	X	-	-
Treasury shares	(9,583)	X	(9,583)	X	X	X	-	2,120	X	X	X	X	X	X	(7,463)	-
Profit (loss) for the year	201,310	-	201,310	(201,310)	-	X	X	X	X	X	X	X	X	201,729	201,595	134
Group shareholders' equity	2,883,794	-	2,883,794	-	-	3,391	-	-	-	-	-	-	(9)	246,412	3,133,588	-
Minority shareholders' equity	4	-	4	-	-	-	-	-	-	-	-	-	313	129	-	446

CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

A. OPERATING ACTIVITIES	Amount	
	31/12/2021	31/12/2020
1. Cash flow from operations	282,846	120,728
- profit (loss) for the year (+/-)	352,427	201,595
- capital gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit or loss (-/+)	3,253	(47,541)
- capital gains/losses on hedging operations (-/+)	46	(2,641)
- net value adjustments/recoveries for credit risk (+/-)	58,493	128,531
- net value adjustments to (recoveries on) property, plants and equipment and intangible assets (+/-)	93,212	86,404
- net provisions for risks and charges and other expenses/income (+/-)	13,021	13,476
- not cashed net premiums (-)	(806)	(551)
- other insurance income/charges not collected (-/+)	(2,418)	(2,389)
- taxes, duties and tax credit not paid or collected (+/-)	67,904	-
- other adjustments (+/-)	(302,286)	(256,156)
2. Cash flow from (used in) financial assets	(10,604,654)	(8,677,139)
- financial assets held for trading	(43,279)	147,191
- other assets measured at fair value, as per mandatory requirements	(501)	(9,327)
- financial assets measured at fair value through other comprehensive income	(3,178,570)	2,717,051
- financial assets measured at amortised cost	(6,730,837)	(11,124,734)
- other assets	(651,467)	(407,320)
3. Cash flow from (used in) financial liabilities	10,457,613	8,642,559
- financial liabilities measured at amortised cost	9,165,899	8,287,857
- financial liabilities held for trading	14,885	(78,223)
- other liabilities	1,276,829	432,925
Net cash flow from (used in) operating activities	135,805	86,148
B. INVESTMENT ACTIVITIES		
1. Cash flow from:	15,215	16,686
- sales of property, plant and equipment	15,215	16,686
2. Cash flow used in:	(141,644)	(86,215)
- purchases of equity investments	(821)	(370)
- purchases of property, plant and equipment	(77,799)	(39,033)
- purchases of intangible assets	(63,024)	(46,812)
Net cash flow from (used in) investment activities	(126,429)	(69,529)
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	51,114	2,120
- dividend distribution and other	(66,295)	-
Net cash flow from (used in) funding activities	(15,181)	2,120
NET CASH FLOW FROM (USED IN) FUNDING ACTIVITIES IN THE YEAR	(5,805)	18,739

RECONCILIATION

Item	Amount	
	31/12/2021	31/12/2020
Cash and cash equivalents at the beginning of the year	236,759	218,020
Net increase (decrease) in cash and cash equivalents	(5,805)	18,739
Cash and cash equivalents: effect of exchange rate variations	-	-
Cash and cash equivalents at the end of the year	230,954	236,759

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

EXPLANATORY NOTES

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Part A – Accounting policies

Part B – Information on the consolidated balance sheet

Part C – Information on the consolidated income statement

Part D – Consolidated statement of comprehensive income

Part E – Information on risks and hedging policies

Part F – Information on consolidated shareholders' equity

Part G – Business combinations

Part H – Related party transactions

Part I – Share-based payments

Part L – Segment reporting

Part M – Leases

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

PART A

ACCOUNTING POLICIES

A.1- GENERAL CRITERIA

The consolidated financial statements of Credem Group constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815.

Section 1 - Statement of compliance with international accounting standards

The Consolidated Financial Statements have been drawn up in full compliance with all International Accounting Standards (IAS/IFRS) issued by the International Accounting Standard Board and the related interpretations from the International Financial Reporting Standards in force at 31 December 2021 and approved by the European Commission under the procedure established in the EU regulation no. 1606/2002 of 19 July 2002, as well as the provisions issued pursuant to Art. 9 of Italian Legislative Decree no. 38/2005 and Art. 43 of Italian Legislative Decree of 18 August 2015, no. 136.

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

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

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

The accounting standards adopted for the preparation of these financial statements, with reference to the phases of classification, recognition, measurement and derecognition of financial assets and liabilities, as well as for the methods of recognition of revenues and costs, have not changed with respect to those adopted for the preparation of the 2020 Financial Statements of the Credem Group.

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

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

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

The Financial Statements have been drawn up under the general standards established by IAS 1 and the specific accounting standards approved by the European Commission and described in Part A.2 of these Explanatory Notes to the Separate Financial Statements, and also in compliance with the general principles established by the Systematic Framework for the drafting and presentation of accounts produced by the IASB.

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

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

- Going concern. Directors consider the assumption of a going concern to be appropriate, as, in their opinion, there are no uncertainties relating to events or circumstances, which, considered individually or as a whole, could cast doubts over the continuation of the business. As a result, assets, liabilities and “off-balance sheet” transactions are valued in accordance with the operational features, since they are expected to continue in operation for the foreseeable future.
- Accrual basis of accounting. Costs and revenues are recognised, irrespective of the time of their monetary settlement, according to the principles of economic accrual and correlation.
- Consistency of presentation. The presentation and classification of the items are maintained constant over time in order to guarantee the comparability of the information, unless their change is required by an international accounting standard or an interpretation, or it renders the presentation of their values more appropriate, in terms of significance and reliability. If the presentation or classification criteria are changed, the new criterion, where possible, applies retroactively; in this case, the nature and reason for the change is indicated, as well as the pertinent items. The formats established by Banca d'Italia for the financial statements of banks, outlined in Circular no. 262 of 22 December 2005 and subsequent amendment and integrations, have been used for the presentation and classification of the items.
- Materiality and aggregation. All the significant groups of items with a similar nature or function are reported separately. Items with a different nature or function, if significant, are presented individually.
- No offsetting. Financial assets and liabilities, and costs and revenues are not offset against each other, unless required or permitted by an international accounting standard or an interpretation or by the schedules produced by Banca d'Italia for the financial statements of banks.
- Comparative information. The comparative information from the previous period is presented for all figures included in the comparative Financial Statements. The amendments to the comparative data are made only when considered to be of a significant amount.

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

- the EBA communication of 25 March 2020 “Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID 19 measures”;
- the communication from ESMA of 25 March 2020 “Public Statement. Accounting implications of the COVID 19 outbreak on the calculation of expected credit losses in accordance with IFRS 9”;
- the IFRS Foundation document of 27 March 2020 “IFRS 9 and covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic”;
- the letter of the ECB of 1 April 2020 “IFRS 9 in the context of the coronavirus (COVID 19) pandemic” addressed to all significant institutions;
- the EBA guidelines of 2 April 2020 “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”;
- the communication from ESMA dated 20 May 2020 “Implications of the COVID-19 outbreak on the half-yearly financial reports”;
- the EBA guidelines dated 2 June 2020 “Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis”;
- the communication from ESMA dated 28 May 2020 “European common enforcement priorities for 2020 annual financial reports”;
- the EBA guidelines of 2 December 2020 “Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”;

- the letter of the ECB of 4 December 2020 “Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic” addressed to all significant institutions;
- the communication from ESMA dated 29 October 2021 “European common enforcement priorities for 2021 annual financial reports”;

Accounting standards

Main accounting standards and interpretations approved by the European Union whose application has become mandatory as of 2021

On 27 August 2020, the IASB published Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2 to address the impact of the effective replacement of benchmark indices on financial reporting in the period preceding the replacement of an existing interest rate benchmark with alternative benchmark rates. These amendments provide for a specific accounting treatment to allocate over time changes in the value of financial instruments or leases due to the replacement of the interest rate reference index, thus avoiding immediate effects on profit or loss and unnecessary discontinuance of hedging relationships due to the replacement of the interest rate reference index.

On 25 June 2020, the IASB published the document Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9.

The Exposure Draft on amendments to IFRS 17, published in May 2019, proposed to extend the temporary exemption from IFRS 9 by one year. Subsequently, based on IASB re-deliberations, the effective date of IFRS 9 was further extended to 1 January 2023 to align with the effective date of IFRS 17 Insurance Contracts. In this regard, on 25 June 2020, the IASB issued the document Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4, effective 1 January 2021).

On 31 March 2021, the IASB issued Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021, extending by one year the period of application of the amendment to IFRS 16, issued in 2020, relating to the accounting for facilities granted, due to Covid-19, to lessees.

Main accounting standards and interpretations approved by the European Union but that do not apply at 31 December 2021 and for which the Bank and the Group have not opted for early application, where such is envisaged

On 18 May 2017, the IASB published IFRS 17 - Insurance Contracts, a new comprehensive standard relating to insurance contracts that covers recognition and measurement, presentation and disclosure. When it comes into force, IFRS 17 will replace IFRS 4 - Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts regardless of the type of entity that issues them, as well as to some guarantees and financial instruments with discretionary participation characteristics. IFRS 17 will be in force for years, starting on 1 January 2023 (as amended on 25 June 2020), and will require the presentation of comparative balances.

In addition, on 25 June 2020, the IASB published the document Amendments to IFRS 17 Insurance Contracts for:

- reducing costs by simplifying some requirements of the Standard;
- making financial performance easier to explain;
- facilitating the transition by postponing the date of entry into force of the Standard to 2023 and providing additional support to reduce the effort required by the first application of IFRS 17.

On 14 May 2020, the IASB published some amendments to the following IFRSs, applicable from 1 January 2022:

- Amendments to IFRS 3 Business Combinations: updates the reference in IFRS 3 to the revised Conceptual Framework, without resulting in changes to the provisions of the standard
- Amendments to IAS 16 Property, Plant and Equipment – “Proceeds before Intended Use”: does not allow the amount received from the sale of goods produced before the asset was ready for use to be deducted from the cost of the fixed asset. These sales revenues and the related costs will be recognised in the income statement
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets “Onerous Contracts - Costs of Fulfilling a Contract”: clarifies which cost items must be considered to assess whether a contract will be loss-making
- Annual Improvements 2018 - 2020: changes were made to the following accounting standards: Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter, Amendment to IFRS 9 Financial Instruments – “Fees in the ‘10 per cent’ test for derecognition of financial liabilities”, to IAS 41 Agriculture e agli Illustrative Examples that accompany IFRS 16 Leases.

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

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

On 12 February 2021, the IASB published the following documents:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies;
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates.

The amendments are aimed at improving disclosure on accounting policies in order to provide more useful information to investors and other primary users of the financial statements, as well as to help companies distinguish between changes in accounting estimates and changes in accounting policies. The date of entry into effect is scheduled for 1 January 2023.

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

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

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

Contents of the Financial Statements

Balance Sheet, Income Statement and Statement of Comprehensive Income

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

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

Statement of Changes in Equity

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

Cash Flow Statement

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

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

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

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

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

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

Contents of the Explanatory Notes to the Consolidated Financial Statements

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

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

Section 3 - Scope and methods of consolidation

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

Companies are considered subsidiaries when the Parent Company, directly or indirectly, holds more than half of the voting rights or when it has a lower portion of voting rights, but

has the power to appoint the majority of directors of the investee company or determine its financial or operating policies. The assessment of the number of voting rights also takes into account “potential” rights if they are currently exercisable or convertible into effective voting rights at any time.

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

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

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

Criteria and principles of consolidation

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

- upon first consolidation, the book value of equity investments in line-by-line or proportionally consolidated companies is offset against the shareholders’ equity of said companies (or rather the portion of shareholders’ equity that said equity investments represent). Accounting for purchases in companies takes place according to the “purchase method”, as defined by IFRS 3, with recognition of the assets, liabilities and contingent liabilities of companies acquired at fair value at the acquisition date, which is the moment in which effective control of the acquired company is achieved. Therefore, the financial results of a subsidiary acquired during the year are included in the consolidated financial statements starting from its acquisition date. Similarly, the financial results of a subsidiary that has been sold are included in the consolidated financial statements until the date in which control ceases;
- any surpluses in the book value of equity investments, as per the previous point, compared to the corresponding portion of shareholders’ equity, adjusted to the fair value of assets or liabilities, are recorded as goodwill under “Intangible assets” if positive and to the income statement if negative;
- any purchases of additional equity investments subsequent to the acquisition of control are specifically regulated by IAS 27; any positive or negative differences, as defined above, that arise following said acquisition are recorded directly to equity;
- the adequacy of the goodwill value (so-called impairment test) is assessed on the date of the financial statements (or each time there is evidence of impairment). To this end, the cash-generating unit that produces the cash flow and to which goodwill is attributed is identified. The amount of the impairment is calculated as the negative difference, if any, between the goodwill value recorded and its recoverable amount, equal to the greater of fair value of the cash-generating unit, net of any sales costs, and the asset’s relative value in use. The subsequent value adjustments are recorded in the income statement;
- asset, liability and income statement items are acquired on a “line-by-line basis”;
- debit and credit positions, off-balance sheet transactions and income, charges, profits and losses arising from relations between companies consolidated on a line-by-line basis cancel each other out;
- portions of shareholders’ equity and profits for the year belonging to minority shareholders of the consolidated companies are included in the relative sections under liabilities in the balance sheet and in the income statement, respectively;
- the approved separate financial statements of the single companies were used for consolidation of the companies on a line-by-line basis, adjusted, if necessary, to

comply with international accounting standards used in the preparation of the consolidated financial statements;

- the book value of significant equity investments held by the Parent Company, or by other Group companies, regarding companies consolidated with the equity method is compared to the relative portion of shareholders' equity of the investee companies. Any excess in the book value – resulting from first-time adoption in the consolidated financial statements – is included in the book value of the investee company. The changes in equity value that took place in the years subsequent to the year of first time adoption are recorded under item 250 of the consolidated income statement (“gains (losses) on equity investments”), to the extent in which said changes refer to profits or losses of the investee companies;
- if there is evidence that the value of a significant equity investment may have fallen, the recoverable amount of the equity investment is estimated, taking into account the present value of future cash flows that the equity investment may generate, including the final disposal value of the investment. If the recovery amount is lower than the book value, the difference is recorded in the income statement;
- for the consolidation of equity investments in associated companies, where available, the draft financial statements at 31 December 2021, approved by the respective Board of Directors, were used; alternatively the figures from the last approved financial statements were used.

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

Company Names	Registered Office	Type of relationship	Shareholding Ratio		Voting Rights %
			Investing Company	%	
A. Companies					
A. 1 Consolidated line-by-line					
1. Credemleasing spa	Reggio Emilia	1	Credito Emiliano	99.90%	
			Magazzini Generali delle Tagliate	0.10%	
2. Credemfactor spa	Reggio Emilia	1	Credito Emiliano	99.00%	
			Credemleasing	1.00%	
3. Credem Private Equity SGR spa	Reggio Emilia	1	Credito Emiliano	87.50%	
			Banca Euromobiliare	12.50%	
4. Euromobiliare Asset Management SGR spa	Milan	1	Credito Emiliano	100.00%	
5. Euromobiliare Advisory SIM spa	Milan	1	Credito Emiliano	100.00%	
6. Credemtel spa	Reggio Emilia	1	Credito Emiliano	100.00%	
7. Avvera spa	Reggio Emilia	1	Credito Emiliano	100.00%	
8. Magazzini Generali delle Tagliate spa	Reggio Emilia	1	Credito Emiliano	100.00%	
9. Banca Euromobiliare spa	Milan	1	Credito Emiliano	100.00%	
10. Euromobiliare Fiduciaria spa	Milan	1	Credito Emiliano	100.00%	
11. Credemvita spa	Reggio Emilia	1	Credito Emiliano	100.00%	
12. Gestimlux sarl*	Luxembourg	1	Credito Emiliano	100.00%	
13. Reeval spa *	Cento	1	Credito Emiliano	100.00%	
14. Sata srl	Modena	1	Credemtel	75.00%	
15. Blue Eye Solutions srl	Montechiarugolo	1	Credemtel	75.00%	
16. Credem CB srl	Conegliano	1	Credito Emiliano	70.00%	
A. 2 Consolidated using the equity method					
1. Credemassicurazioni spa	Reggio Emilia	2	Credito Emiliano	50.00%	
2. Andxor srl	Cinisello Balsamo	3	Credemtel	40.00%	
3. Gruppo Santamaria spa	Catania	3	Avvera	10.00%	

* assets held for sale

Key

Type of relationship:

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

2 = joint control

3 = associated companies

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

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

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

In this context, for GSM:

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

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

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

Section 4 - Significant events subsequent to the reporting period

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

Pursuant to IAS 10, the Financial Statements were authorised for publication by the Board of Directors of the Bank on 10 March 2022.

Section 5 - Other matters

Risks, uncertainties and impacts of the Covid-19 epidemic

In 2021, in an environment of great uncertainty, the Group consolidated and rationalised the success factors tested during the previous financial year: Credito Emiliano was able to model the mechanisms implemented during the first phase of the Covid-19 pandemic, turning them into best practices. Some controls, initially impromptu, were integrated into the Group's operating processes and were further strengthened to ensure and improve operational continuity.

In particular, the Group acted on the following lines of action:

- Prevention of risks in the workplace.
- Strengthening of digital channels.
- Consolidation of *remote working*.
- Development of *early warning* systems on credit.
- Institutionalisation of *quarterly rolling forecast* systems in planning processes.

As of 23 April 2021, Decree-Law no. 52, which contains the "Urgent measures for the gradual recovery of economic and social activities in accordance with the need to contain the spread of the COVID-19 epidemic". Nothing specific is introduced with reference to the

operations of the banks, which continue as envisaged by the previous decrees.

On 30 December, the Decree Law no. 229 which introduces urgent measures to contain the spread of the COVID-19 epidemic and provisions on health surveillance, was issued.

On the same date, the Circular of the Ministry of Health no. 60136 was issued, providing some clarifications on the terms of quarantine or isolation.

Other interventions took place at the beginning of 2022. In particular, the Decree Law No. 1 of 7 January 2022 allows, starting from February 1 and until March 31, except for extensions, access to banking and financial services exclusively for those in possession of the *basic green pass* (vaccine certification), that is also obtainable with a molecular or antigenic vaccine. Therefore, starting from 1 February, after having been informed of this in advance, it is forbidden for customers without a *basic green pass* to access the Bank's premises. The same decree introduces the vaccination obligation for all those who have reached the age of 50 with effect from 15 February 2022.

In order to facilitate the verification operations, a "widespread" check has been provided by the employee/consultant who will receive the customer before starting any type of operation, through the appropriate "Verification C19" APP developed by the Ministry of Health and installed on company phones.

The Group has taken the necessary measures to comply with all regulatory provisions.

At present, and without prejudice to future studies, the level of protection adopted by the Group throughout the territory is considered consistent and adequate at the highest possible level regardless of the regional classification adopted by the Ministry of Health.

The Group's main activities are listed below in more detail.

"PANDEMIC MANAGEMENT" SCHEME				
INTERVENTION AREA	BUSINESS CONTINUITY	MONITORING, PLANNING AND CONTROL	SUPPORT TO STAKEHOLDERS	GOVERNANCE AND COMMUNICATION
ACTIVITIES	Activation of the Crisis Committee on business continuity issues, safety in the workplace, staff organization, cyber risk, monitoring of supplier service levels	Increase of monitoring activities (indicators of risk appetite framework, liquidity, commercial trends)	Adherence to state projects on customer support (eg: Moratoria and Guarantees)	Dedicated information on the company website and on corporate social networks
	Remote Working as an approach of preference for all "eligible Workers" Customer support activities (e.g. advisory via hangouts, digitalization of commercial processes)	Monthly adjustment of the forecast for 2020, with impact analyses taking into account different scenarios	Support to employees (psychological, insurance policy extension)	A "Covid19 Bulletin" created in favor of employees, containing information regarding the prevention and safety rules governing working methods
	Workplace safety and cyber risk	"Covid-19 Reporting" institutionalized with the European Central Bank, structured on different templates: detailed information on monthly final figures on the income statement, balance sheet, capital ratios, and information on business continuity, update on credit situation and concessions granted to customers, information on market risk, moratoria and state guarantees	Charitable initiatives: fundraising in favor of civil protection, with a company contribution that joined that of employees	Customer awareness with dedicated information to support both access to the branches and how to use remote channels

BUSINESS CONTINUITY

Crisis Committee

The Crisis Committee, which had met periodically since the early stages of the pandemic in order to monitor the situation and ensure operational continuity, ensuring that the Institute is fully operational, did not hold meetings in 2021.

Remote Working

The extension of the state of emergency has further strengthened the will to maintain the tool of agile/remote work, already developed within the Credem Group even before the health emergency. Credem was among the companies awarded by the *School of Management* of the Politecnico di Milano with the "Smart Working Award 2020" for the implementation of

initiatives to redesign space and working methods from an "agile/remote" perspective and for the use of a new managerial philosophy based on giving people back flexibility and autonomy in choosing the spaces, times and tools to be used, in exchange for greater accountability in terms of the results.

Business continuity

Operational continuity was guaranteed in compliance with all the measures necessary for the protection of public health: safety rules for access to premises, social distancing, individual protection systems, information to customers and employees on the rules of conduct. From 15 October, access to the workplace has been forbidden to those without a *green pass* (employee or external staff who access the premises for work reasons) and, consequently, it has become mandatory to show it to the persons in charge of controls. In the larger offices, control was entrusted to an external company, while in the smaller sites a control officer was appointed.

Activation of new digital processes

The programme to digitise business processes has been improved through greater use of Video Calling, Digital Signature and Certified email system (PEC).

Cyber risk

The Information Security Functions maintained and monitored the level of *cyber security* protection by reviewing the process and the *patching* technologies on the *clients* to adapt them to the VPN connectivity to reduce the risks deriving from the new context.

MONITORING, PLANNING AND CONTROL

In 2021, the Group maintained the following monitoring activities, already activated in the first phase of the pandemic:

- Monthly monitoring by the function responsible for the *risk management* of all RAF (*Risk Appetite Framework*) indicators, the monitoring of the liquidity profile and the framing of *funding* needs as well as the monitoring of production trends on the main commercial aggregates: Deposits, Loans, *Assets Under Custody* and *Assets Under Management*.
- Quarterly projection of income statement and balance sheet data, prepared centrally by the Planning and *Risk Management* functions, taking into account the updated macroeconomic scenario and the progressive evolution of the final figures. The projections also include a more severe scenario, consistent with the *stress testing* methodologies adopted as part of the ICAAP process, to verify the resilience of economic *targets* and capital *ratios*, and all the impact variables of the IFRS9 model for the determination of *expected credit losses*.
- *Credit monitoring*: in order to anticipate and deal with the impacts of the pandemic on the Income Statement, on the Balance Sheet and in particular on Credit, the Credito Emiliano Group has planned, for 2022, to:
 - verify the real and concrete repayment capacity after end of all the moratorium measures (in particular for those expiring by the end of 2021);
 - verify the start of payments after the pre-amortisation period, in particular on guaranteed loans up to € 30,000 which benefited from a simplified valuation.

The impact of the COVID emergency on asset quality and credit strategy is also constantly monitored through the Group's periodic *Credit Strategy* Committee, in particular with a focus on 4 areas:

- observatory: macroeconomic, sectorial, regulatory and *asset quality*;
- risk management: the overall monitoring system has been strengthened and expanded, using an extensive set of indicators in order to proactively identify positions of fragility, or possible future difficulties when the government measures run out, evaluating the correct actions and classifications;
- *forward looking* valuation: new evaluation methodology combining a sectoral view with an assessment of the resilience of the individual company;
- dedicated strategies and initiatives for each segment.

The *ad hoc* processes structured on each individual measure granted are accompanied by the monitoring and risk management activities, which have been expanded and strengthened since the beginning of the pandemic, and which are subject to continuous updates. The approach is proactive, promptly identifying potentially problematic positions within the emergency context, including those under suspension or benefiting from COVID government measures, even in the absence of overdue positions.

COMMUNICATION

Customers were supported through dedicated initiatives to inform the various segments regarding the issues of their respective interest: by way of example, to be noted is the support provided for managing investment choices in the *wealth management* area, the information on moratoria and state guarantees for companies, the possibility of extending the insurance policy to COVID-19 events for private customers. This area also includes broad information on *Ecobonus* and *Superbonus*: Credem, supported by two historical partners, Crif and Deloitte, provides customers with support for the technical and regulatory/tax analyses necessary for customers to obtain the assignment of the receivable envisaged by the Relaunch Decree (Legislative Decree 34/2020, converted by Law 77/2020).

Through specific channels on the company intranet, employees were constantly informed on regulatory changes, supported in daily operations, and guided in managing emergencies and any critical issues that could progressively arise. The digitalisation of internal processes was improved, *Mobile Banking* and digital channels were renewed, encouraging the development of an omnichannel service model.

Other financial assets

To assess financial assets measured at fair value through profit or loss (FVTPL) and through other comprehensive income (FVOCI), the latest available information provided by the counterparties was used, also evaluating its adequacy with respect to the current reference context.

The amount of fair value Level 3 assets is limited compared to the total of the item (these are UCITS units for FVTPL assets, and debt and equity securities for FVOCI assets), however, with the portfolio showing a limited exposure to the sectors affected by the negative effects of Covid-19.

Non-financial assets – Property, plant and equipment owned

IAS 16 and IAS 40, which govern properties for business use and investment properties respectively establish that it is necessary to periodically check whether these elements have been impaired, in application of IAS 36 “Impairment of assets”.

At each reporting date, the Group verifies if there are any elements that indicate that an asset may be impaired, by comparing the book value with the recoverable amount, in order to make the appropriate accounting entries.

There are currently no situations that may lead to a write-down of the bank’s real estate portfolio, as there is no systemic crisis in the real estate market at this time: this market operates according to a medium- and long-term approach, while the Covid-19 effect can be considered of a short-term and temporary nature.

In general, in fact, the Covid epidemic will be remembered as one of those crises that had a very evident immediate impact as it was such a strong simultaneous *shock* to supply and demand that had probably never occurred since the war; however, sector experts point out that due to its nature, generated by aspects external to the system, which had actually been on a growth path, it is expected that there may be a recovery in a fairly rapid time; the development of a generalised climate of uncertainty is not currently supported by objective data in the real estate field.

To date, no certain and measurable elements are recorded that could confirm a reduction or contraction of prices/values despite the fact that we must remain alert, pending, if necessary, developments in the Covid-19 phenomenon.

This can also be confirmed by the absence of an evident significant reduction in the average price per square meter, both in new sales and leases in the real estate market as a whole.

Non-financial assets – Impairment test

In the context of uncertainty related to the economic crisis induced by Covid-19, the national and supranational authorities issued recommendations to listed companies, asking them to act responsibly in correctly representing the effects of the crisis in the financial statements.

The heavy losses in stock market indices recorded during the first phase have gradually stabilised, also thanks to the massive fiscal and monetary manoeuvres implemented to counter them.

In fact, to date, there are no reasons why most companies cannot restore normal operating conditions in the medium term.

For the purposes of preparing the financial statements at 31 December 2021, the CGU to which the recognised goodwill is attributed is the Commercial Banking CGU. Since the identification of CGUs requires an analysis of the management characteristics and reporting methods used by the Management, and since the logic of strategic decision-making by the Parent Company's Management is that of the Group as a whole, and not of the Parent Company as an individual entity, the CGU has been identified at a consolidated level and, therefore, the impairment test carried out at consolidated level is also relevant at an individual level (see Section 10 of the Notes to the Consolidated Financial Statements).

Non-financial assets – Probability test

The measurement process of the tax assets is based on income prospects: more specifically, deferred tax assets (*Deferred Tax Asset* or DTA) are recorded in the financial statements to the extent that reasonable certainty of their recovery exists, on the basis of the capacity of the Bank and the Group companies, due to the exercise of the “tax consolidation” option, to generate constant, positive taxable income, in future years, taking into account tax legislation in force (known as the probability test).

The assessments made on the stability of the *probability test* at 31 December 2021 are based on quantitative analyses carried out through the in-depth analysis of three main profiles:

- the capacity determined in the latest probability test at 31 December 2021;
- the bank's short-term exposure to the crisis;
- the bank's vulnerability to the crisis, verifying its ability to maintain financial and equity stability.

With regard to exposure and vulnerability to the crisis and therefore the Bank and Group's income prospects, reference is made to the considerations reported in the previous paragraph on impairment testing of the goodwill, completed by what is reported in the section “Business outlook”.

In conclusion, from the analyses conducted on the impacts of Covid-19, there are no elements that would require write-downs to this item.

Contractual changes resulting from Covid-19

Contractual amendments and derecognition (IFRS 9)

Credito Emiliano has also taken action through initiatives to support the various *stakeholders* with the aim of alleviating the inconveniences of households and helping businesses to deal with the serious situation created by the spread of the epidemic. As it was impossible to make full use of the physical channels (always open but by appointment), the bank worked to make lending procedures linear and straightforward. This has made it possible to respond to the considerable number of customer assistance requests and develop better process automation.

Based on the results of the survey carried out by the task force set up to promote the implementation of the measures in support of liquidity adopted by the Government to deal with the Covid-19 emergency (which includes the Ministry of Economy and Finance, the Ministry of Economic Development, the Bank of Italy, the Italian Banking Association, Mediocredito Centrale and Sace), at the beginning of 2022, moratoria (ex lege and voluntary) were still in effect for a total value of approximately €44 billion, against just over 400 thousand suspensions granted.

In detail, active moratoria in favour of non-financial corporations cover loans amounting to some €36 billion. As regards SMEs, at 31 December 2021 there were still active suspensions pursuant to Art. 56 of the DL 'Cura Italia' for approximately 33 billion. The DL “Sostegni bis” provided for the possibility for the debtor to request the extension of the moratorium, limited to the capital share, until the end of 2021. The moratorium promoted by the Italian Banking Association involved € 2 billion in loans to businesses.

There are moratoria for loans in effect in favour of households in the amount of € 6 billion, of which € 1 billion for the suspension of the mortgage payments on the first home (access to the so-called Gasparrini Fund). The Italian Bank Association and Assofin moratoria for households refer to loans of about half a billion euro.

Again on the basis of the surveys carried out at the beginning of 2022, applications for new bank loan guarantees by micro, small and medium-sized enterprises submitted to the Guarantee Fund for SMEs rose to over €221 billion. Through SACE's 'Garanzia Italia', the volumes of guaranteed loans reach €32.3 billion, out of 4344 applications received.

The amount of initiatives implemented for the Group since the beginning of the Covid-19 pandemic, as regards the moratoria that fall within the scope of the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis", published by the EBA (EBA/GL/2020/02), as amended, for loans subject to other lending measures and new loans, exceeded € 6 billion.

Details of the loans subject to COVID-19 support measures are provided below (data in euros):

	values in €		
	Gross exposure	Overall value adjustments and total provisions	Net exposure
A. BAD LOANS	1,567,231	462,854	1,104,377
a) Subject to forbearance in compliance with the GLs	-	-	-
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	-	-	-
c) Subject of other forbearance measures	-	-	-
d) New Loans	1,567,231	462,854	1,104,377
B. UNLIKELY-TO-PAY LOANS	35,648,447	7,938,328	27,710,119
a) Subject to forbearance in compliance with the GLs	225,903	44,566	181,337
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	1,006,438	410,114	596,324
c) Subject of other forbearance measures	23,145,623	4,888,580	18,257,043
d) New Loans	11,270,483	2,595,068	8,675,415
C. IMPAIRED OVERDUE LOANS	2,211,781	342,121	1,869,660
a) Subject to forbearance in compliance with the GLs	22,752	1,354	21,398
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	253,281	31,360	221,921
c) Subject of other forbearance measures	67,490	9,240	58,250
d) New Loans	1,868,258	300,167	1,568,091
D. NON-IMPAIRED LOANS	11,115,279	47,136	11,068,143
a) Subject to forbearance in compliance with the GLs	18,697	2,160	16,537
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	2,555,490	18,502	2,536,988
c) Subject of other forbearance measures	586,520	15,050	571,470
d) New Loans	7,954,572	11,424	7,943,148
E. OTHER NON-IMPAIRED LOANS	4,151,319,843	9,742,705	4,141,577,138
a) Subject to forbearance in compliance with the GLs	9,230,632	80,551	9,150,081
b) Subject to moratorium measures no longer compliant with GLs and not considered as subject to forbearance	619,008,454	3,406,155	615,602,299
c) Subject of other forbearance measures	136,290,140	3,470,138	132,820,002
d) New Loans	3,386,790,617	2,785,861	3,384,004,756
TOTAL (A+B+C+D+E)	4,201,862,581	18,533,144	4,183,329,437

The row "Loans subject to forbearance compliant with the GLs" contains information on financial assets subject to moratoria that fall within the scope of the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis" published by the EBA (EBA/GL/2020/02), as amended. The line "Outstanding loans subject to moratorium measures that are no longer in compliance with GL and are not assessed as forborne exposure" contains only those outstanding loans subject to moratorium measures that were assessed as being in compliance with EBA/GL/2020/02 at the date the measure was granted and were no longer in compliance at the balance sheet date and were not classified by the bank as "forborne exposures" (as defined by existing supervisory reporting) based on the assessment made upon the occurrence of the event that generated the non-compliance with EBA/GL/2020/02. The row "Loans subject to other forbearance measures" contains information on loans subject to COVID-19 support measures that meet the conditions for "forborne exposure" as defined by existing supervisory reporting and that are not included in the "Loans subject to forbearance compliant with the GLs" category from the date on which the measure was granted or from the date on which they no longer comply with EBA/GL/2020/02. The line "New loans" includes, inter alia, the financial assets recognised as a result of forbearance measures that led to a refinancing with derecognition of the original asset and the recognition of a new loan, or a restructuring of several debts with the recognition of a new loan in the financial statements.

Amendment to the accounting standard IFRS 16

According to the IASB's publication on 10 April 2020, all entities must disclose in financial statements useful information for assessing the effect of Covid-19 on leased properties and consequent potential impacts on the financial position and on the economic result of the entity resulting from any modifications to lease agreements or any impairment of the rights of use recorded in financial statements.

In the current negative scenario deriving from the spread of the Covid-19 epidemic, there are no elements that have caused a significant and extraordinary impact on the financial statements at 31 December 2021.

In particular, in fact, the bank does not recognise any impacts in terms of:

- *lease modifications*: no lease concessions were requested to deal with the difficulties of the emergency in progress: all renegotiations effective in 2021 are the result of a campaign that was carried out in previous years and continues during current operations;
- *impairment of rights of use*: in 2021, early terminations of lease agreements were not carried out in order to implement potential cost savings to deal with the Covid19 emergency. The closures of offices/branches did not give rise to any indicators of impairment of the rights of use recorded at 31 December 2021 and are the result of the regular space management monitoring carried out by the Logistics Department in agreement with the Commercial Department.

Following the increasingly widespread remote working methods, the bank continues the rationalisation and optimisation of central and peripheral office spaces as well as the centralised management of plant systems. The plan to centralise plant management, as well as finding its reason in the continuous search for systems to improve energy consumption efficiency, is part of the broader focus that the Group is placing on environmental sustainability policies, the benefits of which, also of an economic nature, are being developed starting from the current financial year.

Other information

Business combination

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

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

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

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

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

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

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

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

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

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

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

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

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

Option for domestic tax consolidation

From 2004, Credem and the Group's Italian companies adopted the "domestic tax consolidation", governed by Articles 117-129 of the TUIR (Comprehensive Regulation on Income Taxes), introduced into tax legislation by Legislative Decree no. 344/2003. This is an optional system through which the overall net income or tax loss of each subsidiary participating in the tax consolidation – together with withholdings, deductions and tax credits – is transferred to the Parent Company (Credemholding), producing a single taxable income or single taxable loss carried forward for the latter (resulting from the algebraic sum of its own income/losses and those of the subsidiaries taking part and, consequently, in a single tax debit or credit).

In exercising this option, the companies of the Group that applied the "domestic tax consolidation" calculated their own tax liability, and the corresponding taxable income was transferred to Credemholding. Should one or more of the investee companies have a negative taxable income, where there is consolidated income for the period or a high probability of future taxable income, the tax losses are transferred to Credemholding. As a consequence of the above, the contra-entry of the provisions for IRES is recorded under "other liabilities".

Auditing services

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

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

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

Specifically, estimation processes have been adopted to support the recorded value of some of the most significant items of value recorded in the Financial Statements at 31 December 2021, as provided by the accounting standards and the specific regulations described above. These processes are primarily based on the estimated future recoverability of the values recorded in the financial statements according to the current regulations in force, and were

implemented with a view to business continuity, therefore, not considering assumptions of forced settlement of the items being measured.

The processes adopted compare the values recorded at 31 December 2021. The measurement process proved to be particularly complex given the continuing uncertainty evident in the macroeconomic scenario and in the markets, which has led to both high levels of volatility in the financial parameters used for measurement purposes, and to an indication of continuing significant deterioration of credit quality.

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

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

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

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

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

Demographic assumptions (related to the prospective mortality of the insured population) and financial assumptions (deriving from the possible evolution of financial markets) used in structuring insurance products and in defining the bases for calculating the supplementary provisions required by insurance regulations, as well as shadow provisions and liability adequacy tests required by IFRS 4.

A.2 – MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

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

Recognition criteria

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

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

Classification criteria

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

- financial assets held for trading, consisting mainly of debt and equity securities and the positive value of derivative contracts held for trading;
- financial assets that must be measured at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or fair value through other

comprehensive income. These are financial assets whose contractual terms do not exclusively provide for repayment of principal and interest on the amount of capital to be repaid (so-called SPPI test that has not been passed) or that are not held within the framework of a business model whose objective is the possession of assets aimed at collecting contractual cash flows ("Hold to Collect" business model) or whose objective is achieved through the collection of contractual cash flows and through the sale of financial assets ("Hold to Collect and Sell" business model);

- financial assets measured at fair value, i.e. financial assets thus defined at the time of initial recognition and where the conditions exist. In relation to such cases, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss if, and only if, it eliminates or significantly reduces a measurement inconsistency.

This item, therefore, contains:

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

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

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

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

Reclassifications

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

Measurement criteria

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value. The effects of applying this measurement approach are recorded in the Income Statement.

Market quotations are used to determine the fair value of financial instruments listed in an active market. In the absence of an active market, commonly adopted estimation methods and valuation models are used, which take into account all risk factors related to the instruments and are based on market data such as: valuation of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, values recorded in recent comparable transactions, etc. For equity securities and derivative

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

Derecognition criteria

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

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same. Lastly, sold financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Criteria for the recognition of income

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

The differentials and margins of the other contracts are recognised in the “Net profit (loss) from trading”.

Dividends are recognised on an accruals basis as of the date of adoption of the distribution resolution by the shareholders’ meeting and are stated in the “Dividends and similar income” item.

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

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

Recognition criteria

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

Classification criteria

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

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

In particular, this item includes:

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

Reclassifications

According to the general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is allowed), reclassifications of financial assets to other categories are not allowed unless the entity changes its business model for managing financial assets following external or internal changes that are relevant to the entity's operations and can be demonstrated to third parties. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through other comprehensive income to one of the other two categories provided for by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis from the date of reclassification. In the event of reclassification from the category in question to that of amortised cost, the accrued profit (loss) recognised in the valuation reserve is recognised as an adjustment to the fair value of the financial asset at the reclassification date. In the case of reclassification in the category of fair value through profit or loss, the accrued profit (loss) previously recorded in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

Measurement criteria

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

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

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

Derecognition criteria

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

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same. Lastly, sold financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Criteria for the recognition of income

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

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

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

Recognition criteria

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

Classification criteria

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

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

Reclassifications

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

Measurement criteria

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

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

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

Derecognition criteria

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

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

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

Criteria for the recognition of income

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

3 - Financial assets measured at amortised cost

Recognition criteria

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

Classification criteria

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

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

More particularly, the following are covered by this item:

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

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

Please refer to the chapter “Purchased or originated credit impaired financial assets” for credit details on Purchased or Originated Credit Impaired Asset (POCI) receivables.

Reclassifications

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications of financial assets to other categories are not allowed unless the entity changes its business model for managing financial assets following external or internal changes that are relevant to the entity’s operations and can be demonstrated to third parties. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at amortised cost to one of the other two categories provided for by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a

forward-looking basis from the date of reclassification. Profits and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised in the income statement in the event of reclassification under Financial assets measured at fair value through profit or loss and in shareholders' equity, in the specific valuation reserve, in the event of reclassification under Financial assets measured at fair value through other comprehensive income.

Measurement criteria

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

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

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

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

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

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

If, in addition to a significant increase in credit risk, there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset - classified as "impaired", similar to all other transactions with the same counterparty - and the current value of estimated future cash flows, discounted at the original effective interest rate. Within this context, a specific method was developed for the accounting treatment to be applied to a portfolio of bad loans that, having matured to a significant vintage, are also measured with a view to disposal. This methodology considers different scenarios and estimates the recoverable amount of the exposures based on the combination and probability of occurrence of these scenarios, as well as their estimated cash flows. Impaired assets include financial instruments with an assigned status of bad loan, unlikely to pay or past due/over drawn for more than ninety days, in accordance with the current

regulations of Banca d'Italia, consistent with the IAS/IFRS regulations and European supervisory provisions.

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

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

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

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

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

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

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

Derecognition criteria

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

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same. Lastly, sold financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Criteria for the recognition of income

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

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

4 - Hedging transactions

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

Recognition criteria

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

Classification criteria: types of hedging

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

The following types of hedging are used:

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

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

Measurement criteria

Hedging derivatives are measured at fair value. More specifically:

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

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

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

- prospective tests, which justify the application of hedge accounting, demonstrating its expected effectiveness;
- retrospective tests, which highlight the degree of hedge effectiveness achieved during the related period, i.e. they measure the extent to which expected results have deviated from a perfect hedge.

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

Prospective termination of hedge accounting

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

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

For cash flow hedges, the overall gain or loss of the hedging instrument that has been recognised under other comprehensive income components from the year in which the hedge was effective, must remain separated in equity until such time as the planned transaction takes place. If the planned transaction is no longer expected to take place, any related overall gain or loss on the hedging instrument that was recognised in the statement of comprehensive

income from the year in which the hedge was effective must be reclassified from equity to the profit (loss) for the year as an adjustment from reclassification. Nevertheless, a planned transaction that is no longer highly likely, could still be possible.

Criteria for the recognition of income

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

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

5 - Equity investments

Recognition criteria

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

Classification criteria

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

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

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

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

Measurement criteria

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

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

If the recoverable amount is lower than the book value, the difference is recognised in the income statement.

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

Derecognition criteria

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

Criteria for the recognition of income

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

6 - Property, plant and equipment

Recognition criteria

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

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

Classification criteria

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

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

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

Measurement criteria

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

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

The following are not depreciated:

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

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

Should the reasons for the impairment cease to exist, a write-back is recognised, which cannot exceed the value of the asset, net of depreciation, had the impairment not occurred. Property, plant and equipment recognised in accordance with IAS 2 are measured at the lower between cost and net realisable value, without prejudice to the comparison between the book value of the asset and its recoverable amount, where there is any indication that the asset may be impaired. Any adjustments are recognised in the income statement.

Derecognition criteria

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

Criteria for the recognition of income

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

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

7 - Intangible assets

Recognition criteria

Intangible assets are recognised as such if they may be identified and arise from legal or contractual rights.

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

Classification criteria

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

Measurement criteria

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

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

Derecognition criteria

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

Criteria for the recognition of income

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

- periodic amortisation, impairment and reversals are allocated to the item "Net value adjustments to (recoveries on) intangible assets";
- goodwill impairment is allocated to the item "Net value adjustments to (recoveries on) goodwill". The recognition of any subsequent write-backs is not permitted.

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

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

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

9 - Current and deferred taxes

Recognition, measurement and derecognition criteria

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

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

In view of the Group's adoption of the domestic tax consolidation system, the tax positions of Group companies are managed separately from each other from an administrative perspective.

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

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

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

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

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

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

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

Where prepaid and deferred taxes relate to transactions that directly affect shareholders' equity without affecting the income statement (such as adjustments made on first-time adoption of IAS/IFRS, valuations of financial instruments recorded at fair value through

other comprehensive income or cash flow hedging derivatives), they are recorded as a contra entry to shareholders' equity, affecting specific reserves where required (e.g. valuation reserves).

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

Deferred taxes relating to companies included in the tax consolidation are recorded in their financial statements on an accruals basis and in consideration of the value of the tax consolidation limited to the liquidation requirements of current tax positions.

Criteria for the recognition of income

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

10 - Provisions for risks and charges

Recognition, classification and derecognition criteria

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

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

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

Measurement criteria

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

Criteria for the recognition of income

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

Pension funds and other post-retirement benefit obligations

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

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

statement of comprehensive income.

Provisions for risks and charges against commitments undertaken and guarantees given

The sub-item of provisions for risks and charges in question includes provisions for credit risk recognised against commitments to disburse funds and guarantees given that fall within the scope of application of the rules on impairment pursuant to IFRS 9. For these cases, in principle, the same methods are adopted for allocating to the three stages (credit risk stages) and calculating the expected loss reported with reference to financial assets measured at amortised cost or at fair value through other comprehensive income.

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

Other provisions

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

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

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

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

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

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

11 - Financial liabilities measured at amortised cost

Recognition criteria

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

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

Classification criteria

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

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

Measurement criteria

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

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

Derecognition criteria

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

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

12 - Financial liabilities held for trading**Recognition criteria**

Financial instruments in question are recorded at the date of subscription or issue at a value equal to the fair value of the instrument, without considering any transaction costs or income directly attributable to the instruments themselves.

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

Measurement criteria

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

Derecognition criteria

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

13 - Financial liabilities measured at fair value**Recognition criteria**

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

Classification criteria

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

Measurement criteria

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

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

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

Derecognition criteria

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

14 - Foreign currency transactions

Recognition criteria

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

Classification criteria

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

Derecognition criteria

The criteria indicated for the corresponding financial statement items are applied.

The exchange rate used is the rate at the settlement date.

Measurement criteria

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

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

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

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

Criteria for the recognition of income

The exchange rate differences resulting from settlement of monetary items or from the conversion of monetary items at rates other than the initial conversion rates, or at the conversion rates of the prior Financial Statements, are recorded in the income statement during the period in which they are incurred under the item "Net profit (loss) from trading". When a profit or loss relative to a non-monetary item is recognised under shareholders' equity, the relative exchange rate difference is also recognised under equity. Conversely, when a profit or loss is recognised in the income statement, the relative exchange rate difference is also recognised there.

15 - Insurance assets and liabilities

Products with insurance content

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

IFRS 4, in brief, provides for:

- the recording of gross premiums in the income statement among income; these include all amounts matured during the financial year following the stipulation of insurance contracts net of cancellations; similarly, premiums ceded to reinsurers are recorded as costs for the financial year;
- against the income for gross premiums, the volume of commitments towards policyholders, calculated analytically for each contract in accordance with the relevant local accounting standards, is allocated to the insurance reserves. In accordance with IFRS 4, the Group tests the adequacy of the value of the liabilities recorded through the Liability Adequacy Test (LAT);

- products with an insurance content included within separate management products are measured by applying shadow accounting, that is, by allocating the differences between the book value and the market value, relating to securities classified as available for sale, for the policyholders share of insurance reserves, and for the amount attributable to the insurance companies to shareholders' equity. However, if securities are measured at fair value through profit or loss, the difference between the book value and the market value is recognised through profit or loss, causing the policyholders' share of the insurance reserves to change;
- in calculating shadow accounting, the Group uses, for each business activity, the average retrocession rate and the minimum guaranteed rate defined on the basis of the contractual conditions of the various products linked to the management;
- liabilities for products with discretionary participation features are represented overall without distinction between the guaranteed and discretionary components.

Financial products included in separate management products

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

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

Financial products not included in separate management products

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

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

16 - Other information

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

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

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

As set out in Bank of Italy/Consob/Ivass Document No. 9 of January 2021, the main characteristics of the tax credits introduced by the Decrees are:

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

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

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

Recognition criteria

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

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

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

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

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

Classification criteria

As provided for in Bank of Italy/Consob/Ivass Document No. 9 of January 2021, taking into account that these purchased tax credits do not represent, under international accounting standards, tax assets, government grants, intangible assets or financial assets, the most

appropriate classification, for the purposes of presentation in the financial statements, is the residual classification under item 120 of the balance sheet "Other Assets", in line with paragraphs 54 and 55 of IAS 1 "Presentation of Financial Statements".

Measurement criteria

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

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

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

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

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

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

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

Derecognition criteria

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

Criteria for the recognition of income

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

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

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

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

Treasury shares

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

Accruals and deferrals

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

Expenses for improvements to third-party assets

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

Provision for staff termination indemnity

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

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

These portions related to the defined benefit plan are recorded on the basis of their actuarial value determined using the projected unit credit method, without pro-rata application of the rendered service, since the current service cost of the staff termination indemnity has almost entirely accrued and its revaluation, for the years to come, is not considered to give rise to significant employee benefits.

For discounting purposes, the rate used is determined with reference to the market yield of high-quality corporate bonds, taking into account the average residual duration of the liability, weighted on the basis of the percentage of the amount paid and advanced, for each maturity, compared to the total to be paid and advanced until the final settlement of the entire bond.

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

Share-based payments

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

In the presence of options, their fair value is calculated using a model that takes into account not only information such as the strike price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, but also the specific characteristics of the existing plan. The valuation model makes a separate assessment of the option and the probability that the conditions under which the options were assigned will be met.

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

Any reduction in the number of financial instruments assigned is accounted for as a

derecognition of part of the same.

Employee benefits

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

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

Impairment testing on goodwill

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

Recognition of revenues and costs

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

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

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

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

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

Revenues may be recognised:

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

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

More specifically:

- for financial instruments classified as HTC and HTCS, interest is recognised on a pro rata accruals basis with reference to the contractual interest rate or the effective one in the

event of application of the amortised cost. The interest income (or interest expenses) item also includes positive (or negative) differentials or margins, accrued up to the reporting date of the financial statements, in relation to financial derivatives:

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

Costs incurred to obtain the contract

The costs incurred to obtain the contract are the costs that the entity incurs to obtain the contract with the customer, and that it would not have incurred if it had not obtained the contract. The Group recognises the costs incurred to fulfil the contract as assets only if these meet all of the following conditions:

- they are incremental - the bank incurs them to obtain the contract with the customer, and would not have incurred then if it had not obtained the contract;
- they are expected to be recovered.

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

Purchased or originated credit impaired assets

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

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

cost of the POCI financial asset. For the purpose of calculating the CEIR, it is necessary to estimate the expected cash flows by considering:

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

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

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

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

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

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

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

TLTRO refinancing operations

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

Some of the parameters that characterise these operations, established by the ECB on 6 June 2019, were subsequently revised for improvement, most recently on 10 December 2020, in light of the economic impact resulting from the protraction of the COVID-19 emergency.

The loan that can be obtained from each bank depends on the amount of the loans granted to non-financial companies and households (so-called eligible loans) at certain reporting dates. The operations are carried out on a quarterly basis, starting from September 2019 and each operation has a duration of three years.

The interest rate for each operation is set at a level equal to the average interest rate on the Eurosystem's main refinancing operations (MROs), which is currently 0%, except for the period from 24 June 2020 to 23 June 2022 (“special interest rate period”), where a lower rate of 50 basis points will apply.

Banks that grant suitable loans above a reference value (“benchmark in lending”) can benefit from a reduction in the interest rate. In detail, the improved rate applied will be equal to the

average rate on deposits with the central bank (Deposit Facility), currently equal to -0.5%, for the entire duration of the respective operation, with the exception of the "special interest rate period" to which the further reduction of 50 basis points will be added (and in any case not higher than -1%).

Interest is settled in arrears at the maturity date of each TLTRO III operation or at the time of early repayment.

On 6 January 2021, ESMA issued a Public Statement with the aim of promoting transparency in banks' IFRS financial statements with respect to the accounting treatment of TLTRO III operations: in light of the significant numerical impacts of these transactions and the level of judgement required to define the accounting policy, ESMA highlighted the importance of providing an adequate level of transparency on the accounting treatment of the transactions in the financial statements.

The Credem Group, recognising the role of the ECB in determining the funding conditions of the banking system, determined the accounting treatment applied to such loans on the basis of the provisions of accounting standard IFRS 9 relating to variable-rate loans (par. B5.4.4 and par. B5.4.5); on the basis of the periodic monitoring of lending trends (mentioned below), Management considered the level of outstanding amounts such as to allow the accounting of the -1% rate.

Therefore, interest is recognized from time to time on the basis of the interest rate of the instrument for each period (equal to -0.5% until 24 June 2020; equal to -1% until 23 June 2022 and equal to -0.5 % thereafter and until maturity, based on current rates).

The Group has set up a periodic monitoring of the performance of eligible loans in order to assess the achievement of pre-established credit performance thresholds and to support the reasonableness of the interest rate used.

Determining the fair value of financial assets and liabilities

General aspects

Financial instruments measured at fair value include financial assets and liabilities held for trading, financial instruments measured at fair value, derivative instruments and, lastly, instruments classified as HTCS.

The IFRS 13 standard defines fair value as the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction in the main (or more advantageous) market at the measurement date under current market conditions (namely closing price), regardless of that fact that said price can be directly observed or that it is estimated using a different measurement technique.

The departments involved in the process of determining the fair value include administrative departments, the Finance front office and the Risk Management departments.

The administrative departments, which are directly in charge of drawing up financial disclosures, are responsible for monitoring the rules used to determine fair value in compliance with the accounting standards used.

The Finance department offices, in turn, have expertise regarding the valuation techniques applied and oversee the IT systems used in the process of determining fair value.

Lastly, the Risk Management department offices are required to validate the valuation techniques used, including the related models and the parameters used. These offices verify the potential presence of an active market and analyse the potentially available sources. In general, the Group determines the fair value of financial assets and liabilities using valuation techniques chosen on the basis of the type of instruments held and of the information available at the time of valuation.

On the basis of the information available at the time of the valuation, financial instruments are divided into those whose price is listed on an active market and those for which an active market does not exist at the time of valuation.

The fair value hierarchy attributes maximum priority to the prices listed (non-adjusted) on active markets for identical assets or liabilities (Level 1 data) and minimum priority to non-observable inputs (Level 3 data).

Level 1 inputs are the prices listed (non-adjusted) on active markets for assets and liabilities identical to those to which the entity may access on the valuation date. A listed price on an active market provides the most reliable proof of the fair value and, when available, must be used to measure the fair value without any adjustment.

Level 2 inputs are inputs other than the listed prices included in Level 1, directly or indirectly observable for the asset or liability.

Similarly, all other variables used in valuation techniques that cannot be corroborated on the basis of observable market data are not considered observable.

The presence of active markets and the use of listed prices (Mark to Market)

In general terms, the process for applying Mark to Market valuation is highly automated. All listed financial instruments held (shares, bonds and derivative financial instruments) are valued, where there are active markets, using the respective listed prices (Mark to Market valuations) to determine the daily P&L.

With regard to the main Information Providers, a distinction is made between:

- Market parameters to which a Refinitiv RIC is associated: in this case the price is retrieved in real time by Refinitiv through the ATS platform;
- Instruments to which both a Refinitiv and a Bloomberg contribution can be associated. In detail, rules have been implemented within the ATS that allow comparison between sources and the selection of the one deemed valid in terms of liquidity, daily update and delta spread. The ATS module considers a primary source for each category of instrument and assigns the level of fair value associated with each parameter;
- EOD parameters: market parameters updated once a day (e.g. cap and floor volatility) available from the ICE provider.

If the information from Refinitiv and Bloomberg is unavailable, other independent Information Providers are used.

If an asset or a liability designated at fair value has a monetary price and a letter price (for example, a figure originating from a market with direct and assisted exchanges), to measure the fair value, the price that falls within the bid-ask spread must be used, which is more representative of the fair value in these specific circumstances, regardless of how said datum is classified in the fair value hierarchy (Level 1, 2 or 3). The use of the monetary price is permitted for asset positions and the letter price for liability positions, although this is not compulsory. The Group mainly uses the monetary price for its asset positions and the letter price for its liability positions.

Generally, listed prices are acquired automatically, on a daily basis, by downloading the information from leading independent Information Providers.

Use of valuation techniques (Mark to Model)

In determining the fair value of financial instruments, the Mark to Model technique is used if the analysis shows that there are no listed prices for the instruments held on the main market (or more advantageous).

The valuation techniques used to measure the fair value must maximise the use of relevant observable inputs and minimise the use of non-observable inputs.

Level 2 inputs are inputs other than the listed prices included in Level 1, directly or indirectly observable for the asset or liability.

Level 2 inputs include:

- the prices listed on active markets for similar financial assets and liabilities;
- the prices listed on non-active markets for identical or similar financial assets and liabilities;
- data other than the listed prices observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implicit volatility and credit spreads);
- inputs corroborated by the market.

Non-observable inputs, Level 3, must be used to measure fair value when the relevant observable inputs are not available, therefore permitting situations of poor market activity for the asset or liability on the measurement date. Nevertheless, the purpose of the fair value measurement remains the same, namely a closing price on the measurement date from the perspective of a market operator who holds the asset or the liability. Therefore, non-

observable inputs must reflect the assumptions that market operators would use to establish the price of the asset or the liability, including assumptions about risk.

Adjustments to Level 2 inputs change according to specific aspects of the asset or liability. These aspects include the following:

- the condition or location of the asset;
- the extent to which the inputs refer to elements that are comparable to the asset or liability; and
- the volume or level of activity in the markets in which the inputs are observed.

The use of significant non-observable inputs or adjustments of a Level 2 input that is significant for the entire measurement of the instrument could mean that the fair value measurement will be classified as Level 3 in the fair value hierarchy.

The objective of the use of a valuation technique is to estimate the price at which a regular sale of an asset or transfer of a liability would take place between market operators on the valuation date, under current market conditions. Three valuation techniques that are widely used are the market valuation method, the cost method and the income method. An entity must use valuation techniques that are consistent with one or more of these methods to measure fair value.

The following are examples of the main parameters observable on the market that are used for the most common valuation techniques applied:

- risk-free yield curve. Based on records historicised in the Front Office application (Murex) a so-called risk-free euro yield curve is obtained, by bootstrapping the implicit rates in deposits, swaps and Forward Rate Agreements;
- exchange rates. The Murex system automatically acquires, on a daily basis, the spot fixing ECB exchange rates from the infoprovder Reuters;
- volatility curves. Volatility curves obtained from external sources previously identified (ICE) are mapped and historicised in the Front Office application (Murex); it should be noted that own transactions by the Group predominantly focus on interest rate instruments.

Otherwise, when valuation techniques are based primarily on parameters that cannot be observed on the market, internal estimation processes are carried out. This applies in a limited way only to cases where market data is not available or is not considered reliable.

The use of valuation techniques that apply data observable on the market or data estimated internally involves the use of valuation models employing these parameters.

The income method converts future amounts (for example, cash flows or revenues or costs) into a single present amount (namely discounted). When the income method is used, the fair value measurement reflects the present expectations of the market relating to said future amounts.

By way of example, these valuation techniques include:

- net present value techniques;
- option pricing models, such as the Black-Scholes-Merton formula, which incorporate techniques to calculate the present value and reflect both the temporal and the intrinsic value of an option.

However, when proprietary models are used, the reliability of such models is tested by comparing the valuations of similar listed instruments provided using these techniques with the related listed prices (back testing). The reliability of these techniques is also verified ex post by monitoring the results obtained over time.

Closed real estate funds

In order to take into account the unavailability of continuous valuations of unlisted closed-end real estate funds, due to illiquidity, the absence of a liquid market and the specificity of the underlying asset, the methodology used to identify the fair value attributable to the company's share capital is based on the most up-to-date NAV available (normally referring to the end of the previous six months) adjusted to reflect the low liquidity of the asset.

Liabilities issued by the company

To determine the fair value of liabilities issued by the company, the company's issuer risk must be taken into account.

The creation of one or more credit spread curves is necessary, as part of the fair value option, in order to value instruments not traded on active markets with a full fair value.¹ Compared to simple discounting on the risk-free curve of cash flows generated by the instrument, the concept of full fair value includes an ulterior adjustment that takes into account issuer risk: the adjustment, or credit spread, takes the form of an additional spread on the risk-free curve and varies in size depending on the different maturities. Furthermore, given that the credit spread relative to an issuer expresses an indication of the probability and extent of repayment of the issue, it differs based on the issue's seniority: a senior issue will have a lower credit spread than a subordinated issue.

Application of the fair value option to financial liabilities requires that the amount of fair value changes attributable to changes in the credit risk of the instrument be highlighted.

The risk factors due to creditworthiness are incorporated into the discounting curve (used to calculate the fair value), applying a spread to the risk-free curve that takes into account issuer risk.

Using this valuation method makes it possible to separate the various components of risk: interest rate risk and credit risk. Regarding creditworthiness, credit risk was broken down into risk due to variations in creditworthiness over the last year and variations since the issue of the security (or FTA of the IAS).

The factors considered in the calculation are:

- the risk-free market rate recorded as at the valuation date;
- the credit spread recorded as at the initial issue date of the security;
- the credit spread recorded during the year prior to the current valuation date;
- the credit spread recorded at the valuation date.

By comparing the market fair value as at the valuation date with the fair value calculated using the credit risk recorded upon issue (or the previous year), it is possible to determine the variations in fair value attributable solely to the variations in credit risk over the last year and from the moment of issue.

The curves adjusted for the creditworthiness of the issuer are obtained by adding a credit spread that reflects the creditworthiness of said issuer to zero-coupon rates (or risk-free rates). Said curves are used to measure the value of bonds that are not listed on active markets.

By measuring all of the instruments relating to a single issuer (as well as those issued by the Group) at fair value, three curves can be constructed:

- a senior curve;
- a subordinate curve;
- a covered curve.

To calculate senior credit spreads, if there are senior liquid issues on the market, the credit spreads implicit in the listed prices of the issues in question are used.

More specifically, for Credem, the securities belonging to the EMTN programme of our issues and of comparable issuers with similar characteristics such as sector and ratings are used as reference to trace the maturity structure of the curve.

More specifically, the calculation of the credit spreads is made starting from a benchmark curve of an Italian bank (obtained from the issuer Intesa S.Paolo) on which an average restriction is applied for senior and subordinated liquid issues of comparable issuers. The covered curve is calculated using a spline-fitting method of prices of comparable issues, which meet the defined liquidity criteria.

Criteria for determining the fair value of financial assets and liabilities not measured at fair value on a recurring basis

The disclosures required by IFRS 13 are shown below.

For asset and liability credit transactions not measured at fair value on a recurring basis, the fair value, shown in the tables contained in the Explanatory Notes, has been calculated according to the following criteria:

¹ Instruments traded in active markets are attributed the market price.

- for financial assets and liabilities on demand, with short-term maturities (within 12 months) or undetermined maturities, the book value is considered; the same reasoning is applied to non-performing loans;
- for floating-rate securities and fixed-rate, short-term securities (within 12 months), the book value was considered an approximation of the fair value;
- for medium to long-term financial assets and liabilities, the valuation was carried out by discounting the future cash flows. This operation was carried out using risk-free rates and, for assets, by correcting the future cash flows, taking into account the counterparty risk through PD (Probability of Default) and LGD (Loss Given Default) parameters;
- for medium- to long-term, fixed-rate securities, the valuation was carried out by discounting the future cash flows adjusted for the issuer risk associated with Credem.

For these instruments, calculating the fair value is also based on the use of internal parameters that cannot be directly observed on the market, and is calculated only for the purpose of meeting disclosure requirements, and has no impact on the balance sheet or income statement.

Financial conglomerate and the option to defer the application of IFRS 9 for the insurance sector - Option for the Deferral Approach

The Credem Group, as from October 2017, was included by the Supervisory Authority among the financial conglomerates, in other words, among the parties which carry out significant activities both in the banking and investment services sector, and in the insurance sector. Consequently, as a financial conglomerate with a banking prevalence, the Credem Group has decided to take advantage of the EU exemption from the amendment to IFRS 4 issued by the IASB, which provides for the option of applying the so-called Deferral Approach (or Temporary Exemption), by virtue of which the financial assets and liabilities of Credemvita (the subsidiary insurance company) will continue to be recorded in the financial statements in accordance with the provisions of IAS 39, pending the entry into force of the new international accounting standard on insurance contracts (IFRS 17), expected in 2023. The postponement of the adoption of IFRS 9 by insurance companies therefore requires the application, as from 1 January 2018, of two different accounting standards for financial assets and liabilities in the consolidated financial statements of the Group. In light of the autonomy given by Banca d'Italia concerning the methods with which to represent this decision and its effects on the financial statements, the Group has decided to introduce specific items in the official schedules of the consolidated financial statements provided for by the 6th update of Circular no. 262 and to provide the related disclosures in the Explanatory notes to the consolidated financial statements in compliance with the requirements of IFRS 7, as well as the amendment to IFRS 4, which aims to represent the requirements in order to benefit from the temporary exemption and to ensure comparison between insurers applying the temporary exemption and entities that apply IFRS 9.

More specifically, the following items have been added to the consolidated financial statements, as required by the 6th update of Circular No. 262:

- Balance Sheet – Assets: “Item 35. Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39”, which includes financial assets held for trading, financial assets measured at fair value, financial assets available for sale, and any derivatives with a positive fair value, as defined in accordance with IAS 39;
- Balance Sheet – Assets: “Item 45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39”, which includes financial assets held to maturity, loans to banks, and loans to customers, as defined in accordance with IAS 39;
- Balance Sheet – Liabilities: “Item 15. Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39”, which includes deposits from banks, deposits from customers, and debt securities issued, as defined in accordance with IAS 39;
- Balance Sheet – Liabilities: “Item 35. Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39”, which includes financial liabilities held for trading, financial liabilities measured at fair value, and derivatives with a negative fair value, as defined in accordance with IAS 39;
- Balance Sheet – Liabilities: “Item 125. Valuation reserves pertaining to insurance companies”, which includes valuation reserves for financial assets available for sale;

- Income Statement: "Item 115. Net profit (Loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39", which includes all income statement components attributable to the insurance subsidiary with the exception of net premiums and the balance of other operating income/charges from insurance activities, which converge under their own item, of commissions that are represented together with similar bank items and "Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39", which are recognised in item 135, opened for this very purpose;
- Income Statement: "Item 135. Net adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39", which includes any adjustments/recoveries.

Financial assets held for trading

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity instruments and at the subscription date for derivative contracts.

More specifically, when accounting at the settlement date, an entity records any variation in the fair value of an asset to be received in the period from the trade date to the settlement date in the same way in which it would record an asset purchased.

Financial assets held for trading are initially recognised at cost, meaning the fair value of the instrument, without considering the transaction costs or revenues directly attributable to the instrument itself, which are recorded in the income statement.

Any implicit derivatives present in hybrid financial instruments, classified in different categories than assets or liabilities measured at fair value, not strictly correlated to the same and having the characteristics to satisfy the definition of derivative are separated from the host contract, classified in the present category and measured at fair value, while the relevant accounting criterion for the category in which it is classified is applied to the host contract.

Classification criteria

Financial instruments held with the aim of generating profit, in the short-term, from variations in the prices of said instruments have been classified under financial assets held for trading.

Derivatives not held for hedging purposes are included in this category; the derivatives are represented as assets if the fair value is positive and as liabilities if the fair value is negative. Reclassifications towards other categories of financial assets are not permitted except in the case that there is the presence of unusual events which it is unlikely will present themselves again over the short term. In such cases, it is possible to reclassify debt and equity instruments no longer held for trading purposes in other categories envisaged by IAS 39 if the conditions for recognition apply.

Measurement criteria

Subsequent to their initial recognition, financial assets held for trading are measured at *fair value* and the effects of the application of this measurement approach are booked to the income statement. Should the fair value of a financial asset become negative, said asset is accounted for as a financial liability.

The methods used for determining the fair value are outlined in Section 18 "Other information" of these explanatory notes to the consolidated financial statements.

Equity securities and the related derivative instruments, for which it is not possible to determine the fair value in a reliable manner according to the guidelines indicated in Section 18 "Other Information" of these explanatory notes to the consolidated financial statements, are maintained at cost.

Derecognition criteria

Financial assets are derecognised only when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risk/benefits related to it. Whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the Financial Statements, even if legal ownership of the assets has effectively been transferred.

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

If the bank sells a financial asset classified under its trading portfolio, the asset is derecognised as at the date of its transfer (settlement date).

Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the financial statements.

Lastly, transferred financial assets will be derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

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

The differentials and margins of the other contracts are recognised in the “Net profit (loss) from trading”.

Dividends are recognised on an accruals basis as of the date of adoption of the distribution resolution by the shareholders’ meeting and are stated in the “Dividends and similar income” item.

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

Financial assets available for sale

Recognition criteria

For debt and equity instruments, initial recognition of the financial asset occurs on the settlement date.

Apart from the exceptions provided for by IAS 39, available for sale securities in portfolio cannot be transferred to other portfolios and neither can securities from other portfolios be transferred to the available for sale portfolio.

Financial assets are initially recognised at cost, meaning the fair value of the instrument, considering the transaction costs and revenues directly attributable to the instrument itself. If, in the cases permitted by the accounting standards, the recognition occurs following reclassification, the book value is the fair value at the moment of transfer.

The available for sale securities that are the subject of forward trades, which have not yet been settled (regular way) are recognised (if purchased) or derecognised (if sold) in accordance with the “settlement date” principle.

Classification criteria

This category includes non-derivative financial assets not otherwise classified as “Loans”, “Financial assets held for trading”, “Financial assets measured at fair value” or “Financial assets held to maturity”.

In particular, this item includes equity investments not managed for trading purposes and not qualified as controlling investments, associated investments and joint control stakes and the instruments investing in capital relating to the contributions paid over to the voluntary scheme by the FITD for measures relating to the adoption of investments.

In the cases permitted by the accounting standards, only reclassifications to the Financial assets held to maturity category are permitted. Furthermore, it is possible to reclassify the debt securities not only in the Financial assets held to maturity category, but also under Loans and receivables, in the presence of the intention to hold them for the foreseeable future and if the conditions for recognition are met. The transfer value is represented by the fair value at the time of reclassification.

Measurement criteria

After initial recognition, the “Financial assets available for sale” are measured at fair value, with recognition in the income statement of the value corresponding to the amortised costs, while profits and losses arising from a change in fair value are recognised in a specific shareholders’ equity reserve until the financial asset is written off or an impairment is recognised.

The methods used to determine the fair value and the main criteria to recognise the impairment of “Financial assets available for sale” are outlined in Section 18 “Other information” of these explanatory notes to the consolidated financial statements.

Equity securities for which it is not possible to determine the fair value in a reliable manner according to the aforementioned guidelines are maintained at cost.

Verification of the existence of objective evidence of impairment is carried out upon closing of the Financial Statements or interim period.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risks and benefits of the financial asset. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold has been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

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

involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

If the bank sells a financial asset classified in the above portfolio, the asset is derecognised as at the date of its transfer (settlement date).

Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the financial statements.

Lastly, transferred financial assets will be derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

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

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

Financial assets held to maturity

Recognition criteria

Initial recognition of the financial asset occurs on the settlement date.

The financial assets classified under this category are initially recognised at fair value, including any directly attributable transaction costs and revenues. If an item is recorded in this category due to reclassification from another category, the fair value of the asset at the reclassification date is adopted as the new amortised cost of the asset.

Classification criteria

This category includes debt securities with payments that are fixed or definable and which are intended to be held to maturity. Should it no longer be deemed feasible to hold an investment to maturity, following a change in willingness or capability, only reclassifications under "Financial assets available for sale" are permitted.

Measurement criteria

Subsequent to their initial recognition, "Financial assets held to maturity" are measured at amortised cost, using the effective interest rate method.

Verification of the existence of objective evidence of impairment is carried out upon closing of the Financial Statements or interim period.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risks and benefits related to it. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold has been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

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

involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

Lastly, transferred financial assets will be derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income on securities is recorded on an accrual basis in the income statement items relating to interest.

Profits or losses relative to “Financial assets held to maturity” are recognised in the income statement when said assets are derecognised or have undergone impairment, as well as via the amortisation process.

Verification of the existence of objective evidence of impairment is carried out upon closing of the Financial Statements and interim periods.

Should said evidence exist, the amount of the impairment is measured as the difference between the asset's book value and the present value of the estimated future cash flows, discounted at the effective original interest rate. The impairment amount is recorded in the income statement.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are carried out and posted to the income statement.

Reversals of impairment cannot have a book value higher than their amortised cost if no impairment had been carried out.

Loans

Recognition criteria

The initial recognition of a loan occurs at the date of subscription, which usually corresponds to the date of disbursement or, in the case of a debt security, at the settlement date, based on the fair value of the financial instrument, which is equal to the amount disbursed, or subscription price, including costs/revenues directly attributable to the individual loan and definable from the beginning of the transaction, even if paid successively. Costs that have the aforementioned characteristics, but are reimbursed by the debtor counterparty or are classifiable as normal internal administrative costs, are excluded.

Receivables from lease transactions are recognised at a value corresponding to the net investment in the lease, including initial direct costs.

Loans and securities are allocated to the portfolio at the time of disbursement or purchase and cannot be subsequently transferred to other portfolios.

Contango contracts and repurchase agreements with the obligation to repurchase or resell at maturity are recognised in the Financial Statements as loans and deposits. In particular, spot sale and forward repurchase transactions are recognised in the Financial Statements as debts for the spot amount, while spot purchase and forward resale transactions are recognised as loans for the spot amount.

For credit transactions completed at conditions lower than market, the initial recognition is carried out for an amount equal to the future cash flows discounted at a market rate. Any difference between the initial amount recognised and the actual amount disbursed is recorded in the income statement upon initial recognition.

Classification criteria

This category includes loans to customers and banks, provided both directly as well as acquired from third parties, involving fixed or definable payments, not listed on an active market and not originally classified as Financial assets available for sale.

Loans also comprise trade receivables, repurchase agreements, receivables from finance lease transactions and securities acquired through private subscription or placement, with fixed or definable payments and not listed on active markets.

Loans also include loans originating from factoring operations in relation to portfolio advances received with recourse, which continue to be recorded in the financial statements

of the assignor. As for loans without recourse, these are included in the item loans, subject to prior verification of the absence of contractual clauses that significantly alter the assignee company's risk exposure.

Reclassifications to other categories of financial assets envisaged by IAS 39 are not permitted.

Measurement criteria

After their initial recognition, loans are measured at amortised cost, equal to the originally recognised value decreased/increased by capital repayments, impairment (losses)/reversals and amortisation - calculated with the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically attributable to the costs/revenues directly related to the individual loan. The effective interest rate is determined by calculating the rate that equates the present value of future flows of the loan, in terms of capital and interest, to the amount disbursed, including costs/revenues related to the loan. This accounting method, which uses financial logic, distributes the economic effect of the costs/revenues throughout the expected residual life of the loan.

The amortised cost method is not used for loans whose short duration (within 12 months) makes the effect of the discounting principle negligible. Such loans are measured at historical cost. A similar measurement criterion is adopted for loans with undefined maturity date or which are valid until cancelled, whose costs/revenues are recorded in the income statement. Loan recognition is carried out in order to identify loans which, following events that occurred after they were recorded, show objective evidence of a plausible impairment. Included in this scenario are loans with assigned status of bad loan, unlikely to pay or past due/over drawn, in accordance with the current regulations of Banca d'Italia, consistent with the IAS/IFRS regulations and European supervisory provisions.

With reference to the general concept of restructuring of loan exposures, three different types are identified:

- the renegotiations due to "commercial" reasons/practices, therefore other than the economic-financial difficulties of the debtor and granted at a market interest rate as of the negotiation date;
- the exposures subject to "concession" (as defined by the Banca d'Italia Circular 272, which correspond to the definitions contemplated by the TS - Implementing Technical Standards of the EBA - "forborne") or those contracts in relation to which tolerance measures (forbearance) have been applied, such as concessions, change of the contract terms and/or refinancing of an existing debt for the debtor who is in financial difficulty. The "forborne" exposures may be found among the non-performing loan (non-performing exposures with forbearance measures) and performing loan (forborne performing exposures) categories. The forborne exposures are those in relation to which objective evidence of impairment losses exists;
- the discharge of the debt by means of the replacement of the debtor or swap of the debt with equity instruments. These events lead to an essential change in the contractual terms and from an accounting standpoint lead to the discharge of the pre-existing relationship and the consequent recognition at fair value of the new relationship, recognising a profit or loss to the income statement equal to the difference between the book value of the old loan and the fair value of the assets received.

The non-performing loans are the subject of an analytical measurement process and the value adjustment for each loan is equal to the difference between the book value of the same at the moment of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. The non-performing past due exposures are subject to an analytical assessment applying a forfeit percentage to each individual position determined on historical/statistical bases.

The expected cash flows take into account the expected recovery times, the presumable realisable value of any guarantees as well as the costs that will likely be sustained for recovery of the credit exposure. Cash flows relative to loans that are expected to be repaid in the short term (within 12 months) are not discounted.

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

The value adjustment is recognised in the income statement.

The original value of the loans is restored in subsequent periods if the reasons that led to its adjustment cease to exist, as long as this measurement is objectively supported by an event that occurred subsequently to the actual adjustment. The write-back is recognised in the income statement, and may in no case exceed the amortised cost of the loan had there been no prior adjustments.

Performing loans are subject to a measurement of collective impairment. Said measurement occurs by categories of loans that are homogeneous in terms of credit risk, and the relative loss percentages are estimated by taking into consideration historical series, based on observable elements on the date of measurement, which enable the value of the latent impairment to be estimated for each category of loans. The measurement takes into account the level of risk associated with the counterparty's country of residence.

Collective write-downs envisage the use of the risk parameters deriving from internal models validated for the "Corporate" regulatory function and also replicated for the regulatory "Retail" function, for which work is being carried out for submission of the validation request. For all customers in the portfolio, in order to take into consideration the incurred loss concept, namely losses contained within the portfolio but which have not yet emerged, of the various parameters used, a Loss Confirmation Period was also considered; this parameter expresses the average delay between the deterioration of the financial situation of a debtor and the classification of the same under non-performing exposures.

For the "Corporate" regulatory function, a loss confirmation period of 180 days was adopted, while for the "Retail" regulatory function, a loss confirmation period of 12 months was adopted.

The specific measurements of the above-mentioned parameters in terms of the loss confirmation period for the different types of counterparty (retail and corporate) were identified mainly on the basis of results that were also obtained through organisational controls, established as part of the credit process, such as for example the frequency with which loans are reviewed and credit control activities.

More specifically, these segments are also characterised by different economic/financial information. More specifically, as regards the "Retail" regulatory function, the same has low equity and income and its type of indebtedness is biased towards medium/long term. The observation of the above elements attributable in particular to the retail segment, led to the fine-tuning of the LCP parameter for this segment, updating it to 12 months, while at the same time confirming the organisational and credit controls already in place.

It is believed that the time horizon used for the valuation of the probability of default can approximate the notion of incurred loss, meaning loss based on current events which have not yet been taken into consideration by the company in revising a specific customer's risk level, which is required by the international accounting standards.

Collectively determined value adjustments are recorded in the income statement.

Derecognition criteria

Loans that are sold are derecognised from the assets in the Financial Statements only if the sale involved the transfer of all risks and benefits related to the loan. Conversely, if the risks and benefits related to the loans sold have been maintained, these continue to be recognised under the assets of the Financial Statements, even if legal ownership of the loan has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the loans will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the loans in the financial statements in an amount equal to the residual involvement, measured by the exposure to changes in value of the loans sold and to variations in the cash flows of the same. Lastly, transferred loans will be derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties.

Furthermore, the integral elimination of the loans takes place when the same are considered to be unrecoverable or are written off entirely. The derecognitions, with regard to the portion exceeding the related provision, are booked directly to the item 130 a) "Net losses/recoveries on impairment of loans" in the income statement and are recognised as reducing the principal portion of the loans. Recoveries of part or of full amounts previously cancelled are recorded in this item.

Criteria for the recognition of income

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

- Interest income from loans and securities is allocated to the item “Interest income and similar revenues” on an accrual basis, based on the effective interest rate;
- The gains and losses from the disposal of loans and of securities are allocated to the item “Gains (losses) on disposal/repurchase of loans”;
- Impairment losses, losses due to derecognition and reversals of loans and securities are allocated to the item “Net losses/recoveries on impairment of loans”.

Reversals of impairments related to the passing of time are recognised under reversals.

Financial assets measured at fair value

Recognition criteria

Financial instruments measured at fair value are initially recognised at cost, meaning the fair value of the instrument, without considering the transaction costs or revenues directly attributable to the instrument itself, that are recorded in the income statement.

Classification criteria

Financial assets to be measured at fair value through profit or loss are classified under this category when:

- the designation of fair value enables the elimination or removal of significant distortions in the accounting representation of financial instruments or between financial instruments and non-financial assets;
- or the management and/or valuation of a group of financial instruments at fair value through profit or loss is consistent with a risk management or investment strategy as reported to the company’s management;
- or in the presence of an instrument containing an implicit derivative that significantly changes the cash flows of the host instrument and that must be separated.

Equity instruments that do not have a reliable fair value cannot be classified under this category.

Measurement criteria

Subsequent to their initial recognition, financial assets are measured at fair value.

The methods used for determining the fair value are outlined in Section 18 “Other information” of these explanatory notes to the consolidated financial statements.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risk/benefits related to it. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold has been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred. If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

If the bank sells a financial asset classified in the above portfolio, the asset is derecognised as at the date of its transfer (settlement date).

Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the financial statements.

Lastly, transferred financial assets will be derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous

assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income on securities is recorded on an accrual basis in the income statement items relating to interest.

Profits and losses arising from changes in the fair values of financial assets and liabilities and from their sale and redemption are recognised under the item “Net profit (loss) from financial assets and liabilities measured at fair value”.

Liabilities and debt securities issued

Recognition criteria

The initial recognition of said financial liabilities occurs upon collection of the amounts or issue of the debt securities.

The recognition is carried out on the basis of fair value of the liabilities, normally equal to the amount collected or issue price, adjusted by any costs/revenues directly attributable to the single collection or issue transaction and not reimbursed by the creditor counterparty. Internal administrative costs are excluded.

Classification criteria

“Deposits from banks”, “Deposits from customers” and “Debt securities issued” include the various forms of inter-bank and customer funding, repurchase agreements with the obligation to repurchase at maturity, provisions collected via outstanding certificates of deposit and bonds (net of any amounts repurchased) and other outstanding funding instruments not classified under financial liabilities measured at fair value.

Measurement criteria

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

Short-term liabilities (within 12 months), for which the time factor is negligible, are an exception to this, and they remain recognised at the value collected, with any costs attributed to the income statement.

Derecognition criteria

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

The re-placement of securities on the market following their repurchase is considered a new issue, with recognition of a new issue price, without any impact on the income statement.

Criteria for the recognition of income

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

- interest expenses are allocated to the item “Interest expenses and similar charges” based on the effective interest rate;
- the gains and losses from the repurchase of liabilities are allocated to the item “Gains/(losses) on disposal or repurchase of financial liabilities”.

Financial liabilities held for trading

Recognition and derecognition criteria

The same recognition and derecognition criteria used for financial assets held for trading (previous Section 1 - Financial assets held for trading) are applied with the suitable adjustments.

Classification criteria

This item includes the negative value of derivative trading contracts measured at fair value and liabilities, also measured at fair value, that arise from technical overdrafts generated by securities trading.

Measurement criteria

The same measurement criteria used for financial assets held for trading (previous Section 1 - Financial assets held for trading) are applied with the suitable adjustments.

Criteria for the recognition of income

The same recognition criteria of income are applied, with the appropriate adjustments, as those to the income for financial assets held for trading (previous Section 1 - Financial assets held for trading).

Financial liabilities measured at fair value**Recognition criteria**

Financial instruments measured at fair value are initially recognised at cost, meaning the fair value of the instrument, without considering the transaction costs or revenues directly attributable to the instrument itself, that are recorded in the income statement.

Classification criteria

Liabilities to be measured at fair value through profit or loss are classified under this category when:

- the measurement at fair value enables the elimination or removal of significant distortions in the accounting representation of the instruments;
- or the management and/or valuation of a group of financial instruments at fair value through profit or loss is consistent with a risk management or investment strategy as reported to the company's management;
- or in the presence of an instrument containing an implicit derivative that significantly changes the cash flows of the host instrument and that must be separated.

Measurement criteria

Subsequent to their initial recognition, financial liabilities are measured at fair value.

The methods used for determining the fair value are outlined in Section 18 "Other information" of these explanatory notes to the consolidated financial statements.

Derecognition criteria

Financial liabilities are derecognised when they are extinguished or when the obligation specified in the contract is fulfilled, removed or has expired. Derecognition occurs even upon repurchase of previously issued securities. The difference between book value of the liability and the amount paid to purchase it is recognised in the income statement.

The re-placement of securities on the market following their repurchase is considered a new issue, with recognition of a new issue price, without any impact on the income statement.

Criteria for the recognition of income

Interest income on securities is recorded on an accrual basis in the income statement items relating to interest.

Profits and losses arising from changes in the fair values of financial liabilities and the profits and losses resulting from their sale and redemption are recognised under the item "Net profit (loss) from financial assets and liabilities measured at fair value" in the income statement.

In particular, if the fair value of the financial instruments issued initially corresponds to the sale price, the profit or loss generated following the subsequent revaluation is recognised in full in the income statement.

A.3 DISCLOSURE OF TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

Following the adoption of IFRS 9, the bank did not make any changes to the business model for the management of its financial assets and, therefore, no transfers between portfolios of

financial assets were made. The general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is allowed), do not allow reclassifications of financial assets to other categories, unless the company changes its business model for the management of these financial assets. These changes are expected to be extremely uncommon and must be decided by management following significant external or internal changes that are demonstrable to external parties.

A.4 FAIR VALUE DISCLOSURE

Qualitative information

A.4.1 – Fair value level 2 and 3: measurement techniques and inputs used

The measurement techniques used for Level 2 and 3 financial instruments are as follows:

- Financial assets: measurement of structured instruments using the discounted cash flow model for the bond component with a rate adjusted to reflect the appropriate credit risk, and the Black & Scholes model for the share component;
- Financial liabilities: measurement of plain vanilla instruments using the discounted cash flow model, considering a rate adjusted to reflect the credit risk of Credito Emiliano on maturity of the instrument.

The definition of the models used is briefly illustrated below:

Discounted Cash Flow

The discounted cash flow model is used to value an investment, based on the discounting process, which enables the present value of capital, which naturally matures at a future date, to be established today by applying a discount rate. The discount rate is adjusted for the credit risk of future cash flows expected from the asset in question. The algebraic sum of the discounted flows represents the net present value of the instrument.

The parameters used in the valuation technique are: rate curve and credit spread of each issue.

Black & Scholes model

The univariate Black & Scholes (BS) model is the most famous and recognised option pricing model on the market. The model is based on the possibility of creating a portfolio corresponding to the option, comprised in part by units of the underlying instrument and in part by risk-free bonds both influenced by the same source of uncertainty given by changes in the price of the stock. The assumptions underlying the Black & Scholes model are represented by the trend in prices for the underlying asset (approximated by a log-normal process), the presence of a perfectly efficient market, the interest rate and the volatility of the underlying constant for the entire duration of the option.

The parameters used in the valuation technique are the interest rate, the value and the volatility of the underlying asset.

At 31 December 2021, all of the parameters used in the valuation techniques were observable, showing fair value levels of 2 for mark-to-model instruments.

More specifically:

- the interest rates were extrapolated from the zero curve obtained from market quotations of similar instruments;
- the credit spreads for the Credito Emiliano component were obtained from market quotations of comparable issues;
- the values of underlying assets were obtained from market quotations;
- the volatility of the underlying asset was obtained from market quotations, in the light of the short-term nature of the stock component.

The models and the parameters used in the valuation techniques are detailed and regulated in the Technical Appendix to the Group's Fair Value Policy: "Credem rules to apply to the Group Fair Value Policy" and "Manual of pricing models".

A.4.2 Measurement processes and sensitivity

The valuation of instruments not traded on active markets is conducted using a *Mark to Model* technique, which seeks to maximise the use of observable data on the market. If the parameters are not available or not directly observable, fair value Level 3 is allocated. At 31 December 2021, no financial derivative was measured using the *Mark to Model* technique by means of market parameters that were not directly observable.

A.4.3 Fair value hierarchy

Transfers between levels of the fair value hierarchy

The fair value hierarchy attributes maximum priority to the prices listed (non-adjusted) on active markets for identical assets or liabilities (Level 1 data) and minimum priority to non-observable inputs (Level 3 data).

The following levels are used for the classifications shown below in these Explanatory Notes to the consolidated financial statements:

- “Level 1”: the fair value of financial instruments is calculated on the basis of listed prices observable on active markets (non-adjusted) that may be accessed on the valuation date;
- “Level 2”: the fair value of financial instruments is calculated on the basis of inputs other than the listed prices included in Level 1 directly or indirectly observable for the asset or liability, also using valuation techniques;
- “Level 3”: the fair value of financial instruments is calculated on the basis of non-observable inputs for the asset or liability, also using valuation techniques.

Allocating levels entails checking, for each instrument held in own portfolios, for a possible potential active market, in line with several valuation rules. More specifically, an assessment is carried out to ensure that the contributions are continuous, contained in the delta spread bid ask, indicative of possible recent transactions and therefore not dragged, and that the issuer is solid and active.

Failure to comply with these rules will result in a lower level being allocated, which is more coherent and representative of the instrument’s fair value.

Similarly, the analysis is conducted also when verifying the potential resumption of an active market for the instruments, for which, over time, have resumed a steady valuation on regulated or non-regulated markets.

A.4.4 Other information

The fair value hierarchy attributes maximum priority to the prices listed (non-adjusted) on active markets for identical assets or liabilities (Level 1 data) and minimum priority to non-observable inputs (Level 3 data).

Fair value levels are allocated every quarter on the reference accounting dates based on the verification of the presence of a principal or more advantageous market in the period of time prior to the reference accounting date. Several principles are checked, needed to establish the presence of an active market for each financial instrument identified by the availability of continuous, executable valuations, with contained bid-ask spreads.

The fulfilment of these conditions determines the fair value of the instrument analysed. If market quotations are not present, the valuation techniques are used on each accounting date, maximising the use of relevant observable inputs and minimising the use of non-observable inputs. Checking these input parameters based on availability determines the fair value level of the instrument.

On each accounting date, a comparative analysis of the fair value levels is also conducted, with respect to the previous quarter and the beginning of the year in question, with a view to identifying fair value level transfers that took place during the course of the year in question and the circumstances that triggered such transfer.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Financial assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

Assets/liabilities measured at fair value	31/12/2021			31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	16,727	41,173	24,463	602	18,266	22,895
a) financial assets held for trading	16,214	41,173	2,583	322	18,266	3,028
b) financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets measured at fair value, as per mandatory requirements	513	-	21,880	280	-	19,867
2. Financial assets measured at fair value through other comprehensive income	6,553,824	2,859	36,500	3,466,251	33,955	16,236
3. Hedging derivatives	-	211,101	-	-	273,385	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	6,570,551	255,133	60,963	3,466,853	325,606	39,131
1. Financial liabilities held for trading	-	33,148	-	8	18,256	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	408,084	-	-	365,281	-
Total	-	441,232	-	8	383,537	-

With reference to assets measured at fair value on a recurring basis at 31 December 2021, the instruments valued according to the most advantageous market (fair value level 1) and/or according to measurement techniques based on observable parameters (fair value level 2) represented 99.44% of total assets measured at fair value (a stable value with respect to the corresponding figure for 2021 of 99.41%).

The instruments measured using valuation techniques based mainly on non-observable parameters regarded a residual part of total assets measured at fair value (0.56%), in line with the figure for 2020 of 0.59%.

In 2021, no transfers between levels were made with respect to the classification of 2020.

A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through income statement				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets measured at fair value, as per mandatory requirements				
1. Opening balances	22,895	3,028	-	19,867	16,236	-	-	-
2. Increases	11,964	119	-	11,845	20,517	-	-	-
2.1. Purchases	11,844	-	-	11,844	20,305	-	-	-
2.2. Profits recognised in:	114	114	-	-	3	-	-	-
2.2.1. Income Statement	114	114	-	-	3	-	-	-
- of which gains	3	3	-	-	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	6	5	-	1	209	-	-	-
3. Decreases	10,396	564	-	9,832	253	-	-	-
3.1. Sales	111	111	-	-	245	-	-	-
3.2. Refunds	9,557	-	-	9,557	-	-	-	-
3.3. Losses recognised in:	569	294	-	275	8	-	-	-
3.3.1. Income Statement	569	294	-	275	8	-	-	-
- of which capital losses	569	294	-	275	-	-	-	-

3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	159	159	-	-	-	-	-	-
4. Closing balance	24,463	2,583	-	21,880	36,500	-	-	-

Item 2.1 "Purchases" also shows the values of financial assets deriving from the merger of Cassa di Risparmio di Cento.

Instruments attributed a fair value level of 3 are defined as illiquid, are not valued very often over time and the status of the instrument or more generally of the issuer on the valuation date means that the recovery of an active status on the market is not considered possible.

Item 2.1 "Purchases" reports:

- financial assets valued at fair value through profit and loss: six fund shares and two tranches of securitisations;
- financial assets valued at fair value through profit and loss: three bonds and two shares;
- financial assets measured at fair value through other comprehensive income: nine shares

Item 3.1 "Sales" includes:

- financial assets measured at FV through profit and loss: a fund;
- financial assets valued at fair value through profit and loss: three bonds and one share;
- Financial assets measured at fair value through other comprehensive income: three shares.

The annual changes to and from Level 3 at 31/12/2021 do not show transfers to and from Level 3 for both the decreases and increases sections for all accounting classifications (financial assets compulsorily valued at FV through profit and loss, financial assets valued at FV through profit and loss and financial assets valued at FV through other comprehensive income).

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2021				31/12/2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	49,137,481	6,503,782	618,020	42,861,918	42,662,841	4,747,826	371,480	38,830,853
2. Property, plant and equipment held for investment purposes	5,128	-	-	10,058	3,614	-	-	4,360
3. Non-current assets and groups of assets held for sale and discontinued operations	5,807	-	-	5,807	-	-	-	-
Total	49,148,416	6,503,782	618,020	42,877,783	42,666,455	4,747,826	371,480	38,835,213
1. Financial liabilities measured at amortised cost	52,726,659	2,470,565	7,251,882	43,050,761	43,591,800	2,065,269	3,422,637	38,165,877
2. Liabilities included in disposal group classified as HFS	7,890	-	-	7,890	-	-	-	-
Total	52,734,549	2,470,565	7,251,882	43,058,651	43,591,800	2,065,269	3,422,637	38,165,877

A.5 – Information on “day one profit/loss”

The profit related to the issue of bonds, determined by the difference between the amount received and the fair value of the instrument, is recorded in the income statement on the issue date in all cases in which said fair value is measured using valuation techniques that use market-observable parameters.

The IFRS 9 standard provides that the initial recognition of financial instruments should be made at fair value. Usually, the fair value of a financial instrument at the date of initial recognition in the financial statements corresponds to the “transaction price”; in other words, at the cost or the amount paid for the financial assets or the sum received for financial liabilities.

The statement that, at the time of initial recognition in the financial statements, the fair value of a financial instrument corresponds to the transaction price is intuitively always the case for transactions in “Level 1” of the fair value hierarchy.

Also in the case of “Level 2”, which is based on prices derived indirectly from the market (comparable approach), in the vast majority of cases, at the time of initial recognition, fair value and price substantially correspond. Any differences between price and fair value are usually attributed to so-called sales margins.

In the case of “Level 3”, however, the measurement of the instrument is partially at the discretion of the operator and, therefore, due to the higher degree of subjectivity in the calculation of the fair value, there is no clear term of reference to compare with the transaction price. For this reason, IFRS 9 prohibits that any initial difference between the transaction price and the internal estimate of fair value may immediately be booked to the income statement in a single amount. Therefore, in this case, the initial recognition must always be made at the transaction price. The subsequent valuation may not include the difference between the price and the fair value established at the time of initial valuation - namely the implicit Day-One-Profit (DOP) or Day-One-Loss (DOL), which instead must be booked to the income statement only if it results from changes of the factors on which market participants base their valuations to set prices (including the time effect). Where the instrument has a defined maturity and a model to monitor changes in the factors on which operators base their prices is not immediately available, the transit of the DOP/DOL to the income statement is permitted in a linear manner for the duration of the same financial instrument.

Therefore, the accounting policy followed provides that:

- any implicit DOP/DOL in “Level 2” instruments is immediately and entirely booked to the Income Statement;
- instead, any implicit DOP/DOL in “Level 3” instruments is sterilised and booked to the Income Statement on a “pro-rata temporis” basis (linearly) for the residual duration of said instruments;
- in the event in which an instrument classified as “Level 3” in the fair value hierarchy is reclassified as Level 2, the residual suspended DOP/DOL, are booked to the Income Statement in a single amount.

At 31 December 2021, there were no amounts that were still to be recorded in the income statement on a “pro-rata temporis” basis, or for the residual duration of the contract.

PART B

INFORMATION ON THE

CONSOLIDATED BALANCE SHEET

Assets

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2021	Total 31/12/2020
a) Cash	151,917	145,984
b) Current accounts and demand deposits with central banks	-	-
c) Bank accounts and demand deposits	61,777	90,775
Total	213,694	236,759

The data relating to 31/12/2020 have been restated in order to implement the 7th update of 29 October 2021 of Circular 262 of the Bank of Italy of 22 December 2005, relating to the reclassification of current accounts and sight deposits with banks and of current accounts and sight deposits with central banks (excluding the compulsory reserve) from the item "Loans to banks" to the item "Cash and cash equivalents".

Section 2 – Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown

Items/Balances	Total 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
A. Balance sheet assets						
1. Debt securities	16,214	2,356	-	320	16	-
1.1 Structured securities	7,534	2,356	-	27	6	-
1.2 Other debt securities	8,680	-	-	293	10	-
2. Equity securities	-	139	-	-	-	354
3. Units of UCITS (including Private Equity funds)	-	-	2,320	-	-	2,391
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	16,214	2,495	2,320	320	16	2,745
B. Derivatives						
1. Financial derivatives	-	38,678	263	2	18,250	283
1.1 trading	-	38,678	263	2	18,250	283
1.2 related to fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	-	38,678	263	2	18,250	283
Total (A+B)	16,214	41,173	2,583	322	18,266	3,028

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2021	Total 31/12/2020
Hedge Fund	2,255	2,331
Equity	65	60
Total	2,320	2,391

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Balances	Total 31/12/2021	Total 31/12/2020
A. Balance sheet assets		
1. Debt securities	18,571	335
a) Central Banks	-	-
b) Public administration	9,204	241
c) Banks	1,751	53
d) Other financial companies	526	17
of which: insurance companies	-	-
e) Non-financial companies	7,090	24
2. Equity securities	139	354
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	139	354
d) Other issuers	-	-
3. Units of UCITS	2,320	2,391
4. Loans	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	21,030	3,080
B. Derivatives		
a) Central Counterparties	-	-
b) Other	38,941	18,535
Total (B)	38,941	18,535
Total (A+B)	59,971	21,615

In compliance with the provisions of IFRS 7 and taking into account the indications contained in CONSOB Communication no. DEM/11070007 of 5 August 2011 (which refers to document ESMA no. 2011/266 of 28 July 2011) regarding disclosures to be made in financial reports regarding “sovereign debt”, it should be noted that, at 31 December 2021, there were government bond exposures to Italy Treasury for € 6.2 million and approximately € 3.0 million to other countries. These positions, classified as trading in the accounts, are traded on behalf of institutional customers.

Reference should be made to Section 3 of these Explanatory Notes for securities held in the "Financial assets measured at fair value through other comprehensive income" portfolio.

2.5 Other financial assets measured at fair value, as per mandatory requirements: breakdown

Items/Balances	Total 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	9	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	9	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCITS (including Private Equity funds)	336	-	7,430	280	-	2,026
4. Loans	177	-	14,441	-	-	17,841
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	177	-	14,441	-	-	17,841
Total	513	-	21,880	280	-	19,867

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2021	Total 31/12/2020
Closed-end funds	5,547	2,026
Equity	29	27
Real estate	1,473	-
Bonds	84	77
Balanced	72	55
Flexible	151	121
Other	410	-
Total	7,766	2,306

The values of the real estate funds are attributable to the merger of the Cassa di Risparmio di Cento.

2.6 Other financial assets measured at fair value, as per mandatory requirements: breakdown by debtor/issuer

	Total 31/12/2021	Total 31/12/2020
1. Equity securities	-	-
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	9	-
a) Central banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	9	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Units of UCITS (including Private Equity funds)	7,766	2,306
4. Loans	14,617	17,842
a) Central banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	13,139	9,132
of which: insurance companies	13,139	9,132
e) Non-financial companies	177	7,383
f) Households	1,301	1,327
Total	22,392	20,148

The units of mutual funds (UCITS) and certain loans to customers were reclassified into this category as a result of failing the SPPI test.

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

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

Items/Balances	Total 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	6,553,263	-	3,320	3,465,698	27,709	-
1.1 Structured securities	722,919	-	3,320	355,853	27,709	-
1.2 Other debt securities	5,830,344	-	-	3,109,845	-	-
2. Equity securities	561	2,859	33,180	553	6,246	16,236
3. Loans	-	-	-	-	-	-
Total	6,553,824	2,859	36,500	3,466,251	33,955	16,236

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

With regard to the shares of the company Cedacri, on 5 March 2021 an agreement was signed by all shareholders for the sale of 100% of the share capital of Cedacri to ION Investment Group Limited, including the share held by Credem equal to 3.9%; this sale was carried out in June 2021 and resulted in a capital gain, net of the related tax effect, of € 36.3 million, recorded under item "Other reserves" as the equity instruments for which the choice has been made to classify them in this category are measured at fair value and the amounts recognised as a balancing entry in equity (Statement of Comprehensive Income) must not subsequently be transferred to the income statement, even in the event of disposal. The book value at 31 December 2020 amounted to €14.5 million and the shares were classified in the portfolio "Financial assets measured at fair value through other comprehensive income".

The increase in equity securities, compared to 2021, is attributable to the values resulting from the merger of Cassa di Risparmio di Cento. There are also 900 shares of the Bank of Italy, equal to 0.30% of the share capital, for a value of 22.5 million euro.

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

Items/Balances	Total 31/12/2021	Total 31/12/2020
1. Debt securities	6,556,583	3,493,407
a) Central banks	-	-
b) Public administration	4,664,998	2,110,275
c) Banks	966,397	840,991
d) Other financial companies	328,675	208,213
of which: insurance companies	-	-
e) Non-financial companies	596,513	333,928
2. Equity securities	36,600	23,036
a) Banks	24,775	692
b) Other issuers:	11,825	22,344
- other financial companies	8,923	6,571
of which: insurance companies	-	-
- non-financial companies	2,902	15,747
- other	-	26
3. Loans	-	-
a) Central banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	6,593,183	3,516,443

In compliance with the provisions of IFRS 7 and taking into account the indications contained in Consob Communication no. DEM/11070007 of 5 August 2011 (which refers to document ESMA no. 2011/266 of 28 July 2011) regarding disclosures to be made in financial reports regarding “sovereign debt”, note the following:

- The “Financial assets measured at fair value through other comprehensive income” portfolio includes foreign government bonds (Spain) for € 1,026.8 million, (United States) for € 1,858.3 million, (Portugal) for € 79.8 million, (Belgium) for € 450.3 million, (France) for € 495.2 million and (United Kingdom) for € 50.0 million. There are also bonds, for around € 45.8 million, issued by the European Financial Stability Facilities and € 362.6 million issued by the European Union. With regard to government bonds issued by the Italian Government, there is an exposure of approximately 263.9 million BTPs, and € 32.3 million in CCTs.

There are fair value hedges on fixed-rate Italian Government bonds (BTP) and foreign Government bonds, as well as on fixed-rate bonds (senior unsecured and covered bonds) issued by leading European credit institutions. The latter are fair value hedges, carried out through the implementation of suitable hedging instruments (interest rate swaps) to specifically hedge the “interest rate risk” of said securities; the relationship created between Hedged Item and Hedging Instrument led to the preparation of a specific document that formalises the hedging relationship and also entailed the application of special Hedge Accounting rules. Note that tests of effectiveness were conducted (both prospective and retrospective) with a positive outcome.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and overall value adjustments

	Gross value					Overall value adjustments				Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
Debt securities	6,558,331	62,799	-	-	-	1,746	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	6,558,331	62,799	-	-	-	1,746	-	-	-	-
Total 31/12/2020	3,495,668	27,828	-	-	-	2,260	-	-	-	-

The gross value and the overall value adjustments of impaired financial assets include contractual interest accrued.

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

4.1 Financial assets measured at amortised cost: breakdown of loans to banks

Type of transaction/Amounts	Total						Total					
	31/12/2021						31/12/2020					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3
A. Loans to Central Banks	7,720,849	-	-	-	-	7,720,849	7,579,190	-	-	-	-	7,579,190
1. Deposits with a set term	-	-	-	X	X	X	411	-	-	X	X	X
2. Compulsory reserves	7,720,849	-	-	X	X	X	7,578,779	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	1,228,038	-	-	537,433	16,332	683,789	730,061	-	-	354,558	-	382,239
1. Loans	683,788	-	-	-	-	683,789	382,238	-	-	-	-	382,239
1.1. Bank accounts	-	-	-	X	X	X	91,236	-	-	X	X	X
1.2. Deposits with a set term	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Other loans:	683,788	-	-	X	X	X	291,002	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Loans for leases	243	-	-	X	X	X	280	-	-	X	X	X
- Other	683,545	-	-	X	X	X	290,722	-	-	X	X	X
2. Debt securities	544,250	-	-	537,433	16,332	-	347,823	-	-	354,558	-	-
2.1 Structured securities	136,804	-	-	139,253	-	-	137,141	-	-	139,555	-	-
2.2 Other debt securities	407,446	-	-	398,180	16,332	-	210,682	-	-	215,003	-	-
Total	8,948,887	-	-	537,433	16,332	8,404,638	8,309,251	-	-	354,558	-	7,961,429

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The data relating to 31/12/2020 have been restated in order to implement the 7th update of 29 October 2021 of Circular 262 of the Bank of Italy of 22 December 2005, concerning the reclassification of current accounts and demand deposits with banks and of current accounts and demand deposits with central banks (with the exception of the compulsory reserve) from the item "Loans to banks" to the item "Cash and cash equivalents", to which reference should be made for the amount of the reclassification.

Operating loans associated with the provision of financial services have been included. The Group has liquid assets deposited with the Central Bank (including the compulsory reserve) amounting to around € 7,7 billion.

Loans, with the exception of debt securities, are recognised at their nominal value, corresponding to their fair value and the fair value level attributed is 3.

The methods used for determining the fair value are outlined in Part A1 - General criteria - Section 18 "Other information".

4.2 Financial assets measured at amortised cost: breakdown of loans to customer

Type of transaction/Amounts	Total						Total					
	31/12/2021						31/12/2020					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3
1. Loans	32,775,051	349,567	30,954	-	-	34,457,280	28,877,918	420,850	-	-	-	30,836,983
1.1. Bank accounts	1,693,949	36,514	2,468	X	X	X	1,519,394	42,784	-	X	X	X
1.2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	19,477,919	233,194	21,988	X	X	X	16,666,273	275,140	-	X	X	X
1.4. Credit cards and personal loans, incl. fifth-of-salary backed loans	2,212,784	27,229	5,226	X	X	X	1,822,688	36,688	-	X	X	X
1.5 Loans for leases	2,756,796	39,126	-	X	X	X	2,535,799	53,255	-	X	X	X
1.6. Factoring	1,281,505	9,153	-	X	X	X	1,122,808	7,593	-	X	X	X
1.7. Other loans	5,352,098	4,351	1,272	X	X	X	5,210,956	5,390	-	X	X	X
2. Debt securities	7,033,022	-	-	6,503,782	618,020	-	5,054,826	-	-	4,747,365	371,480	32,932
2.1. Structured securities	633,272	-	-	187,817	445,062	-	420,613	-	-	100,567	286,124	32,932
2.2. Other debt securities	6,399,750	-	-	6,315,965	172,958	-	4,634,213	-	-	4,646,798	85,356	-
Total	39,808,073	349,567	30,954	6,503,782	618,020	34,457,280	33,932,744	420,850	-	4,747,365	371,480	30,869,885

Loans to customers amounted to € 33,155.6 million.

The value of the purchased or originated credit impaired assets at 31 December 2021 referring to the merger of the Cassa di Risparmio di Cento is € 25.9 million.

The portfolio of “Financial assets measured at amortised cost” includes exposures in government bonds for approximately € 6,084.3 million (€ 5,403.5 million Italy, BTPs for € 5,276.2 million and CCTs for € 127.3 million, and € 680.8 million other countries, € 371.8 million Spain and € 309.0 million Portugal).

There are fair value hedges on fixed-rate Italian Government bonds (BTP) and on foreign Government bonds. The latter are fair value hedges, carried out through the implementation of suitable hedging instruments (interest rate swaps) to specifically hedge the “interest rate risk” of said securities; the relationship created between Hedged Item and Hedging Instrument led to the preparation of a specific document that formalises the hedging relationship and also entailed the application of special Hedge Accounting rules. Note that tests of effectiveness were conducted (both prospective and retrospective) with a positive outcome.

At 31 December 2021, the “Financial assets measured at amortised cost” category also includes € 639 million in ABS issued by third party special purpose entities linked to loans originated in Europe, with preponderance of the component of French *origination* (€ 204.5 million). The portfolio consists of different types of ABS with a prevalence of residential mortgage securitisations, which account for 41.8%.

Current exposure broken down by country risk is as follows:

Country	Amount (thousands of Euro)	Exposure %
FRANCE	204,496	32.2
GERMANY	157,616	24.8
NETHERLANDS	143,968	22.6
SPAIN	65,834	10.4
ITALY	55,191	8.1
IRELAND	10,201	1.6
UNITED KINGDOM	1,345	0.2
PORTUGAL	734	0.1
TOTAL	639,385	100.0

The securitisation portfolio is diversified over 34 issuers and 44 issues, with maximum concentration of € 47.6 million per single issue, and € 60.2 million per single issuer.

The Macro Fair Value Hedge accounting method was also adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap options.

There are also cash flow hedges on floating-rate mortgages.

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans to customers

Type of transaction/Amounts	Total 31/12/2021			Total 31/12/2020		
	Stage 1 and 2	Stage 3	Purchased or originated credit impaired assets	Stage 1 and 2	Stage 3	Purchased or originated credit impaired assets
1. Debt securities	7,033,022	-	-	5,054,825	-	-
a) Public administration	6,084,323	-	-	4,452,981	-	-
b) Other financial companies	939,859	-	-	583,366	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	8,840	-	-	18,478	-	-
2. Loans to:	32,775,054	349,568	30,954	28,877,914	420,848	-
a) Public administration	643,199	4,630	-	299,169	4,403	-
b) Other financial companies	728,686	94	2,690	712,634	170	-
of which: insurance companies	7,467	-	-	5,619	-	-
c) Non-financial companies	16,593,338	117,510	15,282	14,998,337	135,212	-
d) Households	14,809,831	227,334	12,982	12,867,777	281,063	-
Total	39,808,076	349,568	30,954	33,932,741	420,848	-

4.4 Financial assets measured at amortised cost: gross value and overall value adjustments

	Gross value					Overall value adjustments				Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
Debt securities	7,581,306	-	-	-	-	4,035	-	-	-	-
Loans	39,350,745	1,076,444	1,912,479	788,418	32,312	42,798	40,739	438,850	1,357	7,824
Total 31/12/2021	46,932,051	1,076,444	1,912,479	788,418	32,312	46,833	40,739	438,850	1,357	7,824
Total 31/12/2020	40,664,617	1,133,172	1,686,984	876,447	-	62,067	47,541	455,598	-	1,050

IFRS 9 requires financial assets measured at amortised cost to be classified in three stages, in order of increasing deterioration in creditworthiness; these categories are associated with progressively more severe measurements of impairment.

The gross value and the overall value adjustments of impaired financial assets include contractual interest accrued.

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and overall value adjustments

	Gross value					Overall value adjustments				Total partial write-offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
1. Loans subject to forbearance compliant with the GLs	8,254	83	996	249	-	42	41	46	-	-
2. Loans subject to current moratorium measures no longer complying with the GL and not assessed as subject to forbearance	537,138	54,552	84,426	850	410	2,103	1,322	424	17	-
3. Loans subject to other forbearance measures	-	-	136,876	22,159	1,054	-	3,486	4,888	10	-
4. New loans	3,169,754	138,190	224,992	14,338	368	1,980	816	3,351	7	-
Total 31/12/2021	3,715,146	192,825	447,290	37,596	1,832	4,125	5,665	8,709	34	-
Total 31/12/2020	5,503,335	47,612	505,100	36,425	-	14,116	13,724	7,464	-	-

This table shows the details of the gross value and of the total value adjustments broken down by risk stage and for “purchased or originated credit impaired”, as well as the disclosure on the total partial write-offs for the loans, subject to moratoria or other forbearance measures in place at the date of reference of the financial statements, or that constitute new liquidity granted through public guarantee mechanisms.

The line “Loans subject to forbearance compliant with the GLs” shows information on financial assets subject to moratoriums that fall within the scope of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis” published by the EBA (EBA/GL/2020/02) and subsequent amendments and additions.

The line “Outstanding loans subject to moratorium measures that are no longer in compliance with GL and are not assessed as forborne exposure” contains only those outstanding loans subject to moratorium measures that were assessed as being in compliance with EBA/GL/2020/02 at the date the measure was granted and were no longer

in compliance at the balance sheet date and were not classified by the bank as "forborne exposures" (as defined by existing supervisory reporting) based on the assessment made upon the occurrence of the event that generated the non-compliance with EBA/GL/2020/02. The row "Loans subject to other forbearance measures" contains information on loans subject to COVID-19 support measures that meet the conditions for "forborne exposure" as defined by existing supervisory reporting and that are not included in the "Loans subject to forbearance compliant with the GLs" category at the date on which the measure was granted or at the date on which they no longer comply with EBA/GL/2020/02.

The line "New loans" includes, inter alia, the financial assets recognised as a result of forbearance measures that led to a refinancing with derecognition of the original asset and the recognition of a new loan, or a restructuring of several debts with the recognition of a new loan in the financial statements.

Section 5 – Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by type of hedge and fair value hierarchy

	FV 31/12/2021			NV 31/12/2021	FV 31/12/2020			NV 31/12/2020
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	176,323	-	12,496,150	-	197,420	-	4,503,671
2. Cash flows	-	34,778	-	1,392,039	-	75,965	-	1,576,978
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	-	211,101	-	13,888,189	-	273,385	-	6,080,649

Key:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

Transaction/Type of hedge	Fair Value							Cash flow		Foreign investments
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge	
	debt securities and interest	equity securities and stock indices	currencies and gold	class	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	29,996	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	59,115	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	34,778	X
4) Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	89,111	-	-	-	-	-	-	-	34,778	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	87,212	X	-	-

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with customers' demand deposits.

Customers' demand deposits represent an important source of funding for the bank. A part of these deposits, however, although contractually on demand, displays strong persistence over time and imperfect elasticity to changes in market interest rates, represented by the so-called "viscosity effect".

This effect was estimated using an analysis model consisting of two components:

- the estimate of the relationship between the interest rates of demand items and market interest rates on the basis of an econometric model;
- the estimate of the persistence of volumes, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items.

Hedging derivatives of this type recorded a positive fair value of € 87.212 thousand.

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap option. By applying hedge accounting, it is possible to provide accounting evidence of the financial effects of the hedging strategies adopted. Hedging derivatives related to said strategy recorded a positive fair value of € 59.115 thousand.

There are macro cash flow hedges on floating-rate mortgages. Hedging derivatives of this type recorded a positive fair value of € 34.778 thousand.

There are micro fair value hedges on fixed-rate securities held in the HTCS portfolio. Derivatives of this type recorded a positive fair value of € 29.996 thousand.

Please refer to Section in Part E of the explanatory notes to the consolidated financial statements for a description of hedging methods.

Section 6 – Change in value of macro-hedged financial assets – Item 60

6.1 Change in value of hedged assets: breakdown by hedged portfolios

Change in value of hedged assets /group components	Total 31/12/2021	Total 31/12/2020
1. Positive fair value changes	83,003	130,215
1.1 of specific portfolios:	83,003	130,215
a) financial assets measured at amortised cost	83,003	130,215
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative fair value changes	234	-
2.1 of specific portfolios:	234	-
a) financial assets measured at amortised cost	234	-
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	83,237	130,215

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap options. By applying hedge accounting, it is possible to symmetrically represent, in accounting terms, both the mortgage loans and the hedging derivatives.

The Macro Fair Value Hedge method requires that the hedging relationship be formally documented by a hedging card and that the effectiveness of the hedge is verified through tests of effectiveness, both prospective and retrospective; the tests are performed periodically during the life of the operation. The hedge is considered effective if the ratio between the change in fair value of the hedged item with respect to the hedging instrument is within the range of 80% - 125%. The test of prospective and retrospective effectiveness of the hedge is carried out on a quarterly basis.

Hedge accounting cannot be maintained when the hedge becomes ineffective (outside of the range of 80%-125%).

Section 7 – Equity investments – Item 70

The book value of “Equity investments” amounts to € 48,6 million.

7.1 Equity investments: information on shareholdings

Company Name	Registered Office	Type of relationship	Shareholding Ratio		Voting Rights %
			Investing Company	%	
A. Jointly controlled companies					
1. Credemassicurazioni spa	Reggio Emilia	7	Credito Emiliano	50.00%	50.00%
B. Companies subject to significant influence					
1. Andxor S.r.l.	Cinisello Balsamo (MI)	8	Credemtel	40.00%	40.00%
2. Gruppo Santamaria spa	Catania	8	Avvera	10.00%	10.00%

Key

Type of relationship:

1 - majority of the voting rights in ordinary Shareholders' Meeting

2 - dominating influence in ordinary Shareholders' Meeting

3 - agreements with other shareholders

4 - other forms of control

5 - unitary management pursuant to Art. 26, paragraph 1 of Italian Legislative Decree 87/92

6 - unitary management pursuant to Art. 26, paragraph 2 of Italian Legislative Decree 87/92

7 - joint control

8 - associated company

7.2 Significant equity investments: book value, fair value and dividends earned

Company Name	Book value	Fair value	Dividends earned
A. Jointly controlled companies			
1. Credemassicurazioni spa	46,780		3,046
B. Companies subject to significant influence			
1. Andxor srl	1,305		88
2. Gruppo Santamaria spa	507		-
Total	48,592	-	3,134

The fair value column is blank because there are no listed companies classified as significant equity investments.

7.3 Significant equity investments: accounting information

Company Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest Margin	Net value adjustments to (recoveries on) property, plant and equipment and intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Profit (loss) for the year (1)	Other income after tax (2)	Total profitability (3) = (1) + (2)
1. Jointly controlled companies														
Credemassicurazioni	11,234	137,732	19,025	-	95,076	46,288	791	(719)	18,221	12,834		12,834	(1,330)	11,504
2. Companies subject to significant influence														
Andxor	616	344	20	272	78	1,403	(3)	(10)	519	365	-	365	-	365
Gruppo Santamaria	2,962	448	305	991%	166	2,718	-	(26)	692	689	-	689	-	689

The table shows the figures for the draft financial statements at 31 December 2021 approved by the Board of Directors and provided by the companies or, where not available, by the most recent statements of financial position relating to total equity investments and not to the percentage held by the Group.

Reconciliation of accounting information with the book value of equity investments

Company Name	Shareholders' equity (*)	Shareholding (%)	Owned shareholders' equity	Goodwill	Other items	Book value
A. Jointly controlled companies						
Credemassicurazioni	72,914	50.00%	36,456	10,324	-	46,780
Andxor	608	40.00%	243	1,062	-	1,305
Gruppo Santamaria	2,558	10.00%	256	251	-	507
Total	76,080	-	36,955	11,637	-	48,592

(*) shareholders' equity is the sum of "Financial assets", "Non-financial assets", net of "Financial liabilities", and of the "Financial liabilities" contained in table 7.3.

The changes relating to the equity investments segment encompass the profits and the losses of companies consolidated under the equity method, while value adjustments relate to the amortisation of the VIF of Credemassicurazioni.

7.5 Equity investments: annual changes

	Total 31/12/2021	Total 31/12/2020
A. Opening balance	45,690	39,169
B. Increases	7,453	7,564
B.1 Purchases	821	370
- of which business combinations	-	-
B.2 Recoveries	-	-
B.3 Revaluations	-	-
B.4 Other changes	6,632	7,194
C. Decreases	4,551	1,043
C.1 Sales	-	-
- of which business combinations	-	-
C.2 Adjustments	636	636
C.3 Write-downs	-	-
C.4 Other changes	3,915	407
D. Closing balance	48,592	45,690
E. Total revaluations	-	-
F. Total adjustments	-	-

The changes relating to the equity investments segment encompass the profits and the losses of companies consolidated under the equity method and the dividends distributed, while value adjustments relate to the amortisation of the VIF of Credemassicurazioni, while the purchase of € 821 thousand refers to Andxor.

The changes relating to the equity investments segment encompass the profits and the losses of companies consolidated under the equity method, while value adjustments relate to the amortisation of the VIF of Credemassicurazioni.

In the first quarter of 2021, continuing its strategy of investment in technology and innovation, Credemtel increased its stake in Blue Eye Srl, a company specialising in advanced workflow solutions and Rpa - Robotic Process Automation platforms to automate repetitive activities (recording invoices, reconciling payments, accounting checks in general, analysing emails, performing calculations, opening and moving files, extracting unstructured data). An additional 55% of the share capital was purchased, which, combined with the 20% already owned, brought the shareholding to 75%.

In December 2021, said equity investment was consolidated using the line-by-line method.

At the same time, and in accordance with IFRS 3, in the event of a business combination carried out in several phases, the shareholding previously owned in the acquired company was recalculated at the respective fair value on the acquisition date and, at the same time, the difference in the profit for the year was recognised, for a total of € 0.3 million.

In 2021, Credemtel also increased its shareholding in Andxor Srl, while continuing its investment strategy in technology and innovation, by exercising the call option on an additional 20% of the share capital.

The additional share capital that was acquired, combined with the 20% already owned, brought the shareholding to 40%.

7.6 Significant considerations and assumptions to determine the existence of joint control or significant influence

Credito Emiliano S.p.A. holds 50% of Credemassicurazioni S.p.A., whose remaining share capital (50%) is instead held by Reale Mutua Assicurazioni.

In this context:

- Credito Emiliano does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it is does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholder is always necessary;
- Credito Emiliano has the power to veto the decisions of the other shareholder, meaning that without the favourable vote of Credito Emiliano, the other shareholder holding the remaining 50% of the share capital cannot influence the company.

With regard to Credemassicurazioni, Credito Emiliano's position is therefore that:

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

The agreements in place between the shareholders with 50% of share capital respectively envisage:

- the right to exercise call and put options on their respective shares when shares are sold or purchased, restricted to specific time limits (every five years);
- the right established in a specific shareholder agreement to obtain company representatives (half of the directors and, upon renewal of the Board of Directors, alternatively, either the Chairman of the Board of Directors and Statutory Auditors or the Chairman of the Board of Statutory Auditors). Since within Credemassicurazioni, there are no director votes which prevail over those of other directors (for example, the vote of the Chairman of the Board of Directors does not prevail), the appointment of corporate representatives does not give either shareholder any predominance over company decisions;
- the obligation not to transfer the shares to third parties for the duration of the shareholder agreement.

In this context, the rights of Credito Emiliano are limited by the net assets of Credemassicurazioni.

Credito Emiliano S.p.A. holds 100% of Credemtel S.p.A., which in turn holds 40% of ANDXOR SOLUZIONI INFORMATICHE S.R.L. “ANDXOR”.

In this context, for ANDXOR:

- Credemtel does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;
- With regard to specific topics, Credemtel has the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Credemtel, also the other shareholders in possession of the remaining 60% of the share capital cannot influence the company.

With regard to ANDXOR, Credemtel’s position is therefore that:

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

The agreements in place between the shareholders of ANDXOR envisage the following with regard to Credemtel:

- the right contemplated in a specific shareholders’ agreement to appoint company representatives (a board director and the sole statutory auditor). Since within ANDXOR, there are no director votes which prevail over those of other directors, the appointment of company representatives does not give either shareholder any predominance over company decisions;
- joint-sale rights in favour of Credemtel if a share of at least 50% of ANDXOR’s share capital is transferred by a deed inter vivos, for the entire duration of the shareholders’ agreement currently in force.

Credito Emiliano S.p.A. holds 100% of Avvera S.p.A., which in turn holds 10% of Gruppo Santamaria S.p.A. “GSM”. The share capital of GSM is held by Avvera through special “B Shares”, which in addition to the rights attributed by Law to ordinary shares, also have the following rights:

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

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

In this context, for GSM:

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

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

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

7.7 Covenants on investments in jointly controlled companies

Credito Emiliano has signed contractual agreements with Reale Mutua di Assicurazioni to better regulate their partnership in Credemassicurazioni.

In this context, the clauses of the share sale/purchase agreements signed at the time by Credito Emiliano and Reale Mutua di Assicurazioni expressly envisage a put option for Reale Mutua di Assicurazioni and a call option for Credito Emiliano S.p.A. regarding the 50% equity investment held by Reale Mutua in the share capital of Credemassicurazioni. Both options can be exercised at the end of every five-year period from the purchase of the equity investment in Credemassicurazioni by Reale Mutua.

Ten years after the signing of the first collaboration agreement, Credito Emiliano and Reale Mutua di Assicurazioni renewed their equal partnership in the company in question. The renewal of the agreement will allow the Group to develop the range of non-life business products and to increase the level of service offered to its customers, thanks to the support of a leading player specialising in the protection sector.

The parties have signed a shareholder agreement, whose clauses establish:

- A prohibition to transfer the shares and the option rights to third parties, other than subsidiaries, for the entire duration of the shareholder agreement currently in force;
- The right of each party to appoint company representatives of its own choosing (half of the directors and, upon renewal of the Board of Directors, alternatively, either the Chairman of the Board of Directors and the Statutory Auditors or the Chairman of the Board of Statutory Auditors);
- The need for a qualified quorum for resolutions of the members of the Board of Directors regarding specific areas (such as, for example, the appointment of the General Manager, the Claims Manager, the Commercial Director, the auditing function, the approval of extraordinary financial transactions, distribution agreements etc.).

7.8 Covenants on investments in companies under significant influence

Credemtel has signed contractual agreements with the shareholders of ANDXOR to better regulate their partnership in SATA.

The parties have signed a shareholder agreement, whose clauses establish:

- Credemtel's right to appoint company representatives of its own choosing (a director and the sole auditor);
- joint-sale rights in favour of Credemtel if a share of at least 50% of SATA's share capital is transferred by a deed inter vivos, for the entire duration of the shareholders' agreement currently in force;
- the need for a qualified quorum for resolutions of the members of the Board of Directors concerning particular issues (such as amendments to the memorandum of association, amendment of the corporate purpose, taking out loans in excess of € 150,000, purchase and sale of real estate rights, issuance of debt securities, distribution of reserves).

Avvera has signed contractual agreements with the shareholders of the Santamaria Group to better regulate their partnership in GSM.

In this context, the investment contract signed by the parties has expressly agreed that Avvera has: (i) a first call option on up to 20% of the share capital of GSM; (ii) a second call option on the entire residual amount of share capital of GSM; (iii) a put opinion on the entire investment in the share capital of GSM held by Avvera. The first call option was exercisable from the date of approval of the financial statements for 2020 until 31 December 2021, but it was not used; the second call

option may be exercised from the date of approval of the financial statements for 2021 until 31 December 2022, as well as in the period between the date of approval of the financial statements relating to FY 2022 and 31 December 2023; the put option may be exercised from the date of approval of the financial statements relating to FY 2022 until 31 December 2023 and, in the event of the termination for whatever reason of the agency agreement between Avvera and GSM, within 6 months from the first of the following dates: (i) date of exercise of withdrawal from the agency agreement; (ii) date of receipt of the notification with which Avvera or GSM state their intention to invoke the express termination clause set forth in the agency agreement pursuant to Art. 1465 of the Italian Civil Code; (iii) expiry of the term to fulfil the agency contract issued by Avvera or GSM pursuant to art. 1454 of the Italian Civil Code;

The investment contract also envisages:

- a 5-year Lock-Up period during which the shareholders of GSM may not transfer their equity investments in GSM to parties other than Avvera for whatever reason;
- the need for a qualified quorum for resolutions of the members of the Board of Directors regarding specific issues (such as entering into lease agreements, the approval of or changes to the business plan and/or Budget, making investments and assuming financial debt or the granting of loans exceeding certain thresholds in terms of amount).

7.10 Other information

Credemassicurazioni, Andxor and Gruppo Santamaria, equity investments whose book value is higher than the pertinent share of shareholders' equity, underwent impairment testing, which indicated a recovery value higher than the book value. It was therefore determined that the negative difference between the book value and the pertinent share of shareholders' equity of said equity investments is not due to impairment, and therefore, the book values were not adjusted.

With regard to Credemassicurazioni, the negative difference relates to the share of goodwill of € 10.3 million, while as regards Andxor and Gruppo Santamaria, the negative difference relates to the share of goodwill of € 1,062 thousand and € 251 thousand, respectively.

Section 8 – Reinsurance technical reserves – Item 80

8.1 Reinsurance technical reserves: breakdown

	Total 31/12/2021	Total 31/12/2020
A. Non-life business	-	-
A1. provision for premiums reserves	-	-
A2. provision for claims reserves	-	-
A3. other reserves	-	-
B. Life business	17,489	17,298
B1. mathematical reserves	16,788	16,889
B2. provision for reserves for amounts to be disbursed	701	409
B3. other reserves	-	-
C. Technical reserves when investments risk is borne by the insured party	-	-
C1. reserves for contracts with disbursements connected to investment funds and market indices	-	-
C2. provision for pension funds	-	-
D. Total Reinsurance technical reserves	17,489	17,298

Section 9 – Property, plant and equipment – Item 90

9.1 Property, plant and equipment used in the business: breakdown of assets measured at cost

Asset/Amounts	Total 31/12/2021	Total 31/12/2020
1. Assets owned	324,514	302,163
a) land	136,737	133,928
b) buildings	125,519	111,156
c) furniture and furnishings	10,997	10,409
d) electronic equipment	17,031	15,555
e) other	34,230	31,115
2. Rights of use acquired through leases	130,100	136,444
a) land	-	-
b) buildings	127,032	132,936
c) furniture and furnishings	-	-
d) electronic equipment	-	-
e) other	3,068	3,508
Total	454,614	438,607
of which: obtained by enforcing guarantees received	-	-

Property, plant and equipment are measured at cost, net of depreciation and of any accumulated impairment.

Pursuant to IFRS 16, property, plant and equipment also includes the Right of Use of leased assets.

9.2 Property, plant and equipment held for investment purposes: breakdown of assets measured at cost

Asset/Amounts	Total 31/12/2021				Total 31/12/2020			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	5,618	-	-	10,058	3,614	-	-	4,360
a) land	2,618	-	-	2,965	2,591	-	-	2,558
b) buildings	3,000	-	-	7,093	1,023	-	-	1,802
2. Rights of use acquired through leases	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	5,618	-	-	10,058	3,614	-	-	4,360
of which: obtained by enforcing guarantees received	-	-	-	-	-	-	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Property, plant and equipment are measured at cost. The fair value of property, plant and equipment held for investment purposes amounts to € 10,1 million.

The fair value indicates the estimated amount at which an asset or a liability should be sold or purchased, at the valuation date, by a seller or a buyer without any particular relationship, both interested in the sale or purchase, at competitive conditions, after an adequate period of marketing, during which the parties both acted in an informed, aware manner without any coercion. (RICS Red Book VS 3.2, Italian edition, March 2012).

9.6 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic equipment	Other	Total
A. Gross opening balance	133,928	304,797	76,924	57,090	160,628	733,367
A.1 Total net decreases	-	193,641	66,515	41,525	129,513	431,194
A.2 Net opening balance	133,928	111,156	10,409	15,565	31,115	302,173
B. Increases:	6,366	25,835	2,789	5,286	9,824	50,100
B.1 Purchases	6,329	24,378	2,507	5,273	8,642	47,129
- of which business combinations	6,329	18,562	177	419	-	25,487
B.2 Capitalised expenditure on improvements	-	286	-	-	-	286
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from properties held for investment	-	-	X	X	X	-
B.7 Other changes	37	1,171	282	13	1,182	2,685
C. Decreases:	3,557	11,472	2,201	3,820	6,709	27,759
C.1 Sales	59	2,013	4	13	11	2,100
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	9,354	1,896	3,807	5,568	20,625
C.3 Impairment losses recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	3,825	7,729	13	-	-	11,567
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and groups of assets held for sale and	3,825	7,729	13	-	-	11,567
C.7 Other changes	(327)	(7,624)	288	-	1,130	6,533
D. Net closing balance	136,737	125,519	10,997	17,031	34,230	324,514
D.1 Total net decreases	-	197,491	71,480	43,593	144,598	457,162
D.2 Gross closing balance	136,737	323,010	82,477	60,624	178,828	781,676
E. Carried at cost	-	-	-	-	-	-

Item B1 "Purchases - of which business combination transactions" include the values of tangible assets resulting from the merger of Cassa di Risparmio di Cento".

9.6 bis Property, plant and equipment used in the business (rights of use acquired through leases): annual changes

	Land	Buildings	Furniture and furnishings	Electronic equipment	Other	Total
A. Gross opening balance	-	175,136	-	-	5,885	181,021
A.1 Total net decreases	-	42,200	-	-	2,377	44,577
A.2 Net opening balance	-	132,936	-	-	3,508	136,444
B. Increases:	-	33,500	-	-	2,228	35,728
B.1 Purchases	-	29,263	-	-	1,056	30,319
- of which business combinations	-	9,974	-	-	256	10,230
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from properties held for investment	-	-	X	X	X	-
B.7 Other changes	-	4,237	-	-	1,172	5,409
C. Decreases:	-	39,404	-	-	2,668	42,072
C.1 Sales	-	3,848	-	-	122	3,970
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	21,369	-	-	1,792	23,161
C.3 Impairment losses recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value recognised in	-	89	-	-	-	89
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	89	-	-	-	89
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and groups of assets held for sale and	-	-	-	-	-	-
C.7 Other changes	-	14,098	-	-	754	14,852
D. Net closing balance	-	127,032	-	-	3,068	130,100
D.1 Total net decreases	-	58,862	-	-	3,663	62,525
D.2 Gross closing balance	-	185,894	-	-	6,731	192,625
E. Carried at cost	-	-	-	-	-	-

The table of changes in rights of use acquired through leases is also provided as said assets are considered relevant.

9.7 Property, plant and equipment held for investment purposes: annual changes

	Total	
	Land	Buildings
A. Opening balance	2,591	1,023
B. Increases	605	2,246
B.1 Purchases	597	2,235
- of which business combinations	597	2,235
B.2 Capitalised expenditure on improvements	-	-
B.3 Increases in fair value	-	-
B.4 Recoveries	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from properties used in the business	-	-
B.7 Other changes	8	11
C. Decreases	578	269
C.1 Sales	149	59
- of which business combinations	-	-
C.2 Depreciation	-	172
C.3 Reduction in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to:	-	-
a) properties used in the business	330	-
b) non-current assets and groups of assets held for sale and discontinued operations	-	-
C.7 Other changes	99	38
D. Closing balance	2,618	3,000
E. Measured at fair value	2,965	7,093

Item B1 "Purchases - of which business combination transactions" include the values of tangible assets resulting from the merger of Cassa di Risparmio di Cento".

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type

Asset/Amounts	Total 31/12/2021		Total 31/12/2020	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	291,343	X	289,786
A.1.1 attributable to the Group	X	291,343	X	289,786
A.1.2 attributable to minorities	X	-	X	-
A.2 Other intangible assets	173,753	-	154,819	-
of which Software	154,770	-	145,564	-
A.2.1 Assets measured at cost:	173,753	-	154,819	-
a) intangible assets generated internally	20,105	-	19,889	-
b) other assets	153,648	-	134,930	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	173,753	291,343	154,819	289,786

The item “Other assets” mainly comprises software and the “Customer Relationship” relating to the acquisitions of the business branches and the merger of Cassa di Risparmio di Cento.

As part of the PPA relating to the acquisition of Cassa di Risparmio di Cento, an intangible asset with a defined useful life related to *Customer Relationship* was identified and valued, with the support of a leading consulting firm. In particular, three different categories of products attributable to Assets Under Management (“AuM”) and a category of Assets under Administration (“AuA”) have been identified. The AuM products of Cassa di Risparmio di Cento include relationships with banking customers as regards (i) the brokerage of asset management products, or portfolio management, (ii) mutual funds and SICAVs, as well as (iii) pension and insurance products. The AuA products, on the other hand, include customer relationships regarding administration and custody relationships without management delegations to the intermediary.

The estimate of the *fair value* of the aforementioned *Customer Relationship* categories was based on the net economic flows expected over a defined time horizon discounted at the cost of equity. The net economic flows of intangible assets have been identified on the basis of volumes and taking into account net margins, operating costs, capital absorption related to the operating risk associated with the intangible and taxation.

In estimating the net economic flows, account was also taken of the notional cost associated with the use of some assets, such as assets and labour, which contribute to obtain the so-called “Contributory Asset Charges”. The net economic flows have been discounted at the cost of equity, which is equal to the rate of return on equity required by shareholders for investments with similar risk characteristics. This rate was estimated using the CAPM (Capital Asset Pricing Model) method.

With regard to the residual life of the *Customer Relationship*, the decline curve (“decalage rate”) was estimated for each category, taking into account the market effect.

Based on the above, an intangible with a finite useful life, represented by *Customer Relationship*, was recognised, as a balancing entry for an increase

in *negative goodwill*, for a total of €11.7 million, gross of the related tax effect.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	289,786	56,602	-	501,248	-	847,636
A.1 Total net decreases	-	36,713	-	366,318	-	403,031
A.2 Net opening balance	289,786	19,889	-	134,930	-	444,605
B. Increases	1,557	6,615	-	65,110	-	73,282
B.1 Purchases	1,397	6,333	-	63,024	-	70,754
- of which business combinations	-	-	-	12,082	-	12,082
B.2 Increases of internally generated intangible assets	X	148	-	-	-	148
B.3 Recoveries	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	160	134	-	2,086	-	2,380
C. Decreases	-	6,399	-	46,392	-	52,791
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Adjustments	-	6,399	-	42,902	-	49,301
- Amortisation	X	6,399	-	42,902	-	49,301
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Reduction in fair value:	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	3,490	-	3,490
D. Net closing balance	291,343	20,105	-	153,648	-	465,096
D.1 Total net value adjustments	-	43,151	-	411,268	-	450,527
E. Gross closing balance	291,343	63,256	-	564,916	-	915,623
F. Valuation at cost	-	-	-	-	-	-

Key

DEF: finite life

INDEF: indefinite life

Item B1 "Purchases - of which business combination transactions" include the values of tangible assets resulting from the merger of Cassa di Risparmio di Cento".

The line-by-line consolidation of the company Blue Eye has involved recording additional goodwill for € 1.4 million, in addition to the previously recorded goodwill of € 0.2 million, which had been recognised under then item "Equity investments" as the company was consolidated according to the equity method.

Sub-item “F – Valuation at cost” has been left blank, insofar as, according to Banca d'Italia Instructions, it must be completed only for intangible assets measured at fair value in the financial statements.

The increases in intangible assets mainly refer to new applications developments.

Details of consolidated goodwill are provided with reference to the year of acquisition or merger of the related entity:

Groups branches/banks	Year of merger or acquisition	
Deutsche Bank branches	1998	2,695
B.C.C. Curinga	1998	917
B.C.C. San Giovanni Gemini	1998	452
Banca dei Comuni Nolani	1998	2,361
Banca della Provincia di Napoli	1998	58
B.C.C. Alto Crotonese	1999	161
B.C.C. Fortore Miscano	1999	1,377
Banca Popolare Andriese	2000	17,669
Banca di Latina	2003	3,028
Citibank International PLC branches	2008	36,307
Banco Popolare branches	2008	119,926
Unicredit branches	2008	94,433
TOTAL BANKS INCORPORATED		279,384
Euromobiliare A.M. Sgr (division sold by Credem International Lux)	2000	2,166
TOTAL BANK GOODWILL		281,550
So.em.ro (incorporated by MGT)	1998	294
Netium	2001	9
Credemvita	2008	4,092
C.S. Inform (incorporated by Credemtel)	2010	1,350
Topkey (incorporated by Credemtel)	2014	835
SATA	2020	1,656
Blue Eye	2021	1,557
TOTAL GOODWILL		291,343

Goodwill relating to Banco Popolare and Unicredit Group branches

For the final allocation of goodwill relating to the branches acquired in 2008, please refer to the 2009 financial statements.

Impairment testing on goodwill

Definition of CGU

IAS 36 establishes that, also with a view to testing for impairment, the goodwill acquired in business combinations must be allocated to relatively autonomous organisational units in terms of management that benefit from the synergies resulting from the acquisition. These organisational units, called cash-generating units (“CGUs”), must have the following features:

- represent the lowest level within the entity at which the goodwill is monitored for internal management purposes;
- not be larger than an Operating Segment determined in accordance with IFRS 8.

Within Credem Group, the following CGUs have benefited and will continue to benefit from synergies resulting from the combination processes carried out over time:

- Commercial Banking;

- Insurance.

The reporting system used by Management is consistent with these CGUs (see Section L - Segment Reporting) and, furthermore, the cash flows generated by the same are in line with the nature of the client and the type of products and services provided. These CGUs represent therefore the smallest group of assets that generate independent cash inflows and the minimum level at which goodwill can be allocated according to not arbitrary criteria. It is at this level that the dynamics of the value of goodwill come into play and are controlled in Credem Group management.

Definition of the book value of CGUs

In the case of banking and insurance companies and in general, of companies operating in the financial sector, financial assets and liabilities, in principle excluded from the scope of application of IAS 36, represent an integral part of the core business. In order to identify the cash flows of the CGUs, also the cash flows associated with financial assets and liabilities must be considered.

On this basis, the impairment testing of CGUs operating in the financial area can only be performed according to the so-called “equity side” approach. Accordingly, the book value of the CGUs must also be calculated in the same way.

More specifically, the book value of the CGUs was established as follows:

- For Insurance CGUs, wholly comprised of the legal entities Credemvita and Credemassicurazioni, the book value was calculated analytically, on the basis of the contribution of each company to the consolidated shareholders’ equity.
- For the Commercial Banking CGU, the analytical approach used for the Insurance CGU cannot be applied, insofar as the CGU in question contributes to the management of the Credem banking sector and that of other companies within the scope of consolidation. Therefore, with reference to said CGU, the relative book value was calculated:
 1. by analytically allocating the relevant goodwill;
 2. by allocating the “residual” consolidated shareholders’ equity in proportion to the regulatory capital required for the operations of the CGU. The use of this indicator is justified by the consideration that, with regard to financial sector, the risk factors and relative absorption of regulatory capital affect the generation of future cash flows, and therefore the determination of the recoverable value that must be coherent with the book value.

A summary schedule of the book values of the CGUs and the relative values of goodwill recorded in the balance sheet is shown below (in €/million):

	Commercial Banking CGU	Insurance CGU
Book value of the CGU	2,420.0	456.1
Goodwill allocated	288.6	14.4

The goodwill shown above refers to the consolidated financial statements; the share of said goodwill recorded in the separate financial statements amounts to € 240 million, and relates entirely to the Commercial Banking CGU, as indicated in Section 9 of the explanatory notes to the financial statements at 31 December 2021.

Goodwill allocated also includes goodwill relating to Credemassicurazioni, corresponding to € 10.3 million, to Andxor, amounting to € 1.1 million and to Gruppo Santamaria, amounting to € 0.3 million included in the item equity investments.

Establishing the recoverable value of CGUs

IAS 36 requires that, at least once a year, the amount of the goodwill recorded in the financial statements is subject to impairment testing.

The impairment testing is performed by comparing the book value of the CGUs to which it is allocated with the recoverable value of the same. If the latter value is lower than the book value, a value adjustment must be recognised.

The recoverable value of a CGU is the higher of its fair value less costs to sell and its value in use.

The standard adds that when performing impairment testing, the value in use and the fair value do not both have to be calculated, it is sufficient that at least one of the two exceeds the book value to confirm the absence of an impairment loss. For the purpose of identifying the recoverable value of each CGU the value in use has been identified.

Commercial Banking CGU

For the Commercial Banking CGU, the value in use was calculated using the Dividend Discount Model (DDM).

This method establishes the value on the basis of the potentially distributable expected dividend flows. In the case in question, the method used was the “Excess Capital” version of the DDM, commonly adopted in valuations in the banking industry, on the basis of which, the economic value is equal to the sum of the following elements:

- present value of future cash flows generated over an established specifically planned time horizon and distributable to shareholders, while maintaining a level of capitalisation in line with the instructions dictated by the Supervisory Authority and compatible with the nature and expected growth of the business;
- present value of a perpetual income calculated on the basis of a dividend sustainable for the years subsequent to the explicit planning period, coherent with the levels of capitalisation required by the Supervisory Authority.

Although the Dividend Discount Model contains the word dividend, the cash flows considered by the model are not the dividends that are expected to be distributed to shareholders, but the cash flows that a shareholder could potentially benefit from within the limits of the capital amounts required for the company’s operations.

The cash flows for the application of the valuation method were taken from the Credem Group’s Preliminary 2021 results and 2022 Budget, approved by the Parent Company’s Board of Directors on 17 December 2021 and from forecasts drawn up solely for impairment testing on goodwill, relating to 2023-2025.

The level of capitalisation, for the purpose of calculating the flows of dividends that can be potentially distributed, was assumed to be 9.25% for Tier 1 and 11.5% for Total Tier as indicated in the ECB letter of 2 February 2022 (which in turn confirmed the contents of the SREP decision of 18 November 2020).

The discounting rate of the flows was estimated on the basis of the “Capital Asset Pricing Model”, which estimates the cost of capital as the sum of the return on risk-free investments and a risk premium correlated to the specific level of risk of the business. More specifically, the cost of capital was established to be 5,33%, on the basis of the following parameters:

- Risk-free rate: 0.82% corresponding to the simple average of the gross yield of 10-year BTPs issued in the past 6 months;
- Beta coefficient: 0.819 corresponding to the Credem coefficient (Beta 5Y Adjusted 31.12.2016/31.12.2021, measured weekly);
- Market risk premium: 5.50%, in line with valuation practice for the Italian market and with the common application in the banking sector; “country risk” has been removed from this figure, insofar as implicitly included in the above-mentioned rate of return of risk-free assets.

The terminal value, at the end of the explicit planning period, was established on the basis of a long-term sustainable growth rate, assumed to be 1.6%, in line with long-term growth forecasts for the economy and with valuation practice (Prometeia, September and December 2021 Forecast Report, Italian Inflation to 2024).

The following table summarises the valuations made. In particular, the table compares the book value of the CGU with the respective value in use obtained (in €/million):

	Commercial Banking CGU
Value in use of the CGU	4,142
Book value of the CGU	2,420
Delta	1,722

The model to determine value in use also underwent a sensitivity analysis in order to understand the change in the results obtained if the valuation parameters adopted change. From the analyses conducted, no evidence of impairment to the reference value of the CGU in question has emerged, up to consideration of a discounting rate of 9.10%.

Lastly, note that, jointly considering a long-term growth rate of zero (fall of 160 bps) and a discounting rate of 8.87%, no value adjustments would be made to the CGU.

Insurance CGU

For the Insurance CGU, the value in use was calculated specifically considering the “Non-Life” and the “Life” businesses, also by means of the support of an outside consultant.

Insurance CGU – Non-Life business

For the “Non-Life” business, to estimate the value in use, the “Excess Capital” version of the Dividend Discount Model (DDM) was used, as described in the above paragraph, on the basis of the following basic elements.

The flows for the application of the valuation method extend over a time period of three years (2022-2024) and are based on the 2022 Budget approved by the Board of Directors on 13 December 2021, and on forecasts for 2023 and 2024 prepared by Credemassicurazioni’s technical unit.

The minimum level of capitalisation, for the purpose of calculating the flow of potentially distributable dividends, was established in line with instructions of the Supervisory Authority and in line with valuation practice in the reference sector.

The cost of capital, estimated on the basis of the “Capital Asset Pricing Model” was established to be 4.83%, on the basis of the following parameters:

1. Risk-free rate: 0.82%, corresponding to the average return recorded over the past 6 months by BTPs with a residual maturity of ten years;
2. Beta coefficient: 0.73, corresponding to the average coefficient of listed Italian insurance companies;
3. Market risk premium: 5.50%, in line with valuation practice for the Italian market and with the common application in the insurance sector; “country risk” has been removed from this figure, insofar as implicitly included in the above-mentioned rate of return of risk-free assets.

The terminal value has been determined as equal to the value of the last explicit planning period.

Insurance CGU – Life business

The value in use of “Life” business was estimated using the Appraisal Value approach, by summing the Business in-Force to the Shareholders’ Equity, according to IFRS accounting standards, where the former is calculated by discounting the future technical margins resulting from the existing portfolio, and the New Business Value, resulting from the portfolio of future forecast production.

The flows to determine the value resulting from the Business in-Force were estimated using a method based on Traditional Embedded Value, considering the composition of the policyholder portfolio and the technical characteristics of the product portfolio.

Future cash flows were calculated on the basis of historic data and performances relating to the existing portfolio, the economic figures resulting from the 2022 budget approved by the Board of Directors of the company on 10 December 2021, the provisional 2023 and 2024 budgets prepared by the management of Credemvita and those which can be associated with the portfolio of future estimable production.

The discounting rate was established to be 6.32%, on the basis of the following parameters:

- Risk-free rate: 0.82%, corresponding to the average return recorded over the past 6 months by BTPs with a residual maturity of ten years;
- Market risk premium: 5.5%, in line with valuation practice for the Italian market and with the common application in the insurance sector; “country risk” has been removed from this figure, insofar as implicitly included in the above-mentioned rate of return of risk-free assets.

The table below shows a summary of the valuations performed for the Insurance CGU (in €/million):

	Non-Life business	Life business	Total Insurance CGU
Value in use of the CGU	262.0	429.3	691.3
Book value of the CGU	93.6	362.5	456.1
Delta	168.4	66.8	235.2

The model to determine value in use also underwent a sensitivity analysis in order to understand the change in the results obtained if the valuation parameters adopted change.

From the analyses conducted, no evidence of impairment to the reference value of the CGU in question has emerged, considering:

- for the Non-Life business, discounting rate “Ke” (+/-50 bps);
- for Life business:
- Business In-Force, discounting rate “Ke” (+/-50 bps); surrenders (+/-50 bps), expenses (+/-50 bps) and growth rate “g” (+/-50 bps);
- New Business, discounting rate “Ke” (+/-50 bps), growth rate “g” (+/-50 bps) and New Business Margin APE (+/-100 bps).

From an additional overall stress test perspective, note that, even jointly considering:

- for the Non-Life business, a discounting rate of 5.83% (increase of around 100 bps) and an increase of the Solvency Capital Requirement of 10% (increase of around 1000 bps);
- for the Life business, a discounting rate of 8.74% (increase of around 242 bps), the proportion of mathematical reserves represented by operating costs increased by 50 bps, the redemption rate increased by 50 bps, the growth rate “g” decreased by 50 bps and a lower New Business Margin by 100 bps;

no value adjustments would be made to the Insurance CGU.

Note on market valuations

In the last six months of 2021, Credem shares were traded at an average price of € 5.84 per share, corresponding to a multiple of the book value of the Bank’s shareholders’ equity at 31 December 2021 of around 0.58x.

Analyst reports indicate an average target price for the Credem share of € 7.15 per share, corresponding to a multiple of the book value of the Bank’s shareholders’ equity at 31 December 2021 of around 0.71x.

Looking at the price of Credem shares in January 2022 (closing price at 31 January of € 6.09), a stock market capitalisation corresponding to a multiple of the book value of the shareholders’ equity at 31 December 2021 of around 0.60x emerged.

Test of overall reasonableness

As already indicated in the paragraphs above, the Commercial Banking CGU and the Insurance CGU (Bancassurance) have been identified and have undergone

impairment testing. Furthermore, on a residual basis, a further two CGUs have been identified, called “Finance” and “Other”, which comprise all of the cost and income components, as well as the equity components, which are not included in the other two CGUs. No goodwill has been recorded in the accounts for the “Finance” and “Other” CGUs.

To complete the analyses illustrated above and in consideration of the fact that the impairment test on the value of goodwill of the Commercial Banking CGU was carried out on the basis of forecasts that envisage the partial allocation of corporate assets and/or corporate costs, a “test of overall reasonableness” was also carried out, which envisages a comparison between the book value and the recoverable value of the Credem Banking Group.

The “Excess Capital” version of the DDM valuation method was used for this test and we used the same cost of capital, long-term growth rate and capital requirements requested by the Supervisory Authority as those used for the Commercial Banking CGU test.

The cash flows for the application of the valuation method were taken from the Credem Group’s Preliminary 2021 results and 2022 Budget, approved by the Parent Company’s Board of Directors on 17 December 2021 and from forecasts drawn up solely for impairment testing on goodwill, relating to 2023-2025.

The comparison of the overall book value of the banking group with its recoverable value did not indicate any impairment.

Also in this case, sensitivity analyses were conducted on changes in the values of the main parameters in order to establish the conditions under which the recoverable value of goodwill at Group level would equal its book value.

A test of overall reasonableness was conducted of the Credem Group as a whole. Given the fact that the banking business and the insurance business differ in terms of characteristics and risk profile, to carry out this test, the method of the “sum of the parts” was applied. In the light of the above-described results regarding the test of overall reasonableness made of the banking group and the impairment test conducted on the Insurance CGU, it can be concluded that no evidence of impairment emerged.

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

Current tax assets and liabilities include the net amount (payable or receivable) of IRAP, net of tax credits and advances, and the additional IRES introduced by Italian Law Decree no. 133/2013, Art. 2, paragraph 2. Following the adoption of the tax consolidation, the payable/receivable for IRES, with respect to Credemholding, was accounted for under “Other liabilities” and “Other assets”.

The risks resulting from the Group’s tax disputes are covered by adequate allocations to provisions for risks and charges.

As regards the Parent Company, there are 26 disputes pending, mostly related to local taxes as well as minor income taxes, while the rest regard direct and registration taxes. With regard to these disputes, no effective risks have emerged or at least the estimated risk appears remote. Therefore, no specific provisions have been made.

Credemleasing is involved in 35 disputes, of which 30 relate to minor tax issues (ICI, IMU, TA.RI., car taxes), the remainder related to VAT, IRPEG, IRAP. Given the uncertain outcomes of three of the pending proceedings, the company adhered to the facilitated settlement of disputes, pursuant to Article 6 of Decree-Law 119/2018. For two of these disputes, a decree dismissing the case was filed in 2021; for the others, orders of dismissal are expected within the year.

For Banca Euromobiliare, in relation to the only pending litigation concerning registration tax on the sale of a business unit, in December 2021 the CTRMI, ruling at the time of re-employment, ruled in favour of the company. The terms are pending for any appeal filed by the Agency with the Court of Cassation

Lastly, there are minor disputes related to the operations carried out by financial advisors, labour-related disputes, as well as real estate and administrative litigations. For the purposes of direct taxes, the tax periods closed at 31/12/2015 have been defined, due to the expiry of the terms set out in Article 43 of Presidential Decree no. 600 of 29 September 1973.

Recognition and measurement of deferred tax assets

Deferred tax assets (DTAs) are recorded under assets in the balance sheet, and mainly originate from temporary differences between the date of recognition of costs in the income statement and the date on which said costs can be deducted. These assets recognised in the financial statements refer to temporary differences that can be recovered over a fairly long time period. Deferred tax assets are written down to the extent by which the same are considered not to be recoverable in terms of future income and the consequent expected taxable income, also taking tax legislation into account, which permits their transformation into tax credit under certain conditions. The valuation process is based on expected future income.

Deferred tax assets are recorded in the financial statements to the extent that reasonable certainty of their recovery exists, measured using the “Probability test” envisaged by IAS 12 on the basis of the capacity of the bank and the Group companies, due to the exercise of the “tax consolidation” option, to generate constant, positive taxable income, in future years, taking into account tax legislation in force.

The amount of the deferred taxes recorded in the financial statements is subject to testing each year, so as to check whether reasonable probability exists or otherwise that the company concerned generates taxable income in the future such as to permit the reabsorption of the deferred taxes recorded in previous tax periods.

With reference to the recognition or otherwise of deferred tax assets and their maintenance in the financial statements, it is worth mentioning several important changes to tax legislation introduced in 2011 which, by envisaging the transformation of deferred tax assets into tax credits under certain conditions, have introduced a way to recover deferred tax assets so as to ensure their re-absorption regardless of the ability to generate income.

The provisions of Article 2, paragraphs 55 to 58, of Decree-Law No. 225/2010, so-called 2010 Milleproroghe Decree, introduced the regulation for the transformation

of deferred tax assets into tax credit in the event of a loss recorded in the statutory financial statements. This regulation covers deferred tax assets recognised in the financial statements relating both to write-downs of loans not yet deducted pursuant to Art. 106, paragraph 3 of the TUIR (Comprehensive Regulation on Income Taxes), and the value of goodwill and other property, plant and equipment pursuant to Art. 103 of the TUIR, the negative components of which may be deducted in subsequent tax periods. Subsequently, Italian Law no. 214 of 22 December 2011, hereinafter 214/2011, with the conversion of the provisions contained in the Italian Decree Law 201/2011, made some important changes to the regulation for the transformation of deferred tax assets by extending the objective scope of application to the recording of a tax loss for IRES purposes.

The changes introduced by Italian Law 147/2013 have extended the transformation of the deferred IRAP tax assets allocated both for shares of value adjustments on loans, and for shares of goodwill amortisation and that of other property, plant and equipment deferred to subsequent years in the event that a statutory loss is recorded or a net negative value of production for IRAP purposes is recorded.

Therefore, in the event of a statutory loss or a tax loss or a net negative value of production for IRAP purposes, the deferred IRES/IRAP tax assets referring to value adjustments on loans not yet deducted from taxable income and the deferred tax assets relating to the value of goodwill and of other intangible assets, whose negative components may be deducted over a number of tax periods, are transformed into tax credits according to the provisions of Italian Law 214 of 22 December 2011 (unlimited offsetting with any type of tax, including withholding tax and contributions).

It is also important to note that Art. 11 of Italian Decree Law no. 59 of 3 May 2016, converted with amendments into Italian Law no. 119 of 30 June 2016, establishes that entities that wish to apply the provisions for the transformation of deferred tax assets into tax credits - set forth in Art. 2, paragraphs 55 to 57 of Italian Decree Law no. 225 of 29 December 2010 - may opt to maintain the application of said provisions by paying a fee.

The purpose of this option is to enable companies that have eligible DTAs as at 31 December 2015 to maintain the right to transform them into tax credits, if in the future circumstances such as statutory or tax losses or liquidation arise, as envisaged in Art. 2, paragraphs 55 to 56-ter of Italian Decree Law no. 225 of 2010. In addition to this, the system of deductibility for IRES and IRAP purposes of write-downs of loans and of losses on loans with regard to customers, banks and financial institutions and insurance companies was amended by Art. 16 of Italian Decree Law no. 83 of 27 June 2015, introducing, instead of an annual deductibility at the rate of one fifth each year, full deductibility, as from 2016, of these negative income components in the financial year in which they are recognised in the financial statements, whereas the write-downs related to the 2015 financial year were deductible by 75% in the pertaining year, and the remaining 25% will be deductible, together with the stock of write-downs and losses yet to be deducted at 31 December 2014, in ten years, with different deduction percentages.

Italian Law no. 145 of 30 December 2018, known as the 2019 Budget Law, postponed the deductible percentage envisaged in 2018 to 2026.

The same law postponed the deductible percentage envisaged in 2019 to four annual amounts from 2022 to 2025.

Budget Law no. 160 of 27 December 2019, known as the 2020 Budget Law, established the postponement from 2019 and until 2029 of the deduction according to different percentages of the share of amortisation relating to goodwill and that of other intangible assets, which gave rise to the recognition of deferred tax assets that had not yet been deducted in 2017, and in particular the values relating to goodwill and other intangible assets recognised in the consolidated financial statements and related to higher book values of controlling equity investments acquired and recorded in the financial statements due to extraordinary transactions.

The same law also envisaged, in paragraphs 1067-1068, that the income components resulting from the adoption of the model to include an allowance to cover expected credit losses set forth in paragraph 5.5 of IFRS 9, and recognised in the financial statements on first-time adoption of said accounting standard, are deductible from the taxable income for IRES and IRAP purposes to the extent of 10% of their amount in the tax period of first-time adoption, while the remaining 90% on a straight-line basis over the following nine tax years.

The same law postponed the deductible percentage envisaged in 2019 to five annual amounts from 2025 to 2029 and postponed the deductible percentage envisaged in 2019 to 2028.

Article 110 of Decree-Law No. 104 of 14 August 2020 (the so-called "August" decree) reintroduced, within the context of the provisions providing for the revaluation (even only for statutory purposes) of business assets in the 2020 financial statements, the possibility for companies that prepare their financial statements in accordance with IAS/IFRS to realign the differences between tax and book values relating to tangible and intangible assets (excluding commodities) and fixed equity investments.

A 3% substitute tax on IRES and IRAP is levied on the higher realigned values, to be paid in a maximum of three annual instalments within the deadline for the payment of the balance of the income taxes; it is also necessary to "restrict" an equity reserve (under a tax suspension regime) for an amount equal to the realigned differences net of the substitute tax.

The values related to "business assets and equity investments" resulting from the financial statements of the year ending 31 December 2019 and identified (as already occurred for similar previous regimes) according to the provisions related to the revaluation/ realignment regime of Law No. 342/2000, can be realigned. In this sense, divergences arising ordinarily created from the use of the fair value criterion in the valuation of assets (e.g. for real estate) or those arising from extraordinary tax-neutral transactions may be realigned.

The Group has aligned the tax values to the higher statutory values of the business assets recognised in the financial statements as at 31 December 2020, for an amount of approximately €96 million, and already present in the financial statements as at 31 December 2019 and the realignment has concerned the wholly-owned properties, the so-called land/sky properties, which were measured at fair value on the first-time adoption of IAS in order to allow the separation of the value of the land from the value of the buildings. The external appraisal was divided between the value of the land and the value of the buildings above. For tax purposes, these higher balance sheet values could not be taken into account and the depreciation plan was continued on the basis of the rates already recognised for tax purposes in the past.

As a result of this realignment, the 3% substitute tax, amounting to € 2.8 million, was accounted for in the 2020 financial year and the related deferred taxes allocated as a result of the revaluation carried out on the first-time adoption of IFRS, were reversed. The net positive effect on the 2020 income statement was € 22.8 million. In addition, the 2021 Budget Law, Article 1, paragraph 83, Law 178/2020 extended this possibility also to the goodwill resulting from the current financial statements as at 31 December 2020 with the payment of a substitute tax of 3% that allows to also recognize for tax purposes the higher statutory values recorded in the financial statements compared to lower tax values. The financial statements also include goodwill, which never had tax relevance, referring to the mergers carried out in the previous years for € 23.5 million. As a result of this realignment, the substitute tax of 3%, amounting to € 0.8 million, was accounted for in 2020, and the related deferred tax assets were recognized, in accordance with application no. 1 of February 2009 of the Italian Accounting Body. The positive net effect for the 2020 income statement was € 4.5 million.

The 2022 Budget Law (Law 234 of 30/12/2021) has established, pursuant to Art. 1 paragraph 622, that the tax deduction of the revalued values for intangible assets (which are amortised over 18 years, in accordance with Article 103 of the TUIR),

must take place, starting from 2021, in 50 years, thus ending in 2070. Therefore, the deferred tax assets recognised as regards the value of the realigned goodwill will be reabsorbed within the time span of 50 years, compared to the 18 years initially set out.

In 2021, the tax impacts took into account the merger by incorporation of Cassa Risparmio di Cento S.p.A. The extraordinary transaction is recognised in the financial statements at 31 December 2021 according to the so-called "acquisition method", provided for by IFRS 3, regarding the accounting representation of business combinations. In particular, the "acquisition method" requires that, in the event of a merger by incorporation, the transaction must be reflected in the financial statements, through a "purchase price allocation" ("PPA") process based on the fair value of the assets and liabilities of the incorporated company. This method of accounting can lead to differences between the book value determined following the merger and the book value of the same items shown in the last financial statements of the merged company.

In this specific case, in the financial statements at 31/12/2021, the differences have contributed to determining: i) the recognition of negative goodwill (so-called "badwill", which is not recognised for tax purposes, pursuant to Art.172 of the Consolidated Income Tax Act, amounting to €97 million, which was recognised in the income statement as revenue and determined by the negative difference between the lower fair value of the "consideration" and the higher fair value of the assets and liabilities acquired as a result of the merger; ii) the recognition of additional accounting items (relevant for tax purposes) relating to write-downs and revaluations of NPL loans, time deposits and real estate funds, for a total net amount of €23 million; iii) the absorption of DTAs relating to prior tax losses, for a total amount of €36 million.

Changes introduced by Legislative Decree 17 of 1 March 2022 (Energy Decree)

On 1 March 2022, Decree-Law no. 17 was published. Article 42 of said Decree governs the deferral, on a straight-line basis, to the tax period in progress at 31 December 2022 and to the three subsequent tax periods of the deduction of 12% of the amount of negative components provided for, for the purposes of corporate income tax and regional tax on production activities, respectively, by paragraphs 4 and 9 of Article 16 of Decree-Law no. 83 of 27 June 2015, converted with amendments by Law no. 132 of 6 August 2015.

Pursuant to paragraphs 46 and 47 of IAS 12, in relation to the financial statements at 31 December 2021, the provision in question is configured as a "non-adjusting event", and the resulting accounting effects are not recognised in the balances at that date.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Total
Value adjustments to loans to customers	70,527	9,044	79,571
Write-down of financial instruments	20,318	4,466	24,784
Entertainment expenses and goodwill	10,018	2,029	12,047
Unsecured loans, bankruptcy petitions, and legal proceedings underway	4,774	-	4,774
Provisions for personnel expenses	23,050	4,491	27,541
Other	78,505	1,682	80,187
Total	207,192	21,712	228,904

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Total
Gains on financial instruments	35,076	8,475	43,551
Provisions performed exclusively for tax purposes	54,917	11,123	66,040
Other residual	15,203	2,276	17,479
Total	105,196	21,874	127,070

11.3 Changes in deferred tax assets (with offsetting entry in profit and loss)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	192,663	201,685
2. Increases	76,234	34,154
2.1 Deferred tax assets arising during the year	32,529	34,154
a) relating to previous years	3	-
b) due to change in accounting principles	-	-
c) write-backs	-	-
d) other	32,526	34,154
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	43,705	-
3. Decreases	53,475	43,176
3.1 Deferred tax assets derecognised during the year	53,475	43,176
a) reversals	53,475	43,176
b) write-downs of non-recoverable items	-	-
c) changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	-	-
a) changes into tax credits pursuant to Italian Law no. 214/2011	-	-
b) other	-	-
4. Closing balance	215,422	192,663

Item 2. Increases, 2.3 “Other increases” also includes the entry of deferred tax assets relating to the merger of the Cassa di Risparmio di Cento.

In determining the tax effects at the time of the PPA, account was taken, as required by IAS 12, of the current and presumably prospective situation with respect to taxable income.

At the time of the combination, Cassa di Risparmio di Cento had not recognised the deferred tax assets attributable to the tax losses of 2021 and previous years; therefore, given Credem's tax capabilities, deferred tax assets on tax losses that can be carried forward indefinitely were recognised for an amount of approximately €7.4 million, in addition to the recognition of net deferred tax assets not recognised in the financial statements for a total of €0.6 million; deferred tax assets on tax losses that can be carried forward indefinitely were fully utilised in the 2021 financial statements.

11.3 bis Deferred tax assets: changes under Italian Law no. 214/2011

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	75,963	87,425
2. Increases	20,033	-
3. Decreases	13,604	11,462
3.1 Reversals	13,604	11,462
3.2 Changes into tax credits	-	-
a) arising from loss for the year	-	-
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	82,392	75,963

For reasons of transparency, the changes in the deferred tax assets set forth in Italian Law no. 214/2011 are provided; these originate mainly from write-downs of loans, pursuant to Art. 106, paragraph 3 of Italian Presidential Decree no. 917/86 (€ 77.6 million) and from tax relief on goodwill (€ 4.8 million).

Item 2, "Increases" includes the entry of prepaid taxes relating to the merger of Cassa di Risparmio di Cento.

11.4 Changes in deferred tax liabilities (with offsetting entry in profit and loss)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	92,772	120,749
2. Increases	10,277	5,057
2.1 Deferred tax liabilities for the year	5,673	5,057
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) other	5,673	5,057
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	4,604	-
3. Decreases	1,086	33,034
3.1 Deferred tax liabilities derecognised during the year	1,086	33,034
a) reversals	1,086	33,034
b) due to change in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	101,963	92,772

Item 2. Increases, 2.3 “Other increases”, includes the posting of deferred taxes relating to the merger of Cassa di Risparmio di Cento.

11.5 Changes in deferred tax assets (with offsetting entry in shareholders' equity)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	12,884	18,358
2. Increases	2,133	665
2.1 Deferred tax assets arising during the year	1,886	665
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) other	1,886	665
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	247	-
3. Decreases	1,535	6,139
3.1 Deferred tax assets derecognised during the year	266	6,139
a) reversals	266	6,139
b) write-downs of non-recoverable items	-	-
c) changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	1,269	-
4. Closing balance	13,482	12,884

Item 2. Increases, 2.3 "Other increases", includes the entry of prepaid taxes relating to the merger of Cassa di Risparmio di Cento.

11.7 Changes in deferred tax liabilities (with offsetting entry in shareholders' equity)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	41,778	25,686
2. Increases	338	16,260
2.1 Deferred tax liabilities for the year	10	16,260
a) relating to previous years	1	-
b) due to change in accounting principles	-	-
c) other	9	16,260
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	328	-
3. Decreases	17,009	168
3.1 Deferred tax liabilities derecognised during the year	17,009	168
a) reversals	17,009	168
b) due to change in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	25,107	41,778

Item 2. Increases, 2.3 "Other increases", includes the posting of deferred taxes relating to the merger of Cassa di Risparmio di Cento.

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

12.1 Non-current assets and groups of assets held for sale and discontinued operations: breakdown by type

	Total 31/12/2021	Total 31/12/2020
A. Assets Held for Sale		
A.1 Financial assets	1,915	-
A.2 Equity investments	-	-
A.3 Property, plant and equipment	3,839	-
of which: obtained by enforcing guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Non current - Other	53	-
Total (A)	5,807	-
of which valued at cost	5,807	-
of which designated at fair value level 1	-	-
of which designated at fair value level 2	-	-
of which designated at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit and loss	-	-
- financial assets held for trading	-	-
- financial assets measured at fair value	-	-
- other financial assets measured at fair value, as per mandatory requirements	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3. Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Tangible assets	-	-
of which: obtained by enforcing guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total (B)	-	-
of which valued at cost	-	-
of which designated at fair value level 1	-	-
of which designated at fair value level 2	-	-
of which designated at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	96	-
Total (C)	96	-
of which valued at cost	96	-
of which designated at fair value level 1	-	-
of which designated at fair value level 2	-	-
of which designated at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities measured at fair value	-	-
D.4 Reserves	49	-
D.5 Other liabilities	17	-
Total (D)	76	-
of which valued at cost	76	-
of which designated at fair value level 1	-	-
of which designated at fair value level 2	-	-
of which designated at fair value level 3	-	-

The aforementioned item shows the book value of REEVAL and Gestimlux. For the recognition criteria of the assets and liabilities indicated above, please refer to the accounting policies reported in these Explanatory Notes.

The decision to proceed with the sale of Gestimlux, in relation to which a binding offer was accepted by a foreign real estate fund, is linked to the "non-strategic nature" of the asset. Gestimlux was created, in fact, for the management of the Group's real estate properties resulting from the decision, in 2019, to cease banking in the Grand Duchy. Following this reorganization, the presence of the Group in Luxembourg saw a significant downsizing given that market conditions made it

unattractive to dispose of buildings no longer in use. Due to the recovery of the real estate market in Italy, it was therefore decided to sell these properties through the direct disposal of the real estate company that owns them."

Reeval is a Reoco recovered from the merger of Cassa di Risparmio di Cento into Credito Emiliano: this company, which has no employees and which already within the original Banking Group had always shown limited operations, without offering a positive contribution to the income statement, was considered not functional to Credem Group operations. In this sense, it was deemed more appropriate, also due to the simplicity of the company itself (full control, no employees, no investments), to liquidate it.

Section 13 – Other assets – Item 130

13.1 Other assets: breakdown

	31/12/2021	31/12/2020
Negotiated cheques to be settled	73,618	67,837
Securities transactions being processed	99,359	9,666
Cheques being processed	1,959	2,888
Transactions relating to payment services being processed	207,213	44,705
Transactions relating to payment services accruing	254,570	48,910
Accrued income	4,494	46,702
Prepayments	29,182	28,909
Unpaid and protested cheques and bills drawn on the company and on third parties	2,866	3,049
Expenses for improvements to third-party assets	21,104	19,558
Security deposits	71	28
Sundry debtors for invoices issued	32,377	47,247
Sundry debtors	334,656	253,277
Items in transit between branches	13,189	7,144
Total	1,074,658	579,920

Transactions relating to payment services being processed/accruing regard debits received but not yet debited from customer accounts.

There are no impairment losses (IFRS 9) on loans relating to contracts with customers and contract assets.

The “Prepayments” item includes also costs incurred to obtain contracts through financial advisers, relating to future years, corresponding to € 19,8 million. The changes in the item are as follows:

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	18,512	21,485
2. Increases	12,548	8,113
2.1 Other increases	12,548	8,113
3. Decreases	11,249	11,086
3.1 amortisation	11,249	11,086
4. Closing balance	19,811	18,512

The following table contains the details of “Sundry debtors”:

	Total 31/12/2021	Total 31/12/2020
Tax receivables	241,227	149,081
Non-credit related disputes	3,306	4,897
Other sundry debtors	56,804	65,225
Advances to suppliers	33,319	34,074
Total	334,656	253,277

The item “tax receivables” also includes tax assets relating to withholding agent activities.

Following the power exercised by the insurance company Credemvita – belonging to the financial conglomerate of a predominantly banking nature – to postpone the first-time adoption of IFRS 9 (Deferral Approach) until 2023, the following new Balance Sheet - Assets items have been added to the consolidated financial statements as required by the update of Banca d'Italia Circular no. 262:

- Balance Sheet – Assets: “Item 35. Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39”, which includes financial assets held for trading, financial assets measured at fair value, financial assets available for sale, and any derivatives with a positive fair value, as defined in accordance with IAS 39;
- Balance Sheet – Assets: “Item 45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39”, which includes financial assets held to maturity, loans to banks, and loans to customers, as defined in accordance with IAS 39.

The details are provided below.

Item 35 of assets - Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39

Financial assets held for trading

Financial assets held for trading: breakdown

Items/Balances	31/12/2021			31/12/2020		
	L1	L2	L3	L1	L2	L3
A. Balance sheet assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3 Units of UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	-	-	-	-	-	-
B. Derivatives						
1. Financial derivatives:	1,191	-	-	695	-	-
1.1 trading	1,191	-	-	695	-	-
1.2 related to fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	1,191	-	-	695	-	-
Total (A+B)	1,191	-	-	695	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets held for trading: breakdown by debtor/issuer

Items/Balances	31/12/2021	31/12/2020
A. Balance sheet assets		
1. Debt securities	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Units of UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	-	-
B. Derivatives		
a) Banks	1,191	695
- Fair value	1,191	695
b) Customers	-	-
- Fair value	-	-
Total B	1,191	695
Total (A+B)	1,191	695

Financial assets measured at fair value

Financial assets measured at fair value: breakdown

Items/Balances	Total			Total		
	L1	L2	L3	L1	L2	L3
1. Debt securities	240,979	1,036	-	235,050	105	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	240,979	1,036	-	235,050	105	-
2. Equity securities	161,585	-	-	144,919	-	-
3. Units of UCITS (including Private Equity funds)	3,937,952	24,561	-	3,281,499	-	-
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	4,340,516	25,597	-	3,661,468	105	-
Cost	3,868,695	21,892	-	3,330,725	100	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2021	Total 31/12/2020
Bonds	1,578,625	1,449,895
Equity	1,358,747	995,303
Monetary	220,090	201,925
Balanced	94,908	68,074
Other	710,143	566,302
Total	3,962,513	3,281,499

Financial assets measured at fair value: breakdown by debtor/issuer

Items/Balances	31/12/2021	31/12/2020
1. Debt securities	242,015	235,155
a) Governments and Central Banks	210,041	194,040
b) Other public entities	-	-
c) Banks	18,999	28,317
d) Other issuers	12,975	12,798
2. Equity securities	161,585	144,919
a) Banks	15,254	12,553
b) Other issuers:	146,331	132,366
- insurance companies	7,154	7,213
- financial companies	4,493	4,051
- non-financial companies	128,354	116,414
- other	6,330	4,688
3. Units of UCITS (including Private Equity funds)	3,962,513	3,281,499
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	4,366,113	3,661,573

The "Financial assets at fair value" portfolio includes government bond exposures to Italy of € 185.1 million, to the United States of € 11.8 million, to Germany of € 4.7 million, to Spain of € 1.9 million, to the United Kingdom of € 1.7 million, to France of € 1.3 million, to Belgium of € 1.2 million and to Ireland of € 1.1 million, to Portugal of € 0.9 million and to Austria of € 0.3 million.

Financial assets available for sale

Financial assets available for sale: breakdown

Items/Balances	31/12/2021			31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	2,013,269	5,669	-	2,396,060	-	6,068
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	2,013,269	5,669	-	2,396,060	-	6,068
2. Equity securities	-	-	-	-	-	-
2.1 Measured at fair value	-	-	-	-	-	-
2.2 Carried at cost	-	-	-	-	-	-
3. Units of UCITS (including Private Equity funds)	370,604	135,530	172,251	422,324	107,289	109,051
4. Loans	-	-	-	-	-	-
Total	2,383,873	141,199	172,251	2,818,384	107,289	115,119

Key:

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

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2021	Total 31/12/2020
Bonds	404,825	418,800
Equity	243,711	190,810
Monetary	29,849	29,054
Total	678,385	638,664

Financial assets available for sale: breakdown by debtor/issuer

Items/Balances	31/12/2021	31/12/2020
1. Debt securities	2,018,938	2,402,128
a) Governments and Central Banks	1,663,407	1,939,645
b) Other public entities	-	-
c) Banks	230,803	280,013
d) Other issuers	124,728	182,470
2. Equity securities	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Units of UCITS (including Private Equity funds)	678,385	638,664
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	2,697,323	3,040,792

The “Financial assets available for sale” portfolio includes government bond exposures to Italy of € 585.8 million, to Spain of € 374.5 million, to Belgium of € 330.6 million, to France of € 208.2 million, to Germany of € 91.0 million, to Portugal of € 34.3 million, to the Netherlands of € 30.1 million and to the United States of € 8.9 million.

Impairment testing of financial assets available for sale

Financial assets available for sale undergo impairment testing as per the requirements of IFRS.

The process of detecting possible impairment involves the verification of the presence of impairment indicators and the determination of any write-downs.

The criteria applied to identify impairment distinguish between debt securities, equity securities and mutual investment funds.

As regards the first, the objective evidence that a debt security has suffered impairment is provided in the list of loss events set forth in IAS 39.59, and includes, by way of example, but not limited to such:

- significant financial difficulty of the issuer;
- contractual default, such as failure to pay interest or principal;

- likelihood that the issuer is subject to insolvency or financial restructuring procedures - disappearance of an active market for the financial instrument due to financial difficulties of the issuer.

Furthermore, in the case of rated bonds, the deterioration of the issuer's creditworthiness is assessed. In this regard, a deterioration that results in debt securities falling to a rating class below "Investment grade" indicates the need to test for impairment. In other cases, a deterioration in creditworthiness should be evaluated together with the other factors available. The process of identifying situations of deterioration takes place through the "variable rating" trigger, and whether the same is above or below the "Investment grade" threshold (BBB- or equivalent). With regard to bonds, the availability of specialised sources (for example, investment advice provided by financial institutions, rating reports, etc.) or information available from information providers (i.e. Bloomberg, Reuters, etc.) is considered, which is used to accurately determine the significance of the issuer's impairment.

For equity securities classified as AFS, it is reasonable to assume that shares in the portfolio are to be recognised as impaired before the bonds issued by the same issuer company. Therefore, indicators for write-downs of debt securities issued by a company, or the write-down of said debt securities, are strong indicators of impairment of the company's equity securities.

Moreover, in order to establish whether there is evidence of impairment for an equity instrument, in addition to the existence of the events indicated by IAS 39.59 and the considerations set forth above, where applicable, the following two events should also be considered (IAS 39.61):

- significant changes with adverse effects with relation to technologies, markets, the economic or legal framework of the issuer, which indicate that the cost of the investment can no longer be recovered;
- a significant or prolonged decline in the fair value of the investment to below the level of its cost.

Steps are taken to recognise impairment if the fair value of the security is 35% lower than the book value upon initial recording; or the fair value is lower than the book value for a period of at least 18 months.

Regarding investments in equity instruments, the need to determine impairment also considers, if the above conditions are not fulfilled, the following situations, individually or jointly:

- the fair value of the investment is significantly lower than the purchase cost or, in any event, significantly lower than that of similar companies in the same sector;
- the company management is not considered to have suitable standing and is not considered capable of ensuring a recovery in prices;
- the credit rating has been reduced since the purchase date;
- a significant decline in profits, cash flow or the net financial position of the issuer since the purchase date;
- there is a reduction or interruption in the distribution of dividends;
- an active market for the bonds issued disappears;
- there are changes in the regulatory, economic and technological framework of the issuer, which have a negative impact on the issuer's income, equity and financial position;
- there is a negative outlook for the market, sector or geographical area in which the issuer operates.

With regard to Mutual Investment Funds, note that the quotas in mutual investment funds represent equity instruments, according to the provisions of paragraph AG27 of IAS 39 and the above-illustrated criteria relating to equity securities applies to these instruments where classified as AFS, and in particular, the criteria to identify the significant or prolonged impairment envisaged therein are taken into account. However, said indicator does not per se result in the recognition of impairment for mutual investment funds that invest purely in bonds, if the following requirements are met:

- the funds in question envisage the systematic distribution of the vouchers cashed, the capital repaid, the income made from the sale to the holder of the quotas or in any event, the systematic transfer to the holder of the cash flows of the underlying bonds whenever paid or realised. In this situation, the mutual investment funds can be assumed to represent a pass-through agreement;
- the look-through of the fund can only be made in said situation and information about the individual financial bond instruments constituting the fund's assets must be available, to permit the systematic analysis of the underlying instruments and the financial and solvency situation of the issuers. In these circumstances, the impairment test must also take into account the valuation criteria of the debt securities, with regard to each underlying bond investment.

**Item 45 of assets - Financial assets pertaining to insurance companies
measured at amortised cost pursuant to IAS 39**

Financial assets held to maturity

Financial assets held to maturity: breakdown

	Total 31/12/2021				Total 31/12/2020			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,687,092	1,742,113	59,769	-	1,224,875	1,357,925	62,084	-
- structured	-	-	-	-	-	-	-	-
- other	1,687,092	1,742,113	59,769	-	1,224,875	1,357,925	62,084	-
2. Loans	-	-	-	-	-	-	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets held to maturity: breakdown by debtor/issuer

Type of transaction/ Amounts	31/12/2021	31/12/2020
1. Debt securities	1,687,092	1,224,875
a) Governments and Central Banks	1,664,425	1,200,761
b) Other public entities	-	-
c) Banks	22,667	24,114
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	1,687,092	1,224,875
Total FV	1,801,883	1,420,009

The portfolio "Financial assets held to maturity" includes exposures of government bonds to Italy for € 1,413.9 million, to Portugal for € 89.7 million, to Spain for € 76.9 million, to Belgium for € 35.3 million, to Ireland for € 24.5 million and to France for € 24.1 million.

Loans to banks

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Type of transaction/Amounts	Total 31/12/2021				Total 31/12/2020			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	-	-	-	-	-	-	-	-
1. Time deposits including saving deposits with maturity	-				-			
2. Compulsory reserves	-				-			
3. Repos	-				-			
4) Other	-				-			
B. Loans to banks	-	-	-	-	17,467	-	-	17,467
1. Loans	-	-	-	-	17,467	-	-	17,467
1.1 Bank accounts and demand deposits	-				17,467			
1.2 Time deposits	-				-			
1.3 Other loans:	-				-			
- Reverse repurchase agreements	-				-			
- Finance leases	-				-			
- Other	-				-			
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-				-			
2.2 Other debt securities	-				-			
Total	-	-	-	-	17,467	-	-	17,467

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans to customers

Loans to customers: breakdown

Type of transaction/Amounts	Total						31/12/2021					
	Book value				Fair Value		Book value			Fair Value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	1,106	-	-	-	-	1,106	800	-	-	-	-	800
1. Bank accounts	-	-	-	-	-	-	-	-	-	-	-	-
2. Repos	-	-	-	-	-	-	-	-	-	-	-	-
3. Mortgages	-	-	-	-	-	-	-	-	-	-	-	-
4. Credit cards and personal loans, incl fifth-	-	-	-	-	-	-	-	-	-	-	-	-
5. Financial leasing	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other loans	1,106	-	-	-	-	-	800	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
8. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
9. Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,106	-	-	-	-	1,106	800	-	-	-	-	800

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2021			31/12/2020		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt securities	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	1,106	-	-	800	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other entities	1,106	-	-	800	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	300	-	-	249	-	-
- insurance companies	-	-	-	-	-	-
- other	806	-	-	551	-	-
Total	1,106	-	-	800	-	-

Liabilities

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

1.1 Financial liabilities measured at amortised cost: breakdown of deposits from banks

Type of transaction/Amounts	Total 31/12/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	8,164,752	X	X	X	7,100,000	X	X	X
2. Deposits from banks	4,420,824	X	X	X	909,508	X	X	X
2.1 Bank accounts and demand deposits	149,425	X	X	X	77,162	X	X	X
2.2 Deposits with a set term	4,010	X	X	X	6,085	X	X	X
2.3 Loans	4,265,960	X	X	X	826,028	X	X	X
2.3.1 Repos	4,242,802	X	X	X	798,656	X	X	X
2.3.2 Other	23,158	X	X	X	27,372	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other liabilities	1,429	X	X	X	233	X	X	X
Total	12,585,576	-	4,242,802	8,342,774	8,009,508	-	798,656	7,210,853

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Payables are recognised at their nominal value, corresponding to their fair value. Deposits from banks mainly consist of floating-rate, on-demand payables, for which no hedging has been implemented.

Item “1. Deposits from central banks” includes the refinancing operations carried out with the European Central Bank.

The use of the refinancing channel through the ECB at the end of 2021, was entirely represented by participation in TLTRO III operation, for a total amount of € 8.2 billion. During the first quarter of the year, an additional TLTRO III transaction was carried out in the amount of € 740 million, following the ECB's decision of December 2020 to increase the amount of financing that can be obtained by the banks. In July 2021, following the merger by incorporation with Cassa di Risparmio di Cento, the participation in the TLTRO III operations increased by € 450 million, equal to the amount of TLTRO III loans in place obtained by the merged bank.

1.2 Financial liabilities measured at amortised cost: breakdown of deposits from customers

Type of transaction/Amounts	Total 31/12/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Bank accounts and demand deposits	33,184,229	X	X	X	30,021,689	X	X	X
2. Deposits with a set term	460,685	X	X	X	302,585	X	X	X
3. Loans	3,599,164	X	X	X	2,337,017	X	X	X
3.1 Repos	3,009,080	X	X	X	2,126,842	X	X	X
3.2 Other	590,084	X	X	X	210,175	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	133,341	X	X	X	138,626	X	X	X
5. Other liabilities	339,503	X	X	X	281,794	X	X	X
Total	37,716,922	-	3,009,080	34,707,842	33,081,711	-	2,126,842	30,954,869

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Payables are recognised at their nominal value, which corresponds to their fair value; the fair value level assigned is 3, except for the fair value level of repurchase agreements to which a value of 2 is assigned.

Lease liabilities include, pursuant to the standard IFRS 16, the lease liability corresponding to the present value of payments envisaged and not yet paid for the assets covered by an operating lease contract.

The main change introduced by the standard is represented by a change in how operating lease transactions are recognised in the financial statements of the lessee/user, through the introduction of a single accounting model for the recognition of lease contracts by the lessee, regardless of whether they are classified as operating or finance leases.

Deposits from customers are mainly represented by floating rate on demand payables, for which no hedging has been implemented, while macro fair value hedges of the on demand items have been implemented, as described in Part E, Section 2.2 of these explanatory notes to the consolidated financial statements.

Note that, following changes made to the functioning of the collateralised interbank market, entailing the transfer of functions carried out to-date by Banca d'Italia to the Clearing House and Guarantee Fund and to Monte Titoli, item 3.1 "Repos" includes loans worth € 3,009.1 million received from said market.

As also noted at the industry level, in December 2021, the trend in total funding (deposits from resident customers and bonds) grew yoy, with a more marked change in deposits to the detriment of medium and long-term funding, through bonds, which has fallen over the last 12 months. A lot of liquidity was prudently withheld in current accounts, thanks to a reference scenario that limited the propensity to spend.

In this context, customers continued to show confidence in the group's ability to protect and enhance their savings, confirming a positive trend in deposits. The trend of direct deposits, in particular, is much higher than the average in Italian banks. Customer deposits continue to represent preferred overall funding channel, both through the contribution of ordinary retail customers and through corporate customers.

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued

Type of security/Amounts	Total				Total			
	31/12/2021				31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	2,424,021	2,470,565	-	-	2,500,412	2,065,269	497,139	-
1.1 structured	501,357	512,472	-	-	501,359	514,762	-	-
1.2 other	1,922,664	1,958,093	-	-	1,999,053	1,550,507	497,139	-
2. other securities	145	-	-	145	156	-	-	156
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	145	-	-	145	156	-	-	156
Total	2,424,166	2,470,565	-	145	2,500,568	2,065,269	497,139	156

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item "Other securities" includes certificates of deposit.

On 30 June 2021, as part of the Covered Bonds Programme, updated on 18 December 2020, Credem placed € 750 million of Covered Bonds, fully backed by the Group's residential mortgages. The Bonds issued have a term of 7 years and envisage an annual gross coupon of 0.01%, corresponding to a mid-swap rate for the same term plus a spread of 14 basis points. The dividend entitlement and settlement date was 7 July 2021. 54% of the issue was placed with Italian institutional investors while the remaining 46% with foreign investors, mainly in Germany and Austria, Nordic countries, Benelux and Asia.

On 24 June 2021, Credito Emiliano Spa received authorization to exercise the call option on the amount of 50 million Tier 2 Callable Notes, maturing on 21 October 2026, and issued in 2016 - (ISIN) XS1506498200. The call was authorised in view of the gradual reduction in the calculation of equity and the absence of prejudice to compliance with capital constraints on a consolidated basis.

There are cash flow hedges on the issue of floating-rate bonds.

1.4 Breakdown of subordinated debts/securities

The main contractual characteristics of subordinated liabilities:

- “CREDEM SPA 3.625% 10/7/2017-2027 SUBORDINATED” (ISIN XS1644438928) for € 100,000,000.00 consisting of 100,000.00 bonds with a nominal value of € 1,000 each.
The bonds give entitlement to fixed annual coupons corresponding to a gross annual rate of 3.625% until 10 July 2022 then at a gross annual rate of 5Y IRS +3.683%.
The loan expires on 10 July 2027 if the call option has not been exercised as at 10 July 2022, which will indicate early redemption.
At 31 December 2021, the residual quantity was € 100,000,000.00 consisting of 100,000 bonds with a nominal value of € 1,000 each.
The bond was placed with banks.
- "CREDITO EMILIANO 20/30 SUBORDINATO 3.5% SUB" (ISIN IT0005421539) for € 200,000,000.00 consisting of 2,000,000.00 bonds with a nominal value of € 100 each.
The bonds give entitlement to fixed annual coupons corresponding to a gross annual rate of 3.5% until 16 December 2025 then at a gross annual rate of 5Y IRS +3.897%.
The loan expires on 16 December 2030 if the call option has not been exercised as at 16 December 2025, which will indicate early redemption.
At 31 December 2021, the residual quantity was € 200,000,000.00 consisting of 2,000,000 bonds with a nominal value of € 100 each.
The bond was fully subscribed by Credemholding.

In the event of liquidation, all subordinated bonds will be redeemed only after accounts with all the other non-subordinated creditors have been settled.
The bonds are not covered by the guarantee of the Interbank Deposit Protection Fund.

1.5 Breakdown of structured debts

There were no structured debts to customers at the date of the financial statements, nor at 31 December 2020.

1.6 Lease liabilities

At 31 December 2021, lease liabilities under IFRS 16 amounted to € 134 million approximately. The outgoing cash flows for leasing with an analysis of maturities are attached.

Up to 1 month	5,700
Over 1 months and up to 3	347
Over 3 months to 1 year	15,449
Over 1 year to 5 years	63,961
Over 5 years	48,809
Total	134,266

Debt securities issued subject to micro-hedging

The Micro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with the issue of fixed-rate bonds for an amount of around € 950 million.

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	Total 31/12/2021					Total 31/12/2020				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	X	-	33,148	-	X	X	8	18,256	-	X
1.1 Trading	X	-	33,148	-	X	X	8	18,256	-	X
1.2 Related to fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Related to fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	-	33,148	-	X	X	8	18,256	-	X
Total (A+B)	X	-	33,148	-	X	X	8	18,256	-	X

Key:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated by excluding the variations in value due to the change in the creditworthiness of the issuer with respect to the issue date.

Item “A. Cash liabilities” includes technical overdrafts, if present.

2.2 Details of “Financial liabilities held for trading”: subordinated liabilities

2.3 Breakdown of “Financial liabilities held for trading”: structured debts

There were no subordinated liabilities or structured debts at the date of the Financial Statements, nor at 31 December 2020.

Section 4 – Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedging type and fair value hierarchy

	Fair value 31/12/2021			NV 31/12/2021	Fair value 31/12/2020			NV 31/12/2020
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	408,084	-	6,931,197	-	365,281	-	9,137,006
1) Fair value	-	408,084	-	6,931,197	-	365,281	-	9,137,006
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	408,084	-	6,931,197	-	365,281	-	9,137,006

Key:

NV= Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

Transaction/Type of hedge	Fair Value							Cash flow		Foreign investments
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge	
	debt securities and interest rates	equity securities and stock indices	currencies and gold	class	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	29,754	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	364,973	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4) Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	394,727	-	-	-	-	-	-	-	-	-
1. Financial liabilities	6,295	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	6,295	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	7,062	X	-	-

There are micro fair value hedges on fixed-rate securities held in the HTCS portfolio. Derivatives of this type have a negative fair value of € 29,754 thousand.

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap option. By applying hedge accounting, it is possible to provide accounting evidence of the financial effects of the hedging strategies adopted.

Hedging derivatives related to said strategy recorded a negative fair value of € 364,973 thousand.

There are micro fair value hedges on securities issued at a fixed-rate booked under “debt securities issued”.

Derivatives of this type have a negative fair value of € 6,295 thousand.

Please refer to the relevant Section in Part E of the Explanatory Notes to the consolidated financial statements for a description of hedging methods.

Section 5 – Changes in value of macro-hedged financial liabilities – Item 50

5.1 Changes in value of hedged financial liabilities

Change in value of hedged liabilities / Group components	Total 31/12/2021	Total 31/12/2020
1. Increase in financial liabilities	104,158	200,515
2. Decrease in financial liabilities	-	-
Total	104,158	200,515

The Macro Fair Value Hedge accounting method was also adopted to hedge interest rate risk associated with customers' demand deposits.

Customers' demand deposits represent an important source of funding for the Group. A part of these deposits, corresponding to around € 2.7 billion, although contractually demand, displays strong persistence over time and imperfect elasticity to changes in market interest rates, represented by the so-called "viscosity effect".

This effect was estimated using an analysis model consisting of two components:

- the estimate of the relationship between the interest rates of demand items and market interest rates on the basis of an econometric model;
- the estimate of the persistence of volumes, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items.

Section 6 –Tax liabilities Item 60–

See Section 10 under Assets.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	Total 31/12/2021	Total 31/12/2020
Tax payables	149,983	80,224
Currency spread on portfolio transactions	395,114	312,188
Amounts available to customers	13,150	8,666
Deferred income	6,687	5,979
Remuneration to be paid and related contributions	22,321	19,147
Accrued liabilities	4,127	4,149
Foreign items being processed	7,119	4,997
Suppliers	189,830	176,380
Items in transit between branches	8,235	5,081
Amounts to be credited to institutions	1,958	1,814
Securities items being processed	19,701	5,590
Other items	407,796	170,493
Amounts to be credited to banks	402,553	207,578
Total	1,628,574	1,002,286

The “Currency spread on portfolio transactions” relates to imbalances in the bank’s own portfolio and that of third parties.

Section 9 –Provision for staff termination indemnity– Item 90

9.1 Provision for staff termination indemnity: annual changes

	Total 31/12/2021	Total 31/12/2020
A. Opening balance	72,739	77,745
B. Increases	4,649	2,804
B.1 Provisions for the year	632	671
B.2 Other changes	4,017	2,133
- of which business combinations	2,305	-
C. Decreases	7,543	7,810
C.1 Severance payments	7,100	7,684
C.2 Other changes	443	126
- of which business combinations	-	-
D. Closing balance	69,845	72,739
Total	69,845	72,739

Item B1 "Purchases - of which business combination transactions" include the values of tangible assets resulting from the merger of Cassa di Risparmio di Cento".

As set forth in the provisions on the matter introduced by the Italian National Board of Actuaries jointly with the competent institutions – the Italian Accounting Committee (OIC), the Italian Association of Auditors (Assirevi) and the Associazione Bancaria Italiana (ABI) – for companies with more than 50 employees as at 31 December 2006, a calculation method was outlined, which can be broken down into the following stages:

- projection for each employee of the staff termination indemnity, until the random time of payment, already allocated as at 31 December 2006 and revalued on the valuation date;
- determination, for each employee, of the probable staff termination indemnity payments which will have to be made by the company in the event the employee leaves the company due to dismissal, resignation, inability, death or retirement, as well as due to requests for advances;
- discounting, at the valuation date, of each probable payment.

The above applies to the staff termination indemnity provisions accrued as at 1 January 2007 for employees who chose to keep their staff termination indemnity in the company and, as a result, assign it to the Treasury of INPS (National Social Security Institution), and, at the date of such decision in 2007, for employees who chose the supplementary pension.

Obviously, the staff termination indemnity provisions at said date were increased by the revaluation (net of substitute tax) and decreased by any advances and settlements paid.

For companies with fewer than 50 employees as at 31 December 2006, the actuarial valuation of staff termination indemnity is based on the “benefits earned” method using the Projected Unit Credit (PUC) criteria as set forth in paragraphs 64-66 of IAS 19.

Through this method, valuations are made which express the current average value of staff termination indemnities earned based on the employee’s period of service up to the time of the valuation is performed.

This calculation method can be broken down into the following phases:

- projection for each employee – by virtue of the valuation date – of the staff termination indemnity already allocated and of the future shares of staff termination indemnity which will be accrued up until the random time of payment, forecasting the employee’s remuneration;

- determination, for each employee, of the probable staff termination indemnity payments which will have to be made by the company in the event the employee leaves the company due to dismissal, resignation, inability, death or retirement, as well as due to requests for advances;
- discounting, at the valuation date, of each probable payment;
- recalculation, for each employee, of the assumed and discounted benefits, based on the seniority reached at the valuation date with relation to the total amount due at the random settlement date.

11.2 Other information

The actuarial model used for the valuation of staff termination indemnity is based on several demographic and economic assumptions.

For some of the assumptions used, where possible, explicit reference is made to the Group's direct experience. For others, sector best practice is taken into account.

The main assumptions of the model are set forth below.

Discount rate

The discount rate used to determine the current value of the obligation has been determined in accordance with paragraph 83 of IAS 19, with reference to the IBoxx Eurozone Corporate AA 7-10 index (in line with the duration of the mutual fund in question).

For the valuation at 31 December 2021, the yield with a duration comparable to the duration of the group of employees subject to valuation was chosen, which resulted in a constant annual rate of -0.44%.

Inflation

The annual rate of inflation used was 1.75%.

Annual rate of increase in staff termination indemnity

As envisaged by Art. 2120 of the Italian Civil Code, the staff termination indemnity is revalued every year at a rate corresponding to 75% of inflation plus one and a half percentage points, therefore the revaluation assumption for actuarial valuations is determined on the basis of the above-indicated rate.

Real annual salary growth rate

The rate applied was 1.00%.

Mortality

In order to estimate mortality within the group of employees subject to valuation, survival table RG48, used by the State General Accounting Department to estimate the pension charges of the Italian population, was adopted.

Inability

In order to estimate inability within the group of employees subject to valuation, an INPS table was used, differentiated by age and gender.

Requirements for retirement

Reaching the minimum requirements indicated by the Compulsory General Insurance (AGO).

Frequency of advances on staff termination indemnity

The annual frequency of access to this option was assumed to be 1.50%, based on a historical series of advances on staff termination indemnity requested by employees of the bank.

Frequency of early termination of employment (turnover)

In calculating the probability of termination of employment due to resignations or dismissals, terminations of 1.80% were hypothesised, based on a statistical analysis of historical Group figures.

Additional information

Accounting standard IAS 19, for defined benefit post-employment plans, requires a series of additional information, such as:

- a sensitivity analysis for each significant actuarial assumption at year end, showing the impact that there would have been following changes in the actuarial assumption that are reasonably possible at said date, in absolute terms;
- an indication of the contribution for the following year;
- an indication of the average financial term of the obligation for the defined benefit plans;
- the disbursements envisaged by the plan.

The following paragraphs contain this information, highlighting the new value of the staff termination indemnity using a turnover rate of a further 100 bps, a change of +/- 25 bps for the rate of inflation and +/- 25 bps for the discounting rate.

Sensitivity analysis of main valuation parameters of the staff termination indemnity

change in assumptions					
frequency of turnover		inflation rate		discount rate	
+ 100 bps	-100 bps	+25 bps	-25 bps	+25 bps	-25 bps
68,931	70,209	70,431	68,660	68,142	70,981

The average financial term is around 10.05 years, the service cost for 2021 amounts to 400 thousand and the disbursements estimated for the next five years amount to around € 25.1 million.

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items	Total 31/12/2021	Total 31/12/2020
1. Provisions for credit risk relating to commitments undertaken and financial guarantees given	8,044	7,219
3. Pensions and other post retirement benefit obligations	1,485	1,714
4. Other provisions for risks and charges	164,882	144,213
4.1 legal and tax disputes	21,274	21,416
4.2 personnel charges	94,874	79,333
4.3 other	48,734	43,464
Total	174,411	153,146

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and other guarantees given	Pension funds and other post- retirement benefit obligations	Other provisions for risks and charges	Total
A. Opening balance	7,219	1,714	144,213	153,146
B. Increases	2,763	10	88,267	91,040
B.1 Provision for the year	2,143	10	87,528	89,681
B.2 Changes due to the time value of money	-	-	2	2
B.3 Difference due to discount-rate changes	-	-	48	48
B.4 Other changes	620	-	689	1,309
- of which business combinations	620	-	339	959
C. Decreases	1,938	239	67,598	69,775
C.1 Use during the year	1,908	114	66,910	68,932
C.2 Differences due to discount-rate changes	-	-	54	54
C.3 Other changes	30	125	634	789
- of which business combinations	-	-	-	-
D. Closing balance	8,044	1,485	164,882	174,411

Item B4 "Other changes – of which business combinations" shows the values of tangible assets deriving from the merger of Cassa di Risparmio di Cento ".

10.3 Provisions for credit risk relating to commitments undertaken and financial guarantees

	Provisions for credit risk relating to commitments undertaken and financial guarantees given				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
Commitments to disburse funds	3,063	564	-	-	3,627
Financial guarantees given	672	510	3,030	205	4,417
Total	3,735	1,074	3,030	205	8,044

10.5 Defined-benefit company pension funds

An internal fund of Credem and Credemleasing is managed to provide pension benefits in addition to those provided by the National Social Security Institution. It is a "Defined-Benefit Plan" whose amounts are subject to the same equalisation as INPS (National Social Security Institution) pensions, as well as registration with the Central Pensions Register.

Actuarial valuation is carried out for this item.

The beneficiaries of said plans are those who:

- were heirs of people that passed away during their period of employment with Credem and Credemleasing (replaced by the current National Insurance Fund since 1 January 1996);
- were former employees of Banca Popolare Dauna, who had already retired or who had resigned before 30 November 1999. Banca Popolare Dauna became part of Credem on 11 December 1999, following a merger by incorporation.

For the actuarial valuations of the Fund as at 31 December 2020, taking into account the guidelines for drafting of the technical reports by social security institutions, the demographic and economic-financial assumptions described in the following two paragraphs were adopted.

During the year, the fund recorded a net decrease of € 16 thousand.

Demographic assumptions

The following probabilities were used:

- for the probability of death of retired personnel, table IPS55 was used, according to gender;
- for the probability of death of personnel who retired due to total, permanent invalidity, that used in the INPS model for the 2010 forecast, according to gender;
- for the probability of surviving dependants, that published in the INPS model for the updated 2010 forecast, according to gender.

Economic-financial assumptions

The assumptions in question regard the discounting rate, the inflation rates and annual revaluation rates of Fund and INPS pensions.

The revaluation rate used was an average variation from the inflation rate of 75% taken from a high number of cases similar to that in question, and in relation to the increases set forth by regulations in force from 2009 (100% of the ISTAT inflation rate for yearly pensions totalling less than 5 times the minimum and 75% of the rate for yearly pensions falling within the previous amount and 8 times the minimum); note that the Fund pension is supplementary to that of INPS only for some retirees. As regards the discounting rate, in accordance with IAS, a rate has been adopted that is in line with the likely average life of the group of people in question.

Table of economic-financial bases

Variables	% values
Inflation rates	1.75%
Annual discount rate	0.98%

Additional information

Accounting standard IAS 19, for defined benefit post-employment plans, requires a sensitivity analysis of the main actuarial assumption.

The following paragraphs contain this information, highlighting the new value of the staff termination indemnity using a change of +/- 25 bps for the inflation rate and +/- 25 bps for the discounting rate.

The average financial term is around 11,0 years.

Sensitivity analysis of main valuation parameters

change in assumptions

inflation rate		discount rate	
+ 0.25 bps	- 0.25 bps	+ 0.25 bps	- 0.25 bps
1,515	1,455	1,447	1,524

10.6 Provisions for risks and charges: other provisions

	Total 31/12/2021	Total 31/12/2020
For guarantees and commitments:	8,044	7,218
For other risk and charges:	164,882	144,214
- for legal and sundry disputes pending	48,474	47,962
- for other financial charges	116,408	96,252
Total	172,926	151,432

As part of its normal business operations, the Group is involved in various judicial proceedings, which may result in compensation and/or restitution obligations, and the consequent outlay of economic resources (so-called legal risk). All outstanding disputes have been duly analysed by the Bank and, in the light of these analyses, as well as of the recommendations of its external attorneys, the appropriate allocations have been made, where necessary, on the basis of the circumstances in question.

More specifically, a provision for risks and charges has been established to cover the contingent liabilities that may arise from pending lawsuits.

The majority of these disputes regard the Group's core businesses, particularly investment services, anatocism and taxes.

Disputes regarding real estate, administration and over the counter transactions are of minor significance.

The following paragraphs provide a description of the main categories of potential liabilities, for which, if they are deemed to be probable, allocations have been made to other provisions for risks and charges.

Estimates of allocations were made analytically for the individual positions in cases where the counterparty had already taken legal action and on the basis of potential risk estimated according to a series of historical-statistical data in the case of objective risks (complaints) that have not yet become lawsuits. The impact of discounting was calculated using the Euribor rate.

Following the trend in interest rates, which have now become negative for maturities of up to 4 years, the impacts for the sensitivity analysis on provisions for risks and charges, using a change of +/- 25 bps for the discounting rate, are in fact insignificant.

Total other provisions for risks and charges amount to € 164.9 million.

The following paragraphs provide a description of the main categories of potential liabilities, for which, if the same are retained to be probable, allocations have been made to provisions to cover other various risks and charges.

Labour disputes: the risks relating to labour disputes are assessed quarterly on the basis of the progress of the disputes and therefore the provisions are adjusted accordingly.

Bankruptcy revocations: these are disputes that the Bank may be involved in as part of its ongoing business activities when customers undergoing Bankruptcy arrange payments in favour of the Bank, issue remittances on a current bank account at a time close to the declaration of Bankruptcy. Revocatory action is a tool that can be used by the bankruptcy receiver in order to reconstitute the equity of the bankrupt party addressed to paying its creditors, by retracting amounts that had been paid out in the period prior to the bankruptcy (the so-called suspect period). The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documental/factual evidence. Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question. All relative lawsuits are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Misappropriation: this regards disputes the Bank may be involved in as part of its ongoing business activities. There are some claims and legal disputes resulting from irregular conduct by employees or financial advisors when carrying out the assignments entrusted to them or in their work, which have led to claims by customers against the Bank, which may be retained liable for said conduct. The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documental/factual evidence. Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question.

Disputes regarding anatocism: the overall number of pending lawsuits has remained stable, in the light, above all, of issues triggered by rulings (as well as by the development of sector-related legislation). All relative lawsuits - at times also including disputes regarding exceeding the Usury Threshold Rate - are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Disputes regarding investment services: with regard to legal disputes regarding investment services - bonds in default, derivatives, etc. - the policy adopted by the Bank in this regard is that of assessing each position on a case-by-case basis, paying particular attention to documentary evidence and to the adequacy profile of the investments disputed with respect to the position of the individual counterparty. Following said analysis, where considered necessary, allocations are therefore made in line with the specific circumstances.

Customer complaints: Appropriate provisions are made for customer complaints: specifically, if the damages claimed are higher than a set threshold of significance (equal, to date, to € 25 thousand), the loss provision is made analytically. If, on the other hand, the damages claimed are lower than said threshold, the provision is determined by applying a flat/statistical percentage based on the average of the

losses actually incurred over the total number of similar complaints received in previous years.

Tax disputes

The risks resulting from the Group's tax disputes are covered by adequate allocations to provisions for risks and charges.

As regards the Parent Company, there are 26 disputes pending, mostly related to local taxes as well as minor income taxes, while the rest regard direct and registration taxes. With regard to these disputes, no effective risks have emerged or at least the estimated risk appears remote. Therefore, no specific provisions have been made.

Credemleasing is involved in 35 disputes, of which 30 relate to minor tax issues (ICI, IMU, TA.RI., car taxes), the remainder related to VAT, IRPEG, IRAP. Given the uncertain outcomes of three of the pending proceedings, the company adhered to the facilitated settlement of disputes, pursuant to Article 6 of Decree-Law 119/2018. For two of these disputes, a decree dismissing the case was filed in 2021; for the others, orders of dismissal are expected within the year.

For Banca Euromobiliare, in relation to the only pending litigation concerning registration tax on the sale of a business unit, in December 2021 the CTRMI, ruling at the time of re-employment, ruled in favour of the company. The terms are pending for any appeal filed by the Agency with the Court of Cassation

Lastly, there are disputes of lesser importance related to the work of financial advisors and labour-related matters, as well as the real estate and administration areas.

Section 11 – Technical reserves –Item 110

11.1 Technical reserves: breakdown

	Direct business	Indirect business	Total 31/12/2021	Total 31/12/2020
A. Non-life business	-	-	-	-
A1. Provision for premiums reserves	-	-	-	-
A2. Provision for claims reserves	-	-	-	-
A3. Other reserves	-	-	-	-
B. Life business	4,257,810	-	4,257,810	4,108,760
B1. Mathematical reserves	4,199,227	-	4,199,227	4,052,996
B2. Provision for reserves for amounts to be disbursed	48,752	-	48,752	45,724
B3. Other reserves	9,831	-	9,831	10,040
C. Technical reserves when investments risk is borne by the insured party	-	-	-	-
C1. Reserves for contracts with disbursements connected to investment funds and market indices	-	-	-	-
C2. Reserves from pension fund management	-	-	-	-
D. Total technical reserves	4,257,810	-	4,257,810	4,108,760

The values indicated refer to the subsidiary Credemvita.

Section 13 – Group equity – Items 120, 130, 140, 150, 160, 170 and 180

13.1 “Share capital” and “Treasury shares”: breakdown

	Total 31/12/2021	Total 31/12/2020
A. Share capital		
A.1 Ordinary shares	341,320	332,392
A.2 Savings shares	-	-
A.3 Preferred shares	-	-
A.4 Other shares	-	-
B. Treasury shares		
B.1 Ordinary shares	4,025	7,463
B.2 Savings shares	-	-
B.3 Preferred shares	-	-
B.4 Other shares	-	-

On 24 July 2021, i.e. the date of merger of Cassa di Risparmio di Cento into Credito Emiliano, 8,927,958 shares of Credito Emiliano were issued for the capital increase dedicated to the former shareholders of Cassa di Risparmio di Cento. The shares were recorded at the price of € 5.34, the closing price of the Credem share on 23 July 2021, for a total capital increase, including share premium, of € 47.7 million.

The portfolio contains 852,924 treasury shares, with an equivalent value of € 4.0 million, purchased as part of the programme implemented in accordance with the resolutions adopted by the Ordinary Shareholders' Meetings held on 27 April 2012 and 30 April 2015; the purpose of these programmes is to purchase shares of Credito Emiliano to fully cover payment plans based on financial instruments intended for executives with strategic responsibility and the “most important staff” of the banking group. In accordance with legislation in force, the details of the programme have already been communicated to the market.

During the year, 728,651 shares were allocated.

For further details on payment plans based on financial instruments, please refer to “Part I” of these Explanatory notes to the consolidated financial statements.

13.2 Share capital – Parent Company's number of shares: annual changes

Item/Type	Ordinary	Other
A. Shares outstanding as at the beginning of the year	332,392	-
- fully paid	332,392	-
- not fully paid	-	-
A.1 Treasury shares (-)	(2,031)	-
A.2 Shares outstanding: opening balances	330,361	-
B. Increases	9,657	-
B.1 New issues	9,657	-
- against payment:	8,928	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- without payment:	729	-
- to employees	703	-
- to Directors	12	-
- other	14	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business transferred	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balances	341,320	-
D.1 Treasury shares (+)	(853)	-
D.2 Shares outstanding as at the end of the year	340,467	-
- fully paid	340,467	-
- not fully paid	-	-

13.4 Profit reserves: other information

This category includes the legal reserve, the extraordinary reserve and the reserve for banking risks previously recognised in the financial statements, drawn up in accordance with previously effective Italian Legislative Decree no. 87/92 and reclassified according to the IAS standards.

The legal reserve, established as required by law, must be equal to at least one-fifth of share capital. Said reserve was established in the past through the allocation of at least one-tenth of the annual net profits to the same, in accordance with Art. 29 of the Articles of Association. Should the reserve decrease, it must be replenished through the obligation of allocating one-twentieth of the profit.

The statutory or extraordinary reserve is established, based on the Articles of Association, through allocation of the residual profit following the distribution of profit to ordinary shares.

The merger reserves pursuant to Italian Law no. 218 of 30 July 1990 were established in occasion of reorganisation or merger transactions carried out in accordance with the aforementioned law.

Other reserves include the reserve established as a result of the stock option plan and other reserves established in the past for specific regulatory provisions.

There are also two reserves in tax suspension, separate by the type of realignment carried out pursuant to Art. 110 of Italian Law Decree of 14 August 2020, subject to subsequent amendment by Italian Law no. 178/2020.

Finally, the item includes the effects generated by the transition to international accounting standards.

In particular, the profit reserves include the effects resulting from the change in accounting standards that do not involve a contribution to the income statement in upcoming years. The additional effects generated by transition to the IAS/IFRS and which are expected to change over time and be recognised in income statement upon realisation or disposal of the corresponding asset and liability were booked under "Valuation reserves". These regard the measurement of financial assets measured at fair value through other comprehensive income, the measurement of derivative cash flow hedges, the reserve associated to actuarial profits/losses on defined benefit plans and special revaluation laws. The annual changes of said reserves are included in comprehensive income.

Gains from the sale of shares in the company Cedacri were reported in the item "Reserves"; on 5 March 2021 an agreement was signed by all shareholders for the sale of 100% of the share capital of Cedacri to ION Investment Group Limited, including the share held by Credem equal to 3.9%; this sale was carried out in June 2021 and resulted in a capital gain, net of the related tax effect, of € 36.3 million, recorded under item "Other reserves" as the equity instruments for which the choice has been made to classify them in the category "Financial assets measured through other comprehensive income" are measured at fair value and the amounts recognised as a balancing entry in equity (Statement of Comprehensive Income) must not subsequently be transferred to the income statement, even in the event of disposal.

Section 14 – Non-controlling interests – Item 190

14.1 Breakdown of item 210 "Non-controlling interests"

Company Name	Total	Total
	31/12/2021	31/12/2020
Equity investments in consolidated companies with significant third party investment		
1. SATA SRL	509	442
2. BLUE EYE SOLUTIONS SRL	140	-
3. CREDEM CB SRL	4	4
Total	653	446

Following the power exercised by the insurance company Credemvita – a financial conglomerate of a predominantly banking nature – to postpone the first adoption of IFRS 9 (Deferral Approach) until 2023, the following new Balance Sheet - Liabilities items have been added to the consolidated financial statements as required by the update of Banca d'Italia Circular no. 262:

- Balance Sheet – Liabilities: Item 15. Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39, which includes deposits from banks, deposits from customers and debt securities issued, as defined in accordance with IAS 39;
- Balance Sheet – Liabilities: Item 35. “Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39”, which includes financial liabilities held for trading, financial liabilities measured at fair value and derivatives with a negative fair value, as defined in accordance with IAS 39;
- Balance Sheet – Shareholders’ Equity: Item 125. “Valuation reserves pertaining to insurance companies”, which includes valuation reserves for financial assets available for sale, shadow accounting effects and related taxes.

Item 15 of the liabilities - Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39

Deposits from customers: breakdown

Type of transaction/Amounts	31/12/2021	31/12/2020
1. Bank accounts and demand deposits	-	-
2. Time deposits including saving deposits with maturity	-	-
3. Loans	-	-
3.1 Repos	-	-
3.2 Other	-	-
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-
5. Other liabilities	2,773	2,714
Total	2,773	2,714
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	2,773	2,714
Total Fair value	2,773	2,714

Debt securities issued: breakdown

Type of security/Amounts	Total 31/12/2021				Total 31/12/2020			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	109,121	-	-	109,913	106,158	-	-	109,079
1.1 Structured	-	-	-	-	-	-	-	-
1.2 other	109,121	-	-	109,913	106,158	-	-	109,079
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	109,121	-	-	109,913	106,158	-	-	109,079

Details of item 30 "Debt securities issued": subordinated securities

	31/12/2021	31/12/2020
A. Debt securities issued		
Debt securities issued - Convertible	-	-
Debt securities issued - Subordinated securities	109,121	106,158

Breakdown of subordinated debts/securities

Non-convertible bond, fixed rate, issued at 98.330% on 18 November 2020 and called "Credemvita s.p.a.", ISIN code XS2253071216 in euros. The security has the following characteristics:

- Nominal value: € 107,500,000;
- Expiry date: 18/02/2031;
- Coupon: Fixed annual rate, set at the time of issue of 3.5% for the first five years. The interest rate is reviewed at the end of the fifth year, without the application of any step-up mechanism;
- Rating: BBB- by Fitch

The loan may be repaid - in addition to the natural maturity date - after the fifth year, or in the circumstance of a "Regulatory Event" (namely in the event that the securities are no longer considered eligible - and therefore cannot be included among the elements of the level 2 own funds of the Company, or, in accordance with market practice, in the event that the Company is no longer subject to the supervision of the IVASS) and a "Tax Event" (namely if, due to the introduction of new tax laws or amendments to the existing laws, the Company is subject to payment of further taxes on the Loan or is no longer able to deduct the interest paid on the Loan).

Item 35 of the liabilities - Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39

Financial liabilities measured at fair value: breakdown

Type of transaction/Amounts	31/12/2021					31/12/2020				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	4,406,981	-	-	4,406,981	4,406,981	3,698,395	-	-	3,698,395	3,698,395
2.1 structured	-	-	-	-	-	-	-	-	-	-
2.2 other	4,406,981	-	-	4,406,981	-	3,698,395	-	-	3,698,395	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2 Other	-	-	-	-	-	-	-	-	-	-
Total	4,406,981	-	-	4,406,981	4,406,981	3,698,395	-	-	3,698,395	3,698,395

FV = fair value

FV* = fair value calculated by excluding the variations in value due to the change in the creditworthiness of the issuer with respect to the issue date.

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Deposits from customers essentially include the amounts collected by the Group's insurance company for the issue of policies with primarily financial characteristics in relation to investments with risks borne entirely by the subscribers.

The nominal value of insurance policies is conventionally indicated at fair value.

Liability item 125 – Valuation reserves pertaining to insurance companies pursuant to IAS 39

Valuation reserves of financial assets available for sale of insurance companies pursuant to IAS 39: breakdown

Asset/Amounts	Total 31/12/2021		Total 31/12/2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	23,467	52,792	18,722	26,946
2. Equity securities	-	-	-	-
3. Units of UCITS	18,893	3,789	786	7,071
4. Loans	-	-	-	-
Total	42,360	56,581	19,508	34,017

Other information

1. Commitments undertaken and guarantees given

	Nominal value on commitments undertaken and guarantees given				Total 31/12/2021	Total 31/12/2020
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
1. Commitments to disburse funds	10,475,250	134,431	38,411	840	10,648,932	10,571,814
a) Central Banks	-	-	-	-	-	-
b) Public administration	9,883	-	3	-	9,886	7,362
c) Banks	26,642	832	-	-	27,474	25,872
d) Other financial companies	84,419	15,191	7	-	99,617	216,263
e) Non-financial companies	8,778,080	35,604	22,041	823	8,836,548	8,650,991
f) Households	1,576,226	82,804	16,360	17	1,675,407	1,671,326
2. Financial guarantees given	1,067,824	32,994	4,548	683	1,106,049	1,295,233
a) Central Banks	539,615	1,232	-	-	540,847	840,419
b) Public administration	103	-	-	-	103	1
c) Banks	1,750	2,483	-	-	4,233	3,302
d) Other financial companies	3,459	10	-	-	3,469	6,192
e) Non-financial companies	445,441	22,354	4,369	654	472,818	367,181
f) Households	77,456	6,915	179	29	84,579	78,138

3. Assets pledged as collateral for liabilities and commitments

Portfolios	Amount 31/12/2021	Amount 31/12/2020
1. Financial assets measured at fair value through profit or loss	-	1,185
2. Financial assets measured at fair value through other comprehensive income	5,479,909	2,362,596
3. Financial assets measured at amortised cost	13,937,953	11,958,947
4. Property, plant and equipment	-	-
of which: property, plant and equipment considered inventory	-	-

Item 1. "Financial assets measured at fair value through profit or loss" includes the receivables as surety for the advance on loans with the European Central Bank.

Item 2. "Financial assets measured at fair value through other comprehensive income" includes:

- € 1,740.7 million as surety for the advance on loans with the European Central Bank;
- € 3,739.2 million as surety on repurchase agreements;

Item 3. "Financial assets measured at amortised cost" includes:

- € 1,744.3 million in receivables transferred to special purpose entities under the covered bond operations;
- € 7,325.6 million as surety for the advance on loans with the European Central Bank;
- € 487.4 million as initial and changes in margins with clearing brokers;
- € 345.6 million as surety for the Clearing House and Guarantee Fund;

- € 53.9 million as surety with Banca d'Italia for the issue of banker's drafts;
- € 3,446.4 million as surety on repurchase agreements;
- € 560.3 million as surety on other types of collateralised deposits;

5. Asset management and trading on behalf of third parties

Type of services	Amount 31/12/2021
1. Trading on behalf of customers	13,543,625
a) purchases	7,051,813
1. settled	7,038,826
2. unsettled	12,987
b) sales	6,491,812
1. settled	6,479,360
2. unsettled	12,452
2. Portfolio management	35,336,817
a) individual	6,729,229
b) collective	28,607,588
3. Custody and administration of securities	133,252,249
a) third party securities in deposit: relating to depositary bank activities (excluding asset management)	-
1. securities issued by companies included in consolidation	-
2. other securities	-
b) third party securities held on deposit (excluding segregated accounts): other	58,975,566
1. securities issued by companies included in consolidation	519,178
2. other securities	58,456,388
c) third party securities deposited with third parties	58,565,095
d) own securities deposited with third parties	15,711,588
4) Other transactions	13,326,955

Item 4. "Other transactions" mostly includes services provided to third parties relative to order receipt and transmission activities.

IFRS 7 requires specific disclosure of financial instruments which:

- have been netted in the balance sheet in accordance with IAS 32;
- may be netted in certain circumstances but are shown in the balance sheet as open balances insofar as regulated by "framework netting agreements or similar agreements" which however do not meet the criteria established by IAS 32 for netting.

For the disclosure of said agreements, the standard requires the effects of the real financial guarantees received and made to be considered.

In this regard, we hereby state that, following analyses conducted, there are no netting agreements in place that entail netting balances on the balance sheet, in accordance with that required by IAS 32. Therefore, in tables 6. and 7., the columns regarding "Amount of financial assets/liabilities offset in the balance sheet" are empty.

7. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

Instrument type	Gross amounts of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e)	Net amount
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	247,526	-	247,526	162,925	74,190	10,411	15,957
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total	31/12/2021	247,526	-	247,526	162,925	74,190	10,411
Total	31/12/2020	300,480	-	300,480	243,139	41,384	X

8. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Instrument type	Gross amounts of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31/12/2021	Net amount 31/12/2020
				Financial instruments (d)	Deposits of cash collateral pledged (e)		
1. Derivatives	418,308	-	418,308	162,925	271,422	(16,039)	3,556
2. Repurchase agreements	7,251,882	-	7,251,882	7,251,882	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4) Other transactions	-	-	-	-	-	-	-
Total	31/12/2021	7,670,190	-	7,670,190	7,414,807	271,422	(16,039)
Total	31/12/2020	3,309,476	-	3,309,476	3,168,636	137,284	X

PART C

INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

The data in the Income Statement tables of "Fee and commission income" and "Fee and commission expense" have been restated in order to incorporate the 7th update of 29 October 2021 of Circular 262 of the Bank of Italy of 22 December 2005.

The economic results for 2021 are affected by the merger of Cassa di Risparmio di Cento, a merger that took place on 24 July 2021, which therefore contributed for the second half of the year to the group's results, and it should be noted, therefore, that the changes with respect to 2020 are calculated on a non-homogeneous perimeter.

For details on the accounting impact of the transaction, please refer to section G of the Explanatory Notes.

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31/12/2021	Total 31/12/2020
1 - Financial assets measured at fair value through profit or loss:	149	60	-	209	539
1.1 Financial assets held for trading	147	-	-	147	482
1.2 Financial assets measured at fair value	-	-	-	-	-
1.3 Other financial assets measured at fair value, as per mandatory requirements	2	60	-	62	57
2. Financial assets measured at fair value through other comprehensive income	24,858	-	X	24,858	10,219
3. Financial assets measured at amortised cost:	17,907	410,473	X	428,380	460,269
3.1 Loans to banks	2,955	125	X	3,080	1,502
3.2 Loans to customers	14,952	410,348	X	425,300	458,767
4. Hedging derivatives	X	X	24,325	24,325	25,772
5. Other assets	X	X	50	50	73
6. Financial liabilities	X	X	X	106,255	55,367
Total	42,914	410,533	24,375	584,077	552,239
of which: interest income from impaired financial assets	-	11,743	-	11,743	12,960
of which: interest income on finance leases	X	54,121	X	54,121	52,271

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets in foreign currency

Interest income amounts to € 12,491 thousand.

1.3 Interest expense and similar charges: breakdown

Item/Type	Payables	Securities	Other transactions	Total 31/12/2021	Total 31/12/2021
1. Financial liabilities measured at amortised cost	(17,090)	(30,623)	X	(47,713)	(63,242)
1.1 Deposits from central banks	-	X	X	-	-
1.2 Deposits from banks	(310)	X	X	(310)	(12,282)
1.3 Deposits from customers	(16,780)	X	X	(16,780)	(15,581)
1.4 Debt securities issued	X	(30,623)	X	(30,623)	(35,379)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities measured at fair value	-	-	-	-	-
4. Other liabilities	X	X	(13)	(13)	(11)
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(46,721)	(2,925)
Total	(17,090)	(30,623)	(13)	(94,447)	(66,178)
of which: interest expense relating to lease liabilities	(3,293)	X	X	(3,293)	(3,844)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense from financial liabilities in foreign currency

Interest expense amounts to € 633 thousand.

1.5 Spreads relating to hedge transactions

Item	Total 31/12/2021	Total 31/12/2020
A. Positive spreads on hedging transactions	184,731	171,713
B. Negative spreads on hedging transactions	(160,406)	(145,941)
C. Net spread (A-B)	24,325	25,772

Section 2 – Net fee and commission income/expense – Items 40 and 50

2.1 Fee and commission income: breakdown

Services/Amounts	Total 31/12/2021	Total 31/12/2020
a) Financial instruments	226,477	187,703
1. Placement of securities	100,842	77,812
1.1 With firm assumption and/or on the basis of an irrevocable commitment	-	-
1.2 Without irrevocable commitment	100,842	77,812
2. Reception and transmission of orders and execution of orders on behalf of customers	16,937	17,619
2.1 Reception and transmission of orders for one or more financial instruments	7,753	7,354
2.2 Trading on behalf of customers	9,184	10,265
3. Other fees and commissions related to activities carried out on financial instruments	108,698	92,272
of which: trading on own account	-	-
of which: individual portfolio management	108,698	92,272
b) Corporate Finance	2,189	269
1. Advice on Mergers and Acquisitions	2,189	269
2. Treasury services	-	-
3. Other commissions associated with corporate finance services	-	-
c) Investment advisory activities	130	11,810
d) Clearing and settlement	-	-
e) Management of collective portfolios	263,263	211,672
f) Custody and administration	3,694	3,197
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	3,694	3,197
g) Central administrative services for collective portfolio management	-	-
h) Fiduciary activity	1,261	1,203
i) Payment services	101,111	87,455
1. Bank accounts	8,450	7,551
2. Credit cards	24,442	21,595
3. Debit and other payment cards	34,205	26,178
4. Wire transfers and other payment orders	13,338	12,424
5. Other fees related to payment services	20,676	19,707
j) Distribution of third-party services	53,956	44,340
1. Collective portfolio management	-	-
2. Insurance products	52,478	42,536
3. Other products	1,478	1,804
of which: individual portfolio management	-	349
k) Structured finance	-	-
l) Securitisation servicing	-	-
m) Commitments to disburse funds	-	-
n) Financial guarantees given	4,471	4,209
of which: credit derivatives	-	-
o) Financing operations	13,721	12,010
of which: factoring services	13,721	12,010
p) Currency trading	3,187	2,840
q) Goods	-	-
r) Fee and commission income	150,488	129,173
Of which: for management of multilateral trading facilities	-	-
of which: for management of organised trading systems	-	-
Total	823,948	695,881

A disaggregation of fees and commissions by technical form is shown below, in line with the requirements of IFRS 15 par. 114. The main types of fee and commission relate to (IFRS 15 par. 119):

- Individual and collective portfolio management: the performance obligation corresponds to € 9,570 thousand and is usually satisfied over time;
- Placement of securities: this regards commission at the time of placement of funds/SICAV collected, amounting to € 31,961 thousand;
- Provision of third party services: this regards acquisition commission relating to insurance policies amounting to € 6,971 thousand.

The Group receives different types of variable commission such as:

- Success Fees and retainer fees;
- Performance/Overperformance;
- Rappel.

These commissions are received when specific objectives are achieved, envisaged by contract and are recorded when the calculation of the variable amount becomes certain.

In Part L of the explanatory notes to the consolidated financial statements, the disaggregation of Revenues by operating segment is illustrated.

2.2 Fee and commission expenses: breakdown

Services/Amounts	Total 31/12/2021	Total 31/12/2020
a) Financial instruments	(6,452)	(5,623)
of which: trading in financial instruments	(2,538)	(1,506)
of which: placement of financial instruments	(1,579)	(2,656)
of which: individual portfolio management	(2,246)	(1,461)
- Own	(1,250)	(1,461)
- Third party portfolio	(996)	-
b) Clearing and settlement	-	-
c) Management of collective portfolios	(9,095)	(13,196)
1. Own	(79)	-
2. Third party portfolio	(9,016)	(13,196)
d) Securities custody and administration	(2,863)	(2,499)
e) Collection and payment services	(30,557)	(38,261)
of which: credit cards, debit cards and other payment cards	(9,616)	(8,529)
f) Securitisation servicing	-	-
g) Commitments to receive funds	-	-
h) Financial guarantees received	(811)	(720)
of which: credit derivatives	-	-
i) off-site offer of financial instruments, products and services	(113,645)	(96,376)
j) Currency trading	-	-
k) Fee and commission expenses	(25,584)	(21,861)
Total	(189,007)	(178,536)

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 31/12/2021		Total 31/12/2020	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	13	-	19	-
B. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income	153	-	454	-
D. Equity investments	-	-	-	-
Total	166	-	473	-

Section 4 – Net profit (loss) from trading – Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions/Income	Unrealized profits (A)	Trading profits (B)	Unrealized losses (C)	Trading losses (D)	Net Profit (Loss) [(A+B)-(C+D)]
1. Financial assets held for trading	34	3,873	(426)	(212)	3,269
1.1 Debt securities	13	3,845	(113)	(131)	3,614
1.2 Equity securities	-	28	(215)	(81)	(268)
1.3 Units of UCITS	21	-	(98)	-	(77)
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	X	X	X	X	6,592
4. Derivatives	45,467	29,416	(50,064)	(24,807)	4,530
4.1 Financial derivatives:	45,467	29,416	(50,064)	(24,807)	4,530
- on debt securities and interest rates	45,465	29,416	(50,064)	(24,807)	10
- On equity securities and stock indices	2	-	-	-	2
- On currencies and gold	X	X	X	X	4,518
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges related to fair value option	X	X	X	X	-
Total	45,501	33,289	(50,490)	(25,019)	14,391

In the table above, results from trading in financial cash assets in foreign currency are indicated separately from those relating to foreign exchange activities.

Section 5 – Net profit (loss) from hedging – Item 90

5.1 Net profit (loss) from hedging: breakdown

Income/Amounts	Total 31/12/2021	Total 31/12/2020
A. Gains on:		
A.1 Fair value hedging instruments	168,705	169,606
A.2 Hedged financial assets (fair value)	129,521	52,851
A.3 Hedged financial liabilities (fair value)	102,864	427
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	401,090	222,884
B. Losses on:		
B.1 Fair value hedging instruments	(212,810)	(110,691)
B.2 Hedged financial assets (fair value)	(188,326)	(45,503)
B.3 Hedged financial liabilities (fair value)	-	(64,049)
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	(401,136)	(220,243)
C. Net profit from hedging activities (A - B)	(46)	2,641
of which: results of hedges on net positions (IFRS 7 24C, lett. b) vi); IFRS9 6.6.4)	-	-

The Macro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with the disbursement of fixed-rate and floating-rate mortgages with a “Cap” option, to hedge the interest rate risk related to demand deposits of customers, and the micro fair value hedge accounting method was adopted to hedge the interest rate risk for several fixed-rate securities held in the “AFS” and “Loans” portfolios, and to hedge the interest rate risk related to several fixed-rate bonds classified under “debt securities issued”.

The hedging, with reference to the measurement of derivative instruments related to equity items (this in particular concerned the micro fair value hedges of debt securities recognised as financial assets at fair value through other comprehensive income), was affected by the changes in interest rates and market tensions, which occurred during the year.

We must also point out that this result must be related to the positive contributions of the above-mentioned financial figures on the financial margin.

Section 6 – Gains/(losses) on disposal/re-purchase – Item 100

6.1 Gains/(losses) on disposal/re-purchase: breakdown

Items/Income	Total 31/12/2021			Total 31/12/2020		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
Financial assets						
1. Financial assets measured at amortised cost	4,485	(1,351)	3,134	28,740	(12,084)	16,656
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	4,485	(1,351)	3,134	28,740	(12,084)	16,656
2. Financial assets measured at fair value through other comprehensive income	68,610	(34,353)	34,257	8,998	(2,950)	6,048
2.1 Debt securities	68,610	(34,353)	34,257	8,998	(2,941)	6,057
2.2 Loans	-	-	-	-	(9)	(9)
Total assets	73,095	(35,704)	37,391	37,738	(15,034)	22,704
Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt Securities issued	-	-	-	3	-	3
Total liabilities	-	-	-	3	-	3

The trend of the aggregate also shows the transfers of non-performing, unsecured and mortgage portfolios, carried out in June and November 2021. The transactions concerned a gross book value of approximately € 39 million, resulting in a net capital loss of approximately € 0.1 million.

The contribution of the finance area was positive.

The unique market conditions affected portfolio movements: in this regard, sales were carried out during the year.

Section 7 – Net result of other financial assets and liabilities measured at fair value through profit or loss – Item 110

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets measured at fair value, as per mandatory requirements

Transactions/Income	Unrealized profits (A)	Realised profits (B)	Unrealized losses (C)	Realised losses (D)	Net Profit (Loss) [(A+B)-(C+D)]
1. Financial assets	2,067	-	(331)	(1)	1,735
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 Units of UCITS	25	-	(293)	-	(268)
1.4 Loans	2,042	-	(38)	(1)	2,005
2. Financial assets: exchange differences	X	X	X	X	-
Total	2,067	-	(331)	(1)	1,735

Section 8 – Net value adjustments/recoveries – Item 130

8.1 Net value adjustments for credit risk from financial assets measured at amortised cost: breakdown

Transactions/Income	Value adjustments (1)						Recoveries (2)				Total 31/12/2021	Total 31/12/2020
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
			Write-offs	Other	Write-offs	Other						
A. Loans to banks	(174)	(14)	-	-	-	-	75	1	-	-	(112)	(76)
- Loans	(23)	(14)	-	-	-	-	-	1	-	-	(36)	183
- Debt securities	(151)	-	-	-	-	-	75	-	-	-	(76)	(259)
B. Loans to customers	(4,536)	(4,149)	(2,788)	(97,700)	-	(1,490)	22,538	9,664	47,015	2,835	(28,611)	(103,868)
- Loans	(2,713)	(4,149)	(2,788)	(97,700)	-	(1,490)	21,682	9,664	47,015	2,835	(27,644)	(103,072)
- Debt securities	(1,823)	-	-	-	-	-	856	-	-	-	(967)	(796)
Total	(4,710)	(4,163)	(2,788)	(97,700)	-	(1,490)	22,613	9,665	47,015	2,835	(28,723)	(103,944)

The cost of credit for loans to customers of the Credem Group, in December 2021, amounted to approximately 28 million euros (103 million euros in 2020). In the face of analytical write-downs on non-performing positions for 52 million euros (a slight increase compared to December 2020), in fact, following the improvement in the macroeconomic context, there has been a recovery of around 24 million euros in the collective write-downs provision.

The cost of credit, deriving from analytical and collective write-downs, expressed in percentage terms, in relation to net loans is further improved (0.1%) compared to the same period of the previous year (0.4%).

The IFRS 9 methodological *framework* is subject to continuous monitoring by the Group in order to assess its consistency with macroeconomic and portfolio developments on a quarterly basis.

8.1a Net value adjustments for credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income	Net value adjustments						Total 31/12/2021	Total 31/12/2020
	First stage	Stage 2	Stage 3		Purchased or originated credit impaired			
			Write-offs	Other	Write-offs	Other		
1. Loans subject to forbearance compliant with the GLs	(15)	(3)	-	(7)	-	-	(25)	(18,501)
2. Loans subject to current moratorium measures no longer complying with the GL and not assessed as subject to	48	(778)	-	(416)	-	(10)	(1,156)	-
3. Loans subject to other forbearance measures	9	(56)	-	(3,662)	-	(6)	(3,715)	(1,052)
4. New loans	391	(355)	-	(3,224)	-	(6)	(3,194)	(2,754)
Total	433	(1,192)	-	(7,309)	-	(22)	(8,090)	(22,307)

The table shows the details of the net value adjustments for loans, subject to “moratoriums” or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms.

8.2 Net value adjustments for credit risk from financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income	Value adjustments (1)			Recoveries (2)		Total	Total
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt securities	(724)	-	-	1,227	-	503	1,125
B. Loans	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: purchased or originated impaired assets	-	-	-	-	-	-	-
Total	(724)	-	-	1,227	-	503	1,125

Section 9 – Profits/losses from contractual changes without derecognitions – Item 140

9.1 Profits (losses) from contractual changes: breakdown

This item shows a net negative balance of € 829 thousand, a profit of € 202 thousand and a loss of € 1,033 thousand following the adjustment made to the book values of the financial assets that reflect the changes made to contractual cash flows that do not give rise to derecognitions in the accounts.

Section 10 – Net premiums – Item 160

10.1 Net premiums: breakdown

Premiums from insurance	Direct business	Indirect business	Total 31/12/2021	Total 31/12/2020
A. Life business				
A.1 Gross premium written (+)	484,625	-	484,625	479,802
A.2 Reinsurance premiums paid (-)	(4,774)	X	(4,774)	(5,043)
A.3 Total	479,851	-	479,851	474,759
B. Non-life business				
B.1 Gross premium written (+)	-	-	-	-
B.2 Reinsurance premiums paid (-)	-	X	-	-
B.3 Change in gross value of premium reserve (+/-)	-	-	-	-
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	-	-	-	-
B.5 Total	-	-	-	-
C. Total net premiums	479,851	-	479,851	474,759

Section 11 – Net other operating expenses/income from insurance activities – Item 170

11.1 Net other operating expenses/income from insurance activities: breakdown

Item	Total 31/12/2021	Total 31/12/2020
1. Net change in insurance provisions	(171,715)	(192,286)
2. Claims paid pertaining to the year	(328,727)	(297,242)
3. Other operating income/charges from insurance activities	(53)	453
Total	(500,495)	(489,075)

11.2 Net change in technical reserves: breakdown

Net change in technical reserves	Total 31/12/2021	Total 31/12/2020
1. Life business		
A. Mathematical reserves	(171,924)	(192,777)
A.1 Gross annual amount	(171,823)	(193,256)
A.2 (-) Amount reinsured with third parties	(101)	479
B. Other technical reserves	209	491
B.1 Gross annual amount	209	491
B.2 (-) Amount reinsured with third parties	-	-
C. Technical reserves when investments risk is borne by the insurers	-	-
C.1 Gross annual amount	-	-
C.2 (-) Amount reinsured with third parties	-	-
Total "life business reserves"	(171,715)	(192,286)
2. Non-life business		
Change in other technical reserves of non-life business other than claims fund, net of amounts recovered from reinsurance	-	-

11.3 "Claims settled during the year": breakdown

Charges for claims	Total 31/12/2021	Total 31/12/2020
Life business: expense relating to claims, net of reinsurers' portions		
A. Amounts paid	(325,991)	(299,706)
A.1 Gross annual amount	(331,020)	(303,384)
A.2 (-) Amount reinsured with third parties	5,029	3,678
B. Change in reserves for amounts to be disbursed	(2,736)	2,464
B.1 Gross annual amount	(3,028)	2,505
B.2 (-) Amount reinsured with third parties	292	(41)
Total life business claims	(328,727)	(297,242)
Non-life business: expense relating to claims, net of amounts recovered from reinsurers		
C. Amounts paid	-	-
C.1 Gross annual amount	-	-
C.2 (-) Amount reinsured with third parties	-	-
D. Change in recoveries net of amount reinsured with third parties	-	-
E. Change in claims reserves	-	-
E.1 Gross annual amount	-	-
E.2 (-) Amount reinsured with third parties	-	-
Total non-life business claims	-	-

Section 12 – Administrative costs – Item 190

Administrative expenses show an overall growth of over 12.0%. They include some non-linear components (personnel and administrative expenses in the second half of Caricento, integration costs relating to the merger, and expenses linked to workforce optimisation and project support activities).

12.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 31/12/2021	Total 31/12/2020
1) Employees	(539,233)	(503,188)
a) wages and salaries	(382,904)	(364,902)
b) social security charges	(95,272)	(90,426)
c) severance pay	(5,859)	(5,669)
d) social security expenses	(80)	(55)
e) provision for staff termination indemnity	(2,589)	(500)
f) provision for pension fund and similar obligations:	-	(86)
- defined contribution	-	-
- defined benefit	-	(86)
g) contributions to external pension fund:	(21,189)	(20,190)
- defined contribution	(21,189)	(20,190)
- defined benefit	-	-
h) costs related to share-based payments	(2,823)	(2,747)
i) other employee benefits	(28,517)	(18,613)
2) Other staff	(7,446)	(6,321)
3) Directors and Statutory Auditors	(3,970)	(3,603)
4) Retired personnel	(24)	-
Total	(550,673)	(513,112)

In accordance with the instructions of Banca d'Italia Circular no. 262 dated 22 December 2005 (and subsequent amendments):

- "Personnel expenses" include also directors' and statutory auditors' fees and costs incurred for atypical employment agreements ;
- the sub-item "Other staff" includes fees for coordinated employment agreements.

12.2 Average number of employees by category

	Total 31/12/2021	Total 31/12/2020
1) Employees	6,343	6,149
a) executives	176	174
b) middle managers	3,006	2,993
c) remaining staff	3,161	2,982
2) Other staff	33	28
Total	6,376	6,177

The average number of employees does not include directors and statutory auditors. Part-time employees are usually considered at 50%.

12.4 Other employees benefits

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This item includes meal vouchers, staff leaving incentives, other perks, costs of insurance policies taken out for employees, costs for professional refresher courses, etc.

12.5 Other administrative costs: breakdown

Services/Amounts	Total 31/12/2021	Total 31/12/2020
Taxes	(126,054)	(108,543)
Stamp duties	(111,427)	(96,424)
Municipal real estate property tax	(2,954)	(2,847)
Other	(11,673)	(9,272)
Other expenses	(221,905)	(223,204)
Insurance	(3,064)	(2,584)
ATM	(666)	(815)
Supplies, stationery and printing	(8,310)	(8,563)
Training	(1,427)	(982)
Electricity	(5,441)	(5,308)
Rent expenses on property	(1,238)	(990)
Other property expenses	(11,340)	(10,991)
Info provider	(13,344)	(13,748)
Third party data processing	(83,288)	(60,464)
Office machines	(112)	(97)
Outsourced banking processing	(10,302)	(6,946)
Marketing	(10,303)	(8,490)
Personnel mobility	(5,852)	(5,208)
POS	-	(1)
Postage	(1,550)	(1,426)
Consultancy	(14,492)	(9,661)
Legal expenses for credit collection	(6,202)	(6,650)
Legal expenses	(4,607)	(5,013)
Other compensation to external professionals	(2,064)	(1,489)
Networks and interbank services	(2,707)	(2,252)
Telephone expenses	(7,099)	(6,004)
Transportation	(656)	(477)
Armoured car service and cash counting	(2,371)	(2,195)
Security	(4,632)	(4,407)
Surveys and information	(8,111)	(6,643)
Other expenses	(12,727)	(13,378)
Fund contributions	(51,257)	(38,422)
Contributions to Single Resolution Fund - SRF	(22,073)	(16,370)
Contributions to Deposit Guarantee System - DGSD	(29,184)	(22,052)
Total	(399,216)	(331,747)

The costs relating to short-term leases amounted to € 168 thousand, the costs relating to low-value leases to € 50 thousand, while the costs relating to leases not included in the valuation of liabilities amounted to around € 2.1 million (non-deductible VAT and other services).

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

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

	31/12/2021	31/12/2020
Net provisions for risks for commitments to disburse funds and financial guarantees given	(2,144)	(3,703)
Reallocation in the income statement related to risks for commitments to disburse funds and financial guarantees given	1,939	1,028
Total	(205)	(2,675)

13.2 Net provisions relating to other commitments and other guarantees given: composition

	31/12/2021	31/12/2020
Provision for IPC share Contribution to the European Single Resolution Fund - SRF	(2,662)	(2,086)
Total	(2,662)	(2,086)

The aforementioned item included a provision of 15% of the contribution to the National Restructuring Fund - previously paid, and equal to € 2.7 million as a “guarantee deposit” - whereas the remaining 85% was recognised in the item “Other administrative expenses”.

13.3 Net provisions for risks and charges: breakdown

	31/12/2021	31/12/2020
Net provisions for risks caused by liabilities and revocations	(6,077)	(5,730)
Interest expenses from discounting reserve caused by liabilities and revocations	-	(19)
Reallocation in the income statement related to the provisions caused by liabilities and revocations	2,170	1,639
Other provisions	(6,747)	(6,669)
Interest expenses related to discounting provisions	-	-
Reallocation in the income statement related to other provisions	500	2,064
Total	(10,154)	(8,715)

Section 14 – Net value adjustments to (recoveries on) property, plant and equipment – Item 210

14.1 Net value adjustments to (recoveries on) property, plant and equipment: breakdown

Asset/Income	Amortisation (a)	Value adjustments on impairment (b)	Recoveries (c)	Net profit (loss) (a + b - c)
A. Property, plant and equipment				
1 For operational use	(43,814)	(87)	163	(43,738)
- Owned	(20,628)	-	-	(20,628)
- Rights of use acquired through leases	(23,186)	(87)	163	(23,110)
2. Held for investment purposes	(172)	-	-	(172)
- Owned	(172)	-	-	(172)
- Rights of use acquired through leases	-	-	-	-
3. Inventory	X	-	-	-
Total	(43,986)	(87)	163	(43,910)

Section 15 – Net value adjustments to (recoveries on) intangible assets – Item 220

15.1 Net value adjustments to intangible assets: breakdown

Asset/Income	Amortisation (a)	Value adjustments on impairment (b)	Recoveries (c)	Net profit (loss) (a + b - c)
A. Intangible assets				
of which: software	(43,407)	-	-	(43,407)
A.1 Owned	(49,302)	-	-	(49,302)
- Generated internally by the company	(6,400)	-	-	(6,400)
- Other	(42,902)	-	-	(42,902)
A.2 Rights of use acquired through leases	-	-	-	-
B. Assets Held for Sale	X	-	-	-
Total	(49,302)	-	-	(49,302)

Depreciation is increasing due to the constant attention paid to investments to support the planning activity and the evolution of the service model.

Section 16 – Other operating income/charges – Item 230

16.1 Other operating charges: breakdown

	Total 31/12/2021	Total 31/12/2020
Amortisation on improvements on third party assets	(4,016)	(3,504)
Contingent liabilities	(16,175)	(13,135)
Other charges	(11,656)	(5,406)
Total Other charges	(31,847)	(22,045)

16.2 Other operating income: breakdown

	Total 31/12/2021	Total 31/12/2020
Rental income	1,040	712
Recovery taxes	116,054	100,947
Contingent assets	6,425	9,130
Other income	38,317	35,435
Negative Goodwill	95,589	-
Total Other income	257,425	146,224

The “Recovery taxes” item includes the recovery of the higher charge resulting from the calculation of stamp duty on securities portfolios.

“Other income” also includes recoveries of “Fast track loan approval process commission”, regulated by paragraph 2 of Italian Law dated 23 December 2011.

The negative goodwill, or badwill, derives from the integration with Caricento, as extensively reported in Part G of these Explanatory Notes.

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

17.1 Gains (Losses) on equity investments: breakdown

Income/Sectors	Total 31/12/2021	Total 31/12/2020
1) Jointly owned companies		
A. Income	6,417	6,469
1. Revaluations	6,417	6,469
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	(636)	(636)
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other charges	(636)	(636)
Net profit (loss)	5,781	5,833
2) Companies subject to significant influence		
A. Income	556	620
1. Revaluations	556	620
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	556	620
Total	6,337	6,453

For jointly owned companies, “Income, 1. Revaluations” includes the gains of Credemassicurazioni consolidated using the equity method, while “Charges” includes the value adjustments to the amortisation of Credemassicurazioni’s VIF; for companies subject to significant influence, “Income, 1. Revaluations” includes, inter alia, the gains of Andxor and the Santamaria Group, consolidated using the equity method.

Section 20 – Gains (Losses) on disposals of investments – Item 280

20.1 Gains (losses) on disposals of investments: breakdown

Income/Sectors	Total 31/12/2021	Total 31/12/2020
A. Property	900	(127)
- Gains on disposal	1,047	62
- Losses on disposal	(147)	(189)
B. Other assets	9,114	2,214
- Gains on disposal	9,818	2,265
- Losses on disposal	(704)	(51)
Net profit (loss)	10,014	2,087

The positive impact related to the Custodian Bank transfer agreement signed in previous years with BNP is highlighted: approximately 2.3 million related to the price adjustment, and 7.5 million in the "contractual breach" compensation obtained from the sale by BNP for the branch linked to the Correspondent Bank.

Section 21 – Tax expense (recovery) on income from continuing operations – Item 300

21.1 Income tax for the current year from continuing operations: breakdown

Income/Sectors	Total 31/12/2021	Total 31/12/2020
1. Current tax (-)	(88,680)	(70,212)
2. Changes of current tax of previous years (+/-)	643	474
3. Decreases in current tax for the year (+)	-	-
3.bis Decreases in current tax for the year due tax credit related to Italian Law no. 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	(20,965)	(9,019)
5. Changes in deferred tax liabilities (+/-)	(4,586)	27,960
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(113,588)	(50,797)

Current tax has been recorded on the basis of the tax legislation in force, including the provisions of Italian Legislative Decree no. 38/2005.

Changes introduced by Legislative Decree 17 of 1 March 2022 (Energy Decree)

On 1 March 2022, Decree-Law no. 17 was published. Article 42 of said Decree governs the deferral, on a straight-line basis, to the tax period in progress at 31 December 2022 and to the three subsequent tax periods of the deduction of 12% of the amount of negative components provided for, for the purposes of corporate income tax and regional tax on production activities, respectively, by paragraphs 4 and 9 of Article 16 of Decree-Law no. 83 of 27 June 2015, converted with amendments by Law no. 132 of 6 August 2015.

Pursuant to paragraphs 46 and 47 of IAS 12, in relation to the financial statements at 31 December 2021, the provision in question is configured as a "non-adjusting event", and the resulting accounting effects are not recognised in the balances at that date.

21.2 Reconciliation of the theoretical tax charge with the effective tax charge

The global tax burden, net of the negative goodwill component, on pre-tax profit is around 31.0%.

Consolidated taxable amount	466,181
Ordinary rate applicable	33.07%
Theoretical tax charge	154,166
Effect of the increases compared to the ordinary rate	56,351
Non-deductible costs for IRES purposes	48,954
Non-deductible costs for IRAP purposes	7,397
Effect of decreases compared to the ordinary rate	96,929
Other permanent differences for IRES purposes	61,936
Other permanent differences for IRAP purposes	34,993
Actual IRAP tax charge	113,588

Section 25 – Basic Earnings per share (Basic EPS)

25.1 Average number of ordinary shares – diluted capital stock

	31/12/2021	31/12/2020
Fair value of shares	5.41	4.34
Net profit	342,593	201,729
Weighted number of shares	335,196	331,563
Potential number of shares	-	-
Potential number of diluted shares	335,196	331,563
Earnings per share	1.05	0.61
Diluted earnings per share	1.05	0.61

IAS 33 requires that both basic and diluted earnings per share (EPS) be shown, and that the calculation method be specified for both values. The basic earnings per share derives from the profit or loss attributable to holders of ordinary shares divided by the weighted average number of ordinary shares outstanding during the year.

The fair value of the shares is the weighted average of 2021.

Following the power exercised by the insurance company Credemvita – a financial conglomerate of a predominantly banking nature – to postpone the first adoption of IFRS 9 (Deferral Approach) until 2023, the following new Income Statement - Liabilities items have been added to the consolidated financial statements as required by the update of Banca d'Italia Circular no. 262: Income Statement:

- "Item 115. Net profit (Loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39", which includes all income statement components attributable to the insurance subsidiary with the exception of net premiums and the balance of other operating income/charges from insurance activities, which converge under their own item, of commissions that are represented together with similar bank items and "Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39", which are recognised in item 135, opened for this very purpose;
- Income Statement: "Item 135. Net adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39", which includes any adjustments/recoveries.

The details are provided below:

Income Statement item 115 – Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39

Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31/12/2021	Total 31/12/2020
1. Financial assets held for trading	-	-	-	-	-
2. Financial assets measured at fair value	4,116	-	-	4,116	4,335
3. Financial assets available for sale	10,824	-	-	10,824	17,108
4. Financial assets held to maturity	29,188	-	-	29,188	25,523
5. Loans to banks	-	-	-	-	1
6. Loans to customers	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
Total	44,128	-	-	44,128	46,967

Interest expense and similar charges: breakdown

Item/Type	Payables	Securities	Other transactions	Total 31/12/2021	Total 31/12/2020
1. Deposits from central banks	-	-	-	-	-
2. Deposits from banks	-	-	(82)	(82)	(86)
3. Deposits from customers	-	-	-	-	-
4. Debt securities issued	-	(3,909)	-	(3,909)	(2,619)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities	-	-	(42)	(42)	(40)
8. Hedging derivatives	-	-	-	-	-
Total	-	(3,909)	(124)	(4,033)	(2,745)

Dividends and similar income: breakdown

Items/Income	Total 31/12/2021		Total 31/12/2020	
	Dividends	Income from units of UCITS	Dividends	Income from units of UCITS
A. Financial assets held for trading			-	-
B. Financial assets available for sale		16,038	-	15,491
C. Financial assets measured at fair value	3,760	1,498	2,426	2,002
D. Investments	-		-	
Total	3,760	17,536	2,426	17,493

Net profit (loss) from trading: breakdown

Transactions/Income	Unrealized profits (A)	Trading profits (B)	Unrealized losses (C)	Trading losses (D)	Net Profit (Loss) [(A+B)-(C+D)]
1. Financial assets held for trading	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 Units of UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences					6,173
4. Derivatives	8	3,973	(741)	(432)	2,918
4.1 Financial derivatives:	8	3,973	(741)	(432)	2,918
- on debt securities and interest rates	-	-	-	-	-
- On equity securities and stock indices	8	3,973	(741)	(432)	2,808
- On currencies and gold					110
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	8	3,973	(741)	(432)	9,091

Gains/(losses) on disposal/re-purchase: breakdown

Items/Income	Total 31/12/2021			Total 31/12/2020		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
Financial assets						
1. Loans to banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	47,146	(18,890)	28,256	82,260	(50,376)	31,884
3.1 Debt securities	20,573	(3,788)	16,785	64,566	(5,609)	58,957
3.2 Equity securities	-	-	-	-	-	-
3.3 Units of UCITS	26,573	(15,102)	11,471	17,694	(44,767)	(27,073)
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	47,146	(18,890)	28,256	82,260	(50,376)	31,884
Financial liabilities						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
Debt securities issued	-	-	-	-	(493)	493
Total liabilities	-	-	-	-	(493)	(493)

Net change in the value of financial assets and liabilities measured at fair value: breakdown

Transactions/Income	Unrealized profit (A)	Realized profits (B)	Unrealized losses (C)	Realized losses (D)	Net profit (loss) [(A+B)-(C+D)]	
					31/12/2021	31/12/2020
1. Financial assets	258,185	51,465	(34,807)	(12,309)	262,534	131,007
1.1 Debt securities	934	40	(7,542)	(1,083)	(7,651)	8,604
1.2 Equity securities	31,277	3,595	(3,346)	(294)	31,232	2,060
1.3 Units of UCITS	225,974	47,830	(23,919)	(10,932)	238,953	120,343
1.4 Loans	-	-	-	-	-	-
2. Financial liabilities	-	-	(209,403)	-	(209,403)	(91,945)
2.1 Debt securities	-	-	-	-	-	-
2.2 Deposits from banks	-	-	-	-	-	-
2.3 Deposits from customers	-	-	(209,403)	-	(209,403)	(91,945)
3. Financial assets and liabilities: exchange differences	X	X	X	X	-	-
4. Credit and financial derivatives	-	-	-	-	-	-
Total	258,185	51,465	(244,210)	(12,309)	53,131	39,062

Item 135 of the income statement – Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39

Net value adjustments on impairment of financial assets available for sale: breakdown

Transactions/Income	Value adjustments (1)		Recoveries (2)		Total 31/12/2021	Total 31/12/2020
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	-	-	-	-	-
C. Units of UCITS	-	-			-	(411)
D. Loans to banks	-	-			-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	-	-	-	-	(411)

PART D

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The detailed information envisaged by IAS 1 on the consolidated statement of comprehensive income is provided (amounts gross and net of taxation, reversals to profit and loss, etc.)



DETAILED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Items	31/12/2021	31/12/2020
10. Profit (loss) for the period	352,593	201,729
Other income without reversal to income statement	(12,412)	(1,244)
20. Equity securities measured at fair value through other comprehensive income:	(12,489)	148
a) change in fair value	26,472	148
b) transfers to other components of shareholders' equity	(38,961)	-
30. Financial liabilities measured at fair value through profit or loss (changes to own credit rating):	-	-
a) change in fair value	-	-
b) transfers to other components of shareholders' equity	-	-
40. Coverage of equity securities measured at fair value through other comprehensive income:	-	-
a) change in fair value (hedged instrument)	-	-
b) change in fair value (hedging instrument)	-	-
50. Property, plant and equipment	-	-
60. Intangible assets	-	-
70. Defined benefit plans	(1,099)	(1,883)
80. Non-current assets and groups of assets held for sale and discontinued operations	-	-
90. Share of valuation reserves of equity investments valued at equity	-	-
100. Income tax relating to other income without reversal to income statement	1,176	491
Other income with reversal to income statement	(35,836)	46,056
110. Hedge of foreign investments:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
120. Exchange differences:	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
130. Cash flows hedges:	(40,858)	19,064
a) changes in fair value	(41,174)	17,670
b) reversal to income statement	316	1,394
c) other changes	-	-
of which: results on net positions	-	-
140. Hedging instruments (elements not designated):	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
150. Financial assets (other than equity securities) measured at fair value through other comprehensive income	(12,007)	41,626
a) changes in fair value	53,083	69,501
b) reversal to income statement	(65,090)	(32,300)
- adjustments for credit risk	(523)	(1,147)
- realised gains/losses impairment	(65,352)	(31,153)
c) other changes	785	4,425
155. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	417	6,771
a) changes in fair value	(367)	4,154
b) reversal to income statement	784	2,617
- value adjustments on impairment	-	-
- realised gains/losses	784	2,617
c) Other changes	-	-
160. Non-current assets and groups of assets held for sale and discontinued operations:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
170. Share of valuation reserves of equity investments valued at equity:	(994)	939

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

a) changes in fair value	(994)	939
b) reversal to income statement	-	-
- value adjustments on impairment	-	-
- realised gains/losses impairment	-	-
c) other changes	-	-
180. Income tax relating to other income with reversal to income statement	17,606	(22,344)
190. Total other income	(48,248)	44,812
200. Comprehensive income (Item 10+190)	304,345	246,541
210. Consolidated comprehensive income attributable to minority interests	166	129
220. Consolidated comprehensive income attributable to Parent Company	304,179	246,412

PART E

INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

Introduction

Summary of the organisation of the Bank's risk management, of the relative processes and of the key functions.

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

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

The governance bodies and the specialist functions involved in the process of risk control and management are:

- The Parent Company Board of Directors (body with strategic supervisory responsibility) which assesses all types of risk at consolidated level and approves risk assumption, broken down by the Companies and Business Units identified as relevant in terms of contribution to the Group's risk, through a detailed Risk Appetite Framework process, taking into account the business model and Strategic Plan and in compliance with ICAAP and the internal control system. Credem considers the possibility that, within the identified time horizon, the risk may undergo significant changes in the presence of adverse market trends and/or characterised by high volatility of the different risk factors; to take account of this and ensure, in every situation, that the Group has sufficient margins to operate within the Risk Capacity, thresholds of tolerance to the Risk Appetite (Risk Tolerance) are defined; they represent the maximum change that the Credem Group is willing to accept in stress scenarios.
- The Executive Committee (body with management responsibility), which establishes operating thresholds in line with the risk appetite, manages the implementation of the RAF and authorises surpassing the risk appetite within the limit of the tolerance threshold.
- The Board of Statutory Auditors is responsible for control and supervision.

The Boards of Directors of the individual companies adopt the objectives established by the Board of Directors of the Parent Company in relation to the company mission and risk profile, and approve the structure of the internal operating limits and powers within the scope set by the Board of Directors of the Parent Company.

The Management of the individual companies conduct their business operations in compliance with the powers and operating limits for risk assigned by the respective Boards of Directors.

GROUP RISK AND SUSTAINABILITY COMMITTEE (GRSC).

The Committee plays a supporting role - which entails consultation, examination and the formulation of proposals and opinions - with a view to assisting the Board of Directors in its assessments and decisions relating to risk management and to the internal control system, to guarantee the adequacy of the same in terms of the characteristics of the business and of the Group with relation to the development of the organisation and its operations, as well as of the relevant legislative scenario. The Committee also supports the Board of Directors in assessing the Group's Sustainability strategy, including the monitoring of environmental, social and governance risks, and the analysis of the Non-Financial Statement pursuant to

Legislative Decree 254/2016 and the Code of Corporate Governance 2020 of listed companies.

With particular reference to the duties regarding risk management and control, the Committee performs the following support functions:

- it assesses the effectiveness of the assumptions and the analyses contained within the Recovery Plan and in its subsequent updates, proposed by the ERISK department, and expresses a reasoned opinion regarding its subsequent submission to the BoD;
- it assesses, based on information from the Group Recovery Management Committee (hereinafter Recovery Committee), the actual existence of a state of recovery, expressing a reasoned opinion in this regard, with a view to its subsequent presentation to the BoD;
- it assesses, based on information from the Recovery Committee, the actual existence of conditions to close the state of recovery, expressing a reasoned opinion in this regard, with a view to its subsequent presentation to the BoD;
- it carries out the evaluation and expresses its opinion in order for the Board of Directors to define and approve the Risk Appetite Framework (known as RAF, with particular reference to the evaluation of the risk objectives and of the tolerance thresholds);
- it monitors the performance of the risk profile assumed as a whole in relation to the Risk Appetite objectives and to the tolerance thresholds in respect of all the indicators in the Group's RAF;
- advises on the measurement, control and analysis methods for calculating the internal capital;
- it acknowledges the assessments related to the relevance analysis and analyses any new risk;
- it evaluates the policies and practices for assessing the business operations (e.g. fair value policy and guidelines and criteria for the write-down of loans), verifying that the prices and conditions of transactions with customers are consistent with the business model and risk strategies;
- without prejudice to the responsibilities of the Group Remuneration Committee, collaborating with the latter in order to ensure that the remuneration policy reflects and promotes sound and effective risk management; in this context, it verifies the consistency of the short- and medium-term incentive systems with the RAF;
- without prejudice to the responsibilities of the Group Remuneration Board Committee, also takes part in the definition of the individual objectives of the Head of the Internal Audit Function and the associated subsequent reporting.

As part of the assessment and proposal of the environmental, social and governance sustainability strategy, assisted by the Group Sustainability Committee, the Committee:

- reviews in advance, providing an opinion to the CA, the materiality analysis and the consequent matrix proposed by the Group Sustainability Committee;
- evaluates in advance, providing an opinion to the Board of Directors, the strategic proposition in matters of environmental, social and governance sustainability, and the related milestone plan proposed by the Group Sustainability Committee;
- contributes to the identification, measurement, management and monitoring of the main environmental, social and governance risks, in order to contribute to the sustainable success of the Group, taking into account the characteristic activities and the controls identified by the Area Wealth Sustainability Committee;
- verifies the effectiveness of the supervision of the Group's environmental, social and governance risks, on the basis of the planning and reports sent by the Group Sustainability Committee and by the other company Functions, taking into account the characteristic activities and safeguards identified by the Wealth Area Sustainability Committee;

- oversees the process for the preparation of the Non-Financial Disclosure (NFD):
 - expressing an opinion for the Board of Directors, without prejudice to the powers of the Board of Statutory Auditors and the Audit Service, regarding the completeness and correctness of the NFS;
 - carries out an adequate evaluation and proposal activity so that the Board of Directors can define the guidelines and objectives regarding the relevant issues and the indicators to be reported, also on the basis of the proposals of the Group Sustainability Committee;
 - supervises the reporting activities and the work of the Institutional Relations and Sustainability Office and all Relevant Functions.

GROUP RISK MANAGEMENT COMMITTEE

The mission is to inform the Executive Committee (EC) on the monitoring of the overall risk taken by each company and of its monitoring within the strategies and methods defined by the Parent Company in the Risk Appetite Framework. Periodically, the Committee:

- monitors the overall risk taken by each company both at management level and with regard to the supervisory absorptions, with reference to the Tableau de Bord for monitoring the Risk Appetite Framework (known as “Level I indicators” or “RAF indicators”). With regard to Credembanca only, this analysis is conducted at individual Business Unit level;
- as part of the monitoring activities defined in accordance with the prudential supervisory rules laid down by the European Central Bank (known as SREP process - Supervisory Review and Evaluation Process), reports the Level II indicators or “SREP indicators”, namely operational indicators for which the RAF does not provide a definition of appetite and tolerance, but whose purpose is to strengthen monitoring and control activities. The list of these indicators is included as an attachment to the Credem Group Recovery Planning and Risk Appetite Regulations, where for each of them the Governance Committee or internal department is indicated, which analyses, within its scope, their development in operational terms. The calculation methodologies for each indicator are shown in the manual “Risk Indicators”: the Risk Management department is responsible for its disclosure and updating. On at least an annual basis, in parallel with the planning processes, approves the alert thresholds and assesses consistency with the Appetite and Tolerance values of first-level RAF indicators.
- also analyses any internal or external event that can considerably change the risk profile and therefore request the competent bodies, through the Risk Officer (hereinafter RO), to carry out additional revisions of the RAF;
- analyses the consistency of the conditions applied to customers depending on the assumed risk;
- assesses specific analyses proposed by the RO that are considered examples of the trends of the various risk factors;
- makes valuations in accordance with the responsibilities assigned to Senior Management by regulations on Risk Management, particularly those relating to internal models.

GROUP RECOVERY MANAGEMENT COMMITTEE

This Committee was established to provide support to the Board of Directors in the management of the recovery states governed by the Recovery Plan, and has advisory and decision-making powers. Under the Plan, the Committee is tasked with the following functions if the recovery thresholds are surpassed:

- it analyses situations of tension or crisis based on supporting elements contributed by the various company functions, coordinated by the Risk Officer, who ensures they are suitably presented to the committee;
- it assesses the effective existence of the recovery state, formalising the outcome of the analyses conducted

- within a reasoned proposal to be submitted to the approval of the BoD, after obtaining the opinion of the Group Advisory Risk Committee (hereinafter Risk Committee);
- once a recovery state has been confirmed, it assesses the possibility of promptly activating recovery options, with the relative preparatory actions, assessing the feasibility and effectiveness of bringing the indicators of the Recovery Plan back to within their defined limits;
- with the support of the relevant company functions, it proposes the recovery options within a Plan of Action to the BoD, together with the actions to be taken;
- once a state of recovery has been confirmed:
 - either coordinates internal and external communication;
 - or coordinates the preparation of the disclosure for the Supervisory Authority, to be submitted to the approval of the Risk Committee and the BoD;
- it assesses whether the conditions to close the state of recovery have been fulfilled and makes a reasoned proposal to the BoD in this regard, obtaining the opinion of the Risk Committee;
- through its Secretary the Risk Officer, it monitors the implementation of the recovery options and whether the indicators of the Recovery Plan have returned to within the envisaged thresholds.

The Committee is also informed by the BoD if the Tolerance threshold is surpassed, as it is considered a warning threshold for the Recovery indicators and may be convened whenever there are significant signs of deterioration.

The aim of the Risk Management department, by means of the Risk Officer and of his/her collaborators, is to:

- ensure the measurement and precise and future control of the exposure to different types of risk, in particular, market, credit, interest rate, liquidity and operational risk;
- monitor capital absorptions;
- propose to the Management Body and to General Management, with the other competent company functions, the definition and revision of the operating limits in line with the allocated capital;
- follow regulation developments and provide the Supervisory Authorities with the information required by the regulations in force in relation to internal models;
- develop and maintain risk measurement, management and control systems compliant with the regulations.

The Risk Management department is required to be authoritative, given the position it holds within the organisation and its mandate, and to be professional, understood as possessing technical expertise and adequate experience in this position. The same is guaranteed organisational solutions able to preserve the independence of the business units entrusted with the assumption and economic management of risk, specifically:

- the hierarchical placement within the Enterprise Risk Management Service (ERISK) under the management body (Executive Committee);
- independent access to Management Bodies;
- an incentive system based on the Key Performance Indicators relating to control objectives, not dependent on the bank's economic results;
- envisaging situations of conflict of interest when assigning competences;
- the option to request the adoption of reliable information systems to adequately identify, measure and monitor all of the risks assumed or to be assumed in the various operating areas and to set in place suitable reporting procedures at the various management levels;
- expressing opinions, in advance, on significant transactions that are the responsibility of the department and being consulted with regard to those assigned to Management Bodies;

- the option to assess proposals on guidelines and regulations regarding the assumption of risk in advance, including penetration into new markets and subscribing to new products.
- To better illustrate the activities performed, the organisational structure of the Risk Management department is shown below, along with a description of its main areas of activity.

The missions of the Group Risk Management department offices include:

- The Risk Officer: the department coordinator;
- The “Operational and Credit Risks” (OCR) office: assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model and of the structure of operating limits and delegated powers, overseeing, in accordance with the Risk Appetite Framework, their functioning, compliance and development, restricted to the assessment of operating and credit risks.
- The Rating Office (RTO) analyses and resolves on the counterparty rating and override proposals on Credembanca and Credemleasing customers forming part of the “Corporate Regulatory Unit” ensuring the supervision of the entire assignment process. It develops, oversees and maintains the model for the automatic and judgemental assignment of the rating for the Corporate Regulatory Unit in its quantitative, qualitative and group membership components.
- The “Internal Model Validation” (IMV) office, which submits the rating system, and more generally, the validated internal models to an internal validation process in order to verify on an on-going basis, repetitively, the reliability of results and to maintain consistency with legislative provisions, with company operating requirements and with the development of the reference market. It checks the suitability of the method-based and process choices and of the impairment activities in light of the IFRS 9. As regards the risk parameters for internal models and IFRS9 impairment, and the models/metrics relating to the IRRBB rate risk and liquidity risk, it carries out periodic checks. It also performs second-level checks on loan performance monitoring activities. It co-ordinates activities relating to the risk model and carries out the self-assessments. It assists the Risk Officer to draw up the Self-Assessment of the ICAAP and ILAAP processes. It oversees and validates the valuation models for pricing, fair value parameters and levels in accordance with the criteria established in the Group’s Fair Value Policy, also drawn up in line with legislative and accounting provisions in force.
- The “RAF and Stress test Integration” (RSI) office, which provides support to the Risk Officer and the Group Risk Committee in quantifying and managing exposure and the relative Risk Tolerance, through the application of transversal stress scenarios, to all risks classed as significant in the RAF, with specific regard to their integration, in accordance with the relevant internal regulations. It assists the Risk Officer in defining the criteria to identify the Most Significant Transactions and in drawing up the relative preventive opinions, in accordance with the relevant internal regulations.
- It assists the Risk Officer in the preparation, updating and management of the Recovery and Resolution Plan. For the Risk Management department, it coordinates the activities requested by ECB and interfaces with ERA.
- The “Finance and Asset Management Risk” (FAR) office, which assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model and of the structure of operating limits and delegated powers, overseeing their functioning, compliance and development, as regards the financial risks of its own portfolio and of third party portfolios in the form of units of UCITS and portfolio management.
- The “Data Risk Management” (DAM) office, which assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model, overseeing the functioning, compliance and development

of the same, restricted to Data Management processes (Data Quality, Data Reporting, Data Modelling and Solution).

- The “Insurance Risks” (RAS) office, which contributes to the definition, monitoring and assessment of the risk management system of Credemvita, including through support and advisory services to other company functions. It coordinates assessment activities, related to products in the portfolio, the launch of new products and strategic decisions.
- It ensures, in line with business objectives, risk assessment and mitigation at a level deemed acceptable by the company, based on its own Risk Appetite Framework.
- It also assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model and of the structure of operating limits and delegated powers, overseeing, in accordance with the Risk Appetite Framework, their functioning, compliance and development, restricted to the insurance risks.

ESG RISKS

In continuity with the materiality analyses carried out on climate and environmental risks, the Group is committed to continuing to integrate ESG factors into its decision-making processes, also in view of the ECB's expectations regarding climate and environmental risks. It is believed that this process is necessary in order to guarantee effective supervision over time, aimed at establishing a reliable approach to measure, monitor and manage these risks with a view to maintaining/reducing the Group's level of exposure.

To this end, the Group prepares to monitor the progress of the activities envisaged in the updated plan through periodic evaluation by the responsible function.

The assessments with reference to the level of exposure and supervision determine a qualitative metric of the risk profile through the monitoring matrix illustrated in the RAF Document.

The level of risk appetite therefore reflects the Group's commitment to continue the evolution path in compliance with the updated plan which is considered fundamental regardless of the level of exposure.

Description of the bank's risk culture and the manner in which its circulation is guaranteed.

The Board of Directors is responsible for the system of internal control, in compliance with specific supervisory regulations for banks issued by Banca d'Italia. Credito Emiliano's Board of Directors has drawn up the guidelines for internal control systems, to guarantee that the main company risks are adequately identified, managed and monitored.

The guidelines of the internal control system, represented by a set of rules, procedures and organisational structures, which seek to permit, through an adequate process of identification, measurement, management and monitoring of the main risks, business activities to be conducted in a sound and prudent manner, are drawn up by the Board of Directors, which assesses their adequacy in terms of the characteristics of the business, with the assistance of the specific Group Risk Committee and of the company's control functions. Credito Emiliano's internal control and risk management system is structured as follows:

- “line” controls on the proper performance of daily activities, conducted by the same functions that carry out the activities;
- controls set in place by the heads of operating/accounting administrative units, or incorporated into procedures;
- controls on the management of credit risk (including interest rate risk), market and operational risks entrusted to a specific autonomous Risk Management department, which is also responsible for the liquidity risk profile related to strategic risk;

- second-level controls, which seek to monitor measures to counter and mitigate non-compliance risk, including measures against money laundering and terrorism financing;
- controls associated with the process of financial disclosures;
- internal auditing activities, conducted by the Audit Service.

The Credem Group conducts the ICAAP at least once a year. The objective of the ICAAP process entails an independent assessment by the Credem Group, at consolidated level, of its current and future capital adequacy in relation to the risks to which it is exposed and company strategy.

In accordance with the ICAAP process and business objectives, the Board of Directors of the Parent Company assesses all types of risk at consolidated level and approves risk assumption broken down by Company and Business Unit identified as relevant in terms of contribution to the Group's risk, through a detailed Risk Appetite Framework process.

The RAF considers the possibility that the risk profile may undergo significant changes in the presence of adverse market trends and therefore Risk Tolerance thresholds are defined, which represent the maximum change that the Credem Group is willing to accept in stress scenarios.

Moreover, the Risk Management Committee reports the Level II indicators, i.e. those operational indicators for which the RAF does not provide the definition of appetite and tolerance, but aimed at strengthening the monitoring and control activities. The calculation methodologies for each indicator are shown in the manual "Risk Indicators": the Risk Management department is responsible for its disclosure and updating.

During the year, the Board of Directors, with the assistance of the Group Risk Committee, assessed the functioning of the internal control system, considering it to be, on the whole, adequate, efficient and implemented effectively with regard to the characteristics of the bank and of the Group. This opinion takes into account the plan for the implementation of the improvement measures identified following audits conducted by the Control Functions.

The Head of the Audit Service, as the Head of the Internal Audit department, has been appointed by the Board of Directors, on the proposal of the Group Risk Committee assisted by the Appointments Committee, following the approval of the Board of Statutory Auditors.

The Board, after receiving the opinion of the Group Remuneration Committee, pursuant to the Banca d'Italia provisions in this regard, approves the remuneration policy for the Heads of all control functions. Incentive policies are drawn up in line with the tasks assigned, taking care to avoid situations of conflict as regards the areas of the company they monitor.

For further details, please refer to the document entitled "Annual report to the shareholders' meeting regarding the Group remuneration policy" and in particular the paragraph entitled "Remuneration of heads of the company's control functions". The Credem Group has envisaged specific procedures for the coordination of the various parties involved in the internal control and risk management system. Coordination is guaranteed as follows:

- the Board of Directors and the Board of Statutory Auditors receive reports produced by third- and second-level functions as well as by the relative board and interfunctional committees. Note that the Board of Statutory Auditors is also informed during individual meetings of the Committees and of the Board of Directors;
- the reports produced by second-level functions are sent to the Internal Audit department;
- internal control matters and the relative risks are analysed by the Group Risk Committee, which also records the participation of the Head of the Audit Service, including in the role of Secretary (and therefore informed of all matters discussed by the Committee), the participation of the Head of the Risks Service, the participation of the Manager responsible for preparing the company's financial reports and of the Head of the Compliance and Anti-

Money Laundering department, the latter in meetings relevant to their areas, and the potential attendance of any additional guests, whose participation is deemed appropriate, as already indicated previously.

The monitoring of critical issues and supervisory actions occur on a quarterly basis via a single Tableau de Bord for all FACs submitted to the Group Risk Committee and sent to the Supervisory Authority.

With a view to maintaining a high level of attention to matters regarding the management of risks relating to banking activities, for several years now the Credem Group has organised training courses at all levels of the organisation, including management bodies.

Impacts resulting from the Covid-19 pandemic

Following the spread and continuation of Covid-19 and the consequent context of strong macroeconomic and financial uncertainty, some extraordinary measures were also maintained for 2021.

The Executive Committee maintained the increase in the frequency of the monitoring process of a significant set of RAF indicators from quarterly to monthly.

The Covid-19 Reporting was also maintained for 2021. The reporting consists of 5 templates:

- Forecasts on BS, P&L and solvency: new semi-annual template with forecast data;
- EBA Moratoria and State Guarantees: monthly template unchanged;
- Loans and advances and committed lines: monthly template (this is the former "Credit" Template);
- Market risk;
- Overview and operational continuity: Monthly template.

Section 1 - Risks associated with the consolidation of accounts

This section provides information on the companies included in the consolidation of accounts.

Quantitative information

Credit Quality

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

Portfolios/quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	101,890	242,066	34,887	263,898	48,494,734	49,137,475
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	6,556,583	6,556,583
3. Financial assets measured at fair value	-	-	-	-	-	-
4. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-	14,627	14,627
5. Financial assets held for sale	-	-	-	-	1,915	1,915
Total 31/12/2021	101,890	242,066	34,887	263,898	55,067,859	55,710,600
Total 31/12/2020	125,548	252,743	42,562	282,509	45,470,727	46,174,089

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

Portfolios/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Overall value adjustments	Net exposure	
1. Financial assets measured at amortised cost	819,040	440,195	378,845	11,043	48,846,219	87,584	48,758,635	49,137,480
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	6,558,329	1,746	6,556,583	6,556,583
3. Financial assets measured at fair value	-	-	-	-	X	X	-	-
4. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-	X	X	14,627	14,627
5. Financial assets held for sale	-	-	-	-	1,915	-	1,915	1,915
Total 31/12/2021	819,040	440,195	378,845	11,043	55,406,463	89,330	55,331,760	55,710,605
Total 31/12/2020	876,447	455,598	420,849	1,050	45,847,268	111,869	45,753,240	46,174,089

Portfolios/quality	Assets with evident poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	57,511
2. Hedging derivatives	-	-	211,101
Total 31/12/2021	-	-	268,612
Total 31/12/2020	-	-	292,256

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

A structured entity is an entity structured in such a way that the voting rights or similar rights are not considered relevant to establish control, as in the case in which voting rights only refer to administrative activities and the relevant activities are conducted by means of contractual arrangements.

For special purpose vehicles and investment funds, control is considered to exist when the Group has contractual rights to manage the entity's significant activities and is exposed to the entity's variable returns.

B.1 Consolidated structured entities

The Group has no consolidated structured entities.

B.2 Structured entities not consolidated in the accounts

The Group holds the entire capital of two mutual funds managed by Euromobiliare Asset Management SGR, a company belonging to the Group. Considering the composition of the capital of these funds, essentially comprising financial assets, and given that the reporting benefits resulting from consolidation of said funds are less than the costs necessary to provide said information (chap. 3, qc38 of "*The Conceptual Framework for Financial Reporting*"), these mutual funds are not consolidated on a line-by-line basis.

The above-mentioned investments are recorded under the item "Financial assets held for trading" and amounted to € 2.3 million at 31 December 2021 (€ 2.3 million at 31 December 2020); as these amounts are recorded at fair value, their consolidation would not have had any impact on the Parent Company's profit or on the Group's shareholders' equity.

There are no active or passive relations and there are no forms of contractual arrangement relating to the financial support of these funds.

The Board of Directors of Euromobiliare Asset Management SGR, on 26 May 2010, approved the liquidation of the funds. During the liquidation, the portfolio was managed with a view to maximising the recovery of the most liquid portfolio positions. This activity has made it possible over the years to proceed with the advance allocation of the flows deriving from the recoveries made.

In May 2020, having ascertained the portfolio situation, now made up of highly illiquid positions, the residual divisions were transferred to a company specialised in the treatment of these positions. The transfer activities were completed in 2021 and made it possible to bring the fund's assets to a situation of total liquidity in order to proceed with its closure, subject to the final allocation of the assets that will be carried out in 2022.

The statements of said mutual funds at 31 December 2021 are provided as attachments to the consolidated financial statements.

B.2.1 Structured entities not consolidated for supervisory purposes

The Group does not have structured entities not consolidated for supervisory purposes.

B.2.2 Other structured entities

The Group has no other structured entities.

Section 2 - Risk of prudential consolidation

This section provides information on the companies included in prudential consolidation (companies belonging to the Banking Group).

1.1 Credit risk

1. General aspects

According to the provisions of accounting standard IFRS 9, expected credit losses must be estimated by evaluating a range of possible scenarios adequately weighted so as to reflect a target amount with relation to the different levels of probability of the scenarios occurring.

To this end, the Impairment model considers three future macroeconomic scenarios: a central one consistent with planning processes, ICAAP and RAF and two further consequential scenarios, to represent a range of variability between the hypothetical plausible scenarios:

- “Good scenario” - scenario with low likelihood that better scenarios will emerge;
- “Baseline Scenario” - central scenario in line with planning processes, ICAAP and RAF;
- “Bad scenario” - scenario with low likelihood that worse scenarios will emerge.

These scenarios are selected from those provided periodically by an external provider and are approved by the Board of Directors. Each is accompanied by the relative probability of occurrence, and provides future forecasts for the main macroeconomic indicators over a three-year horizon, with observations made at quarterly intervals. The table below shows the macroeconomic scenarios adopted to calculate weighted expected losses, including the weighting defined consistent with the relative probability of occurrence:

IFRS 9 scenario	Description of the scenario	Weight
"Good"	<i>Stronger Near-Term Recovery Scenario ("S1")</i> : a scenario with a probability of 10% that a better scenario will occur and a 90% probability that a worse one will	10%
"Baseline"	<i>Baseline scenario</i> : a scenario with a probability of 50% that a better scenario will occur and 50% that a worse one will	80%
"Bad"	<i>Deep Recession Scenario ("S3")</i> : a scenario with a probability of 90% that a better scenario will occur and 10% that a worse one will	10%

For the purpose of defining the scenarios, GDP is the anchor point variable whose performance is considered as a representative indicator of the overall economic framework. Based on the trend of GDP, the trend of the other important macroeconomic variables is defined. A probability of occurrence is associated to each scenario based on their reference percentile in the distribution of changes of GDP on the scenarios generated.

The effect of the scenarios is then translated into the Impairment model using specific Satellite models that identify the most significant variables to represent the most significant correlation between the economic cycle and internal data, also in terms of time variance (taking the separate drivers into consideration also at various time lags with respect to the reference figure).

The latter are used to calculate the forward-looking components for all parameters that contribute to the calculation of ECL: PD, LGD and EAD/PrePayment.

The table below shows the sensitivity of the segments that comprise the Group's portfolio (with reference to 31 December 2021) and the impact for each classification stage in terms of adjustments and average coverage if a weighting of 100% respectively is used in the three scenarios selected.

Segment	Weighted	Adverse scenario	Baseline scenario	Favourable scenario
Stage 1 - Adjustments	46,536	44.86%	-15.21%	-39.40%
Corporate	23,474	32.77%	-11.59%	-31.39%
Retail	23,061	58.28%	-18.90%	-46.86%
Stage 1 - Coverage	0.14%	44.86%	-15.21%	-39.40%
Corporate	0.14%	32.77%	-11.59%	-31.39%
Retail	0.14%	58.28%	-18.90%	-46.86%
Stage 2 - Adjustments	41,835	39.91%	-13.77%	-36.85%
Corporate	14,203	40.35%	-13.90%	-37.57%
Retail	27,632	39.68%	-13.70%	-36.48%
Stage 2 - Coverage	2.05%	39.91%	-13.77%	-36.85%
Corporate	1.96%	40.35%	-13.90%	-37.57%
Retail	2.11%	39.68%	-13.70%	-36.48%
Total	88,371	107,630	75,532	66,511

With regard to value adjustments, it is confirmed that the Baseline Scenario represents an improved option with respect to the weighting of the three scenarios and to be noted is the strongly worsening effect of the adverse scenario with a higher weighting versus the Standard, compared to the improving effect of the Favourable Scenario, in line with what can already be observed on macroeconomic variables. Additional considerations may be made for exposures classified in "stage 3". With regard more specifically to impaired loans, it should be noted that, although the definition of impaired loans (credit-impaired financial assets) in IFRS 9 is substantially the same as that in the accounting standard it replaces (IAS 39), the methods of calculating the ECL lifetime have also had methodological consequences for the purposes of the valuations to be carried out in this sector, mainly in relation to:

- The inclusion of forward looking information, such as that relating to macroeconomic scenarios, recovery estimates and times, the probability of migration to lower classes, as well as information that may have an influence on the value of the collateral or on the expected duration of its recovery;
- The consideration of alternative recovery scenarios, such as those for the sale of credit assets, in connection with possible sales of units of the non-performing portfolio, in relation to the corporate targets for the reduction of non-performing assets, to which a probability of occurrence must be attributed, to be considered as part of the overall assessment.

Taking into consideration the above and in line with the guidelines and objectives related to the NPL portfolio, the write-downs on impaired loans are applied through three different methodologies:

- Specific write-downs on individual exposures - in relation to the adjustments applied to said exposures, during the current period, the expected losses on non-performing loans are determined analytically based on the recovery forecasts made by the manager or resulting from the application of the internal regulation "guidelines and criteria for the write-down of loans of the Credem Group", discounted as a function of the original effective interest rates and of the relative envisaged recovery time. Considering that the recovery forecasts use the specific situation of the borrower as reference, the use of sensitivity analyses for the expected losses for these exposures is not considered consistent. Nevertheless, it cannot be ruled out that a deterioration of the creditworthiness of the borrower, also due to possible negative effects on the economy related to the uncertainty due to international spread of the Coronavirus and the exhaustion of the implemented support measures, may result in the recognition of further losses with respect to those

considered at December 2021, based on the conditions on the reporting date of the financial statements.

- Write-downs determined according to a specific model, which may be applied to a portfolio of bad loan exposures valued on a disposal basis (hereinafter referred to as the "Stage 3 Sub-Model Portfolio" or "Portfolio").

During 2021, some positions were included in the stage 3 sub-model portfolio. These positions have been analysed and selected individually and will be disposed of through sale in 2022. The Credem group used a primary external supplier to assess, in line with the reference macroeconomic context, the forecast realisation on the positions included in the portfolio.

The evaluation activities carried out are listed below:

- Analysis of the characteristics and composition of the portfolio being sold;
- Identification of the methodology to be adopted for the estimate of cash flows for the valuation of the portfolio;
- Estimate of the parameters underlying the valuation methodology identified taking into account the specific characteristics of the portfolio
- Discounting of estimated net flows at a rate of return required by investors investing in asset classes with comparable characteristics.

The valuation method used consisted of calculating the discounted value of the Net Cash Flows at a discount rate, calculated as the rate of return expected by investors investing in *asset classes* with characteristics comparable to those of the portfolio in terms of Risk-Return. The present value of the net cash flows was estimated using the *Discounted Cash Flows* method. Before proceeding with the discounting of the *Net Cash Flow*, the gross cash flows of the portfolio were estimated, assuming the sale of the assets placed as collateral.

Final realisation times have been estimated on the basis of the court of jurisdiction using publicly available sources on court timing as benchmarks. The result of the valuation produced a conservative scenario which also considers the current context of uncertainty. The recovery forecast that emerges from the scenario is around 23%; following the valuation, Credem made further adjustments to the income statement, devaluing this portfolio up to the net book value of approximately 23%. The net book value of the loans included in the stage 3 sub-model portfolio at December 2021 is approximately € 12 million.

Historically, the Credem Group has always considered high credit quality to be a cornerstone of its capital stability and a strategic factor in the value creation process. The fundamental principles on which the disbursement of credit is based are as following:

- consistency with the notion of domestic commercial bank when assessing the customer's business activity, its size and its geographic location with respect to the Credem network;
- the technique adopted for risk assessment, which provides an objective and coherent basis for granting credit, in line with the purpose and the financial needs of customers, with their capital and financial structures and with their relative historic and prospective repayment capacities;
- the quality and adequacy of information, in accordance with the data governance principles defined by the Credem Group, which represent a fundamental requirement for the objective valuation of a risk profile, briefly expressed as a rating;
- the fractioning of credit risk pursued by diversifying the customer portfolio with a selective approach consistent with the capital and risk/return objectives;
- consolidated assessment of counterparties at Group level, in order to obtain a coherent and non-fragmented perception of the risk profile of each individual or Group counterparty;
- the attention paid to formal correctness, before credit is disbursed, also through the support of specialist departments of the Group, which provide any necessary technical or other advice;

- attentive management of customer relationships by front offices and the checks conducted by dedicated central offices guarantee the correct application of credit lines, the continuous updating of customer information, the prompt identification of non-performing loans and the adoption of the measures needed to recover the relative exposures;
- the adoption of rigorous policies to classify and hedge non-performing loans and receivables, preferring, where possible, policies aimed at settlements, reaching out-of-court agreements with counterparties, therefore containing recovery costs.

With reference to credit risk issues, it should be noted that the Group publishes the information required by the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis" published by the EBA(EBA/GL/2020/07) in the public disclosure "Third Pillar" or "Pillar 3".

1.1 Impacts resulting from the Covid-19 pandemic

Since the beginning of the pandemic, the functions involved in the Bank have implemented a series of initiatives in order to better support the different types of customers of the Group. These initiatives include the offer of governmental support together with the initiatives carried out independently by the Credem Group.

The effects resulting from the pandemic risked undermining the solidity of the companies that make up the economic fabric in which the group operates, but this risk was significantly mitigated through the aforementioned policies to support the economy.

The changing economic and social context has led to growing uncertainty which required greater adaptability and resilience.

The Group has implemented the indications of the various Regulators concerning the application of the accounting standard IFRS 9 on the classification of financial instruments and related measurement of expected losses.

In particular, the Group acted mainly on the method of determining the IFRS 9 risk parameters dedicated to performing exposures, which are the main drivers of the determination of provisions on performing loans, without modifying the current framework of classification of exposures into the three stages envisaged by the Regulations. This approach made it possible to manage the pro-cyclical nature of the ongoing emergency situation, as specifically requested by the European Central Bank (i.e. ECB) with specific letters dated 1 April and 4 December 2020, and to continue to promptly identify any deterioration in credit quality, accompanied by an increase in the associated expected loss. This section is structured as follows:

- Assessment of the significant increase in credit risk (SICR);
- Measurement of expected losses.

As described in detail below in the document, the first section is dedicated to illustrating the rationale that led the Group to maintain its staging approach to financial instruments, and also describes the relationships of this classification activity with the debt repayment facilitation measures implemented by the Group in the current emergency context.

The second section, on the other hand, is dedicated to an analytical description of the changes made by management in relation to the IFRS 9 measurement models, together with the assumptions underlying the aforementioned changes.

2. Credit risk management policies

2.1 Organisational aspects

At present, the Credit Service of Credito Emiliano is organised into three areas of responsibility:

- Credit Strategy and Monitoring, which establishes the objectives and the guidelines for credit development as a business line in accordance with objectives and the group's RAF, performs controls on the credit supply chain, draws up internal regulations and defines the main tools, processes and models supporting the entire credit process (without prejudice to the assignments of responsibility to the ERISK department in relation to models falling within the IRB scope);
- Credit Management, which through decision-making activities and technical advice to commercial offices and to companies within the consolidation scope ensures that the risk profile of loans over time is consistent with the defined strategy objectives while overseeing the correct repayment of non-performing positions;
- Non-performing Credit, which handles the management and recovery of non-performing loans.

Credit Strategy guidelines are approved by the specific Group Credit Strategy Committee and resolved upon by the Board of Directors. With regard to the NPL scope, the Group's Non Performing Credit Committee defines specific strategic and monitoring actions, including with regard to the performance of the relevant SREP indicators,

Credit risk management also involves, with regard to their respective areas of competence, the processes of responsibility of the Group ERisk Service:

- The Risk Appetite Framework: in which tolerances and appetites are defined for the indicators relating to credit risk both in terms of performing loans and non-performing loans;
- Management of the internal rating system, in particular Rating Office for the assignment of ratings to counterparties falling within the Corporate Regulatory Function, Operational and Credit Risks for the responsibility of the Corporate and Retail Rating System and for the calibration of parameters as well as the internal function for validation.

The provisions introduced by reference regulations for adopting internal models and subsequent amendments were therefore systematically acknowledged by Credito Emiliano S.p.A. as an opportunity to improve risk management and increase the value generated for shareholders, thanks to its historical asset credit quality as well as the widespread and consolidated use of rating instruments in the assessment, disbursement, monitoring and pricing of loans.

2.2 Management, measurement and control systems

Credit assessment and disbursement activities are differentiated on the base of the type of customer. More specifically, for the corporate segment, an "expert" system is in place to guide formulation of the loan proposal and forms the basis of the rating system. This method is based on an analysis of the economic-equity items of the financial statements supported by an evaluation of cash flows and data from the Automated Interbank Risk Service, as well as qualitative assessments of competitive positioning, business risks and belonging to the Group.

For the Small Business segment, as part of the same general assessment method, differentiations were applied in order to give greater weight to information in terms of performance and data from the Automated Interbank Risk Service, which provide an important contribution to the predictive capacity of default.

A rating system has been developed for the small business and private consumer segment, specifically adjusted for this type of customer to support the approval process of transactions.

Moreover, for all Bank customers, an internal Loss Given Default (LGD) model is in place, which assesses the potential loss given the counterparty's default, taking into

consideration the counterparty type, amount of exposure, technical form and any guarantee backing the position.

All systems are directly integrated into the loan proposal; the new Electronic Credit Procedure is operational for all private managers and companies. The platform ensures high data quality and efficiency in the credit approval and rating processes. A fundamental credit governance pillar is also represented by the assignment “ad personam” of delegated powers, after assessing fundamental elements of the decision-making individual, such as expertise, results achieved in credit management and disbursement and training undertaken.

Delegated powers are based, for Credembanca only at present, on the “Weighted Agreement” indicator, which by allocating weights to the individual components of the position assigned, identifies the level of risk in accordance with policies and historical default data.

In recent years, also thanks to technological investments and the use of Advanced Analytics, the “automated” mechanisms to support monitoring and origination have also been strengthened, also with a view to Openbanking.

Among the methods supporting origination, we find the Maximum Grant Agreement (MAC), which is the maximum level of credit line automatically attributable to a counterparty.

Starting from 2020, the Credem Group has carried out an assessment with reference to the EBA document relating to the guidelines on loan origination and monitoring, with the aim of identifying the impacts that the regulation may have determined on governance, credit strategies, credit processes and systems IT.

In the course of 2021, organisational and governance interventions were carried out to implement the EBA guidelines by the expected deadline of 30 June 2021.

Further development and fine-tuning activities will be developed in the course of 2022 to achieve full compliance with regulatory indications.

The office that sets and controls credit limits is supported by a specific Group Credit Committee, which establishes, among other things, the main Credit Limit on which the Policy is based, which is the “Maximum Exposure Threshold” (MET), namely the maximum credit risk that the Group intends to undertake vis-à-vis a counterparty (or group of related parties) including the exposures resulting from securities. The definition of this threshold is based on Group Eligible Capital and Supervisory thresholds. The Committee is also responsible for reporting positions which, following specific decisions, exceed the defined thresholds. Exceeding the “Maximum Exposure Threshold” is classified as a “Most Significant Transaction” pursuant to the 15th update dated 2 July 2013 of Circular no. 263 of 27 December 2006.

Credem Group has determined that the identification of the governance bodies is a prerequisite for risk management from a consolidated perspective:

- Parent Company BoD: responsible for defining the general risk management and risk appetite guidelines, approving internal regulations that also govern the structures of specific limits;
- BoDs of the individual companies adopt the objectives established by the Parent Company BoD in relation to the company mission and risk profile;
- Executive Committee (hereinafter EC): management body of the Parent Company;

In addition, specialist functions have been set up within the Parent Company, and in particular:

- Group Risk Committee (hereinafter also Risk Committee);
- Risk Management Committee;
- The Risk Management department, which is part of the Enterprise Risk Management Service (ERISK).

The Risk Management Department is composed of the Head of the Risk Management Department (so-called Risk Officer), identified as the head of the ERISK Service, and of three different areas:

- Credit, Operations, and Rating Management area;
- Finance and Insurance area;
- Validation, Stress Test, and Data Management area.

At portfolio level, periodic analyses and monitoring are carried out by the Risk Management department.

The Group Risk Committee plays a supporting role - which entails consultation, examination and the formulation of proposals and opinions - with a view to assisting the Board of Directors in its assessments and decisions relating to risk management and in general to the internal control system, to guarantee the adequacy of the same in terms of the characteristics of the business with relation to the development of the organisation and its operations, as well as of the relevant legislative scenario.

In particular, the Risk Management department allows the Board of Directors, assisted by the Group Risk Committee and the Board of Directors of the Company (within its scope), to carry out an appropriate assessment for deciding:

- the Risk Appetite Framework (with a special reference to the assessment of the risk objectives and tolerance thresholds) ensuring that the implementation is consistent with the risk objectives and the tolerance thresholds approved;
- the quarterly performance of the risk profile assumed as a whole in relation to the Risk Appetite objectives and to the tolerance thresholds in respect of all the indicators in the Group's RAF.

On 2 October 2015, Banca d'Italia authorised the Credem Group to use the IRB Advanced method (PD, LGD and EAD parameters) from 30 September 2015 to quantify the capital requirement against customer credit risk classified under the Corporate and Retail supervisory function of Credito Emiliano and Credemleasing. As regards internal models, the Risk Management department allows the Board of Directors, assisted by the Group Risk Committee and the Board of Directors of the Company (within its scope), to carry out an appropriate assessment for deciding:

- the compliance of the internal models with the instructions envisaged by the prudential regulations subject to the opinion of the Board of Statutory Auditors;
- the risk parameters related to the internal models used subject to the opinion of the validation function;
- the criteria for identifying the Most Significant Transactions (MST) and approving the related annual reporting.

Specifically, with reference to the credit risk for the activities required by prudential regulations, the Risk Management department via the Operational and Credit Risks office:

- carries out all the activities required from this office by the "Internal Rating Management System" Regulations;
- carries out management activities concerning the quantification of the credit risk in support of other functions, also with reference to transactions with associated parties and verifying the adequacy of the assessments made on non-performing loans.

Moreover, the Internal Model Validation office:

- validates the internal models as required by the "Internal Rating Management System" Regulations and the Group Risk Management Regulations;
- checks the monitoring of the loan performance.

2.3 Methods used to measure expected losses

As already illustrated in Part A of these explanatory notes to the consolidated financial statements, the IFRS 9 provides criteria for measuring expected losses that are broken down into three increasing levels of credit deterioration. Financial instruments are grouped into three stages (categories or buckets), based on credit risk and the increase in credit risk between initial recognition and the reporting date of the financial statements. In detail:

- Stage 1: performing financial instruments that did not undergo a significant increase in their risk level following initial recognition, or that had a low level of risk at the measurement date (low credit risk scope). In this case, a value adjustment is defined equal to the expected loss within the next 12 months of the residual life of the instrument.
- Stage 2: performing financial instruments that did not undergo a significant increase in their risk level following initial recognition and which do not have a low level of risk at the measurement date. In this case, an adjustment is defined

equal to the expected loss over the entire residual life of the instrument (lifetime expected losses).

- Stage 3: impaired financial instruments, which show objective evidence of impairment. The value adjustment is analytically defined and covers the expected loss over the entire residual life of the loan (lifetime expected losses).

In general, the allocation rules for the three stages defined by the Credem Group are based on the main elements provided by the internal rating system as well as on the main credit deterioration indicators monitored by the Credem Group for the management of risk.

Credito Emiliano identifies the presence of a significant increase in credit risk (SICR) as a deterioration of at least two classes in the counterparty's rating from the time of initial recognition. At the same time, rating classes that are comparable to the "investment-grade" category are considered low-risk profiles; exposures that at the measurement date fall into these categories are classified by the relevant internal application in stage 1, without the need to check for any deterioration in creditworthiness following initial recognition (so-called *low credit risk exemption*).

Furthermore, the presence of forbearance measures or continuous past due of more than 30 days is considered an objective sign of a deterioration in creditworthiness; therefore, financial instruments displaying such signs are classified directly in stage 2 without assessing the simultaneous presence or absence of a significant increase in credit risk or adherence to a low-risk profile.

To identify non-performing loans, and their allocation in the Stage 3 risk bucket, the Credem Group refers to the internal definition of non-performing loans governed by the "Group Credit Policy" regulation. This regulation specifies that the categories of non-performing loans are considered "default" in compliance with the relevant supervisory provisions of Banca d'Italia (Circular no. 272 of 30 July 2008 "Accounts Matrix", Sec. B) Chapter II, "Credit Quality" - 15th update of 26 October 2021) listing the criteria and characteristics required for each category. The default definition includes the following categories, which represent default states of increasing severity:

- past-due and/or overdue non-performing exposures (PS);
- unlikely to pay (IP);
- bad loans (Z).

For the financial instruments allocated in stage 3, value adjustments are defined on an "expert" basis in relation to evidence of management and recovery of non-performing loans: for each problem/non-performing loan, a percentage of coverage is identified that is suitable to represent the expected losses in the residual life of the loan, in relation to the analysis of significant characteristics such as: type of credit product, amount of credit exposure, ageing of the deterioration state, presence of supporting guarantees (type of guarantee and level of "loan to value" coverage).

In the case of financial instruments allocated in stages 1 and 2, the expected losses are calculated by categories of loans that are homogeneous in terms of credit risk. In particular, with each asset containing similar characteristics in terms of credit risk, the following are associated:

- a probability of default (PD);
- a loss Given Default (LGD) that is also commensurate with the type of financing, i.e. the technical form, guarantee type or other relevant factors;
- an Exposure at Default (EAD).

In general, the risk parameters adopted by the Group to determine value adjustments are based on the same assumptions and estimation techniques as those used for internal models validated to quantify the capital requirement for credit risk using the IRB Advanced method (PD, LGD and EAD parameters). Unlike the latter, which are defined using a through-the-cycle approach and include adverse macroeconomic conditions (downturn recession period), the parameters adopted to determine value adjustments in accordance with IFRS 9 are based on a precise (so-called "point in time") and forward-looking logic; so as to be able to represent the current and expected macroeconomic situation in the short to medium term. Therefore, they are estimated by taking historic data into consideration, where

trends and correlations with credit risk have been identified, both forecast indicators of expected events as well as forecasts on the performance of the macroeconomic cycle.

Hence, value adjustments are calculated by assessing a range of possible results so as to reflect a target amount weighted in relation to the probability of occurrence for the different scenarios. Specifically, the Group considers three scenarios of increasing severity, and projects the trend on risk parameters adopted to measure expected losses, so that they reflect the macroeconomic conditions expected from these scenarios. The techniques used to condition the macroeconomic cycle are consistent with the Group's approach to conducting stress testing exercises conducted by European supervisory bodies:

- methods of conditioning the probability of default (PD) cycle, which combine assumptions of changes in the counterparty's creditworthiness (i.e. changes in the valuation of future ratings associated with the counterparty) with assumptions of changes in the probability of default associated with each risk profile (adoption of so-called internal "satellite models", which express the relationship between the probability of default and the main macroeconomic factors);
- methods of fine-tuning the cycle of loss given default (LGD), which combine assumptions of changes in the level of credit deterioration (i.e., transfers between different default states) and assumptions of changes in the level of coverage of guarantees supporting the loan, thereby affecting the ability to collect and the amount of loss recognised in the event of default.

In general, the detailed criteria followed to determine the value adjustments for each stage are governed by the internal "Guidelines and criteria for the write-down of loans" and "Guidelines and criteria for the write-down of securities"; updated and submitted for approval by the Board of Directors on at least an annual basis. In 2021, the "Guidelines and criteria for the write-down of loans of the Credem Group" were updated and refined following the changes introduced in 2020, due to the analyses of the historic trend of write-downs applied up until the end of the previous year.

Assessment of the significant increase in credit risk (SICR)

As anticipated, the IFRS 9 framework in use by the Group relating to the *staging* of performing financial instruments was maintained unchanged during the Covid-19 emergency. The approach adopted is based on an analytical classification principle, i.e. based on the analysis of individual positions. The *staging* drivers used are:

- Assessment of Significant Increase in Credit Risk (i.e. SICR) by measuring the change in the rating at the reference date compared to the date of origination of the position: if a worsening delta equal to or greater than 2 notches on the rating masterscale² is detected, the position is automatically classified as stage 2. Otherwise, the position is classified as stage 1. This criterion is relative, requiring comparison with the credit situation at the time the loan was granted;
- Backstop criterion on days past due: if 30 or more days of continuous past due are detected, the position is automatically classified as stage 2
- Backstop criterion on forbearance measures: in the case of a forbore performing classification, the position is automatically classified as stage 2.

It should be noted that the 2 *notch* worsening threshold has not been changed as part of the Covid-19 contingency, and that it is applied indiscriminately regardless of the portfolio/segment and the rating class of the position under analysis.

In this context, as per regulatory indications, the granting of moratorium measures in support of creditors compliant with the guidelines of the *European Banking Authority* (i.e. EBA) do not automatically result in classification as forbore performing and, consequently, at stage 2. However, regardless of whether support measures are granted or not, the SICR is assessed on a monthly basis in accordance with the current IFRS 9 Framework on all IFRS 9 positions. Therefore, the potential

² If the rating at the reference date is included in one of the first 4 classes, the position is automatically maintained in stage 1 by virtue of the so-called *Low Credit Risk Exemption*.

occurrence of a SICR is also assessed on positions subject to a moratorium, whether or not in accordance with EBA guidance, for the purposes of classification into the different stages.

In general, with regard to positions subject to moratorium measures (which constitute a rather small fraction of the overall portfolio), regardless of whether or not they comply with the EBA guidelines, it is considered that, although these debt repayment facilitation measures neutralise at least in part the backstop criterion relating to days past due, the SICR criterion relating to the measurement of the rating delta with respect to origination is nevertheless able to intercept the underlying phenomena of deterioration of credit quality, especially through the prospective qualitative component of the corporate rating.

Specifically, through the qualitative component of the rating, the expected trends referring to the sector of economic activity and the economic impacts deriving from interim financial statements are valued. In addition, it should be noted that the rating review times have been accelerated for corporate customers (the rating validity period has been shortened compared to the 12 months provided for by the ordinary policy, where deemed necessary by the Rating Office), which receive the vast majority of the moratoria granted, and maintained unchanged for retail customers, for whom the number of moratoria granted is limited. In addition, it should be noted that the *backstop* criterion relating to days past due has always contributed minimally to stage 2 transitions compared to the SICR criterion, which has historically been the main driver (over 83% in December 2021).

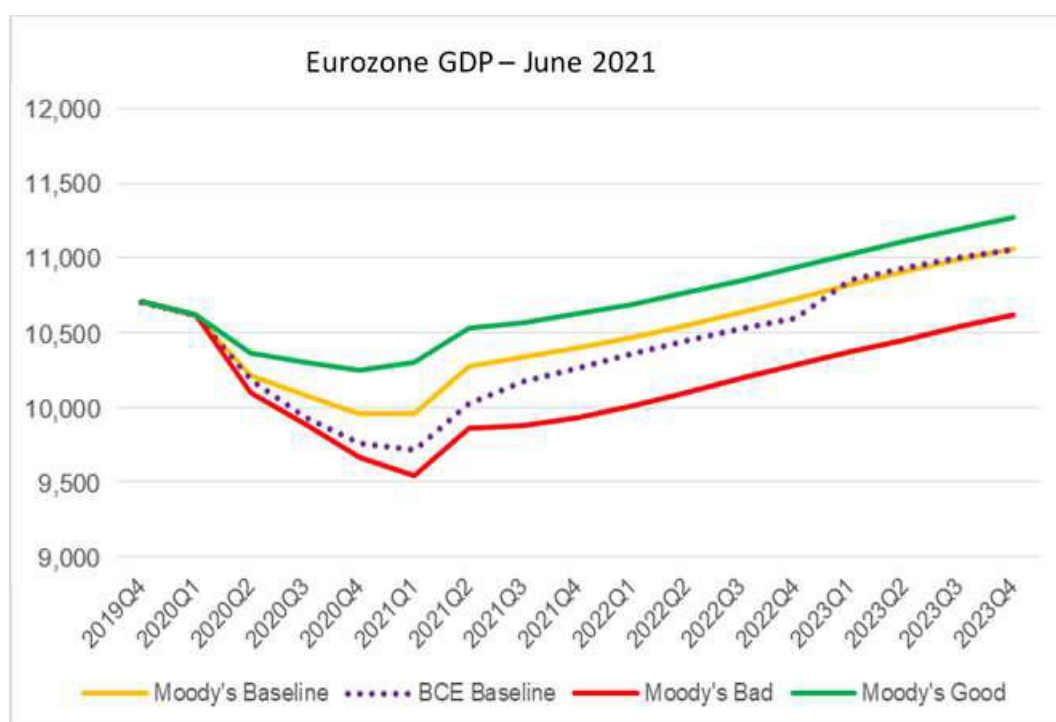
Consistent with the above, moratorium measures that do not comply with EBA guidelines and that generate a decrease in the value of the loan of no more than 1%, automatically lead to classification as *forborne performing*, and consequently the assignment to stage 2. It should be noted that, with regard to the ex-CR Cento positions, starting from the accounting date of July 2021 (i.e. the date of the merger), these exposures deriving from the merger also have also fallen within the scope of IFRS 9. For customers shared with the Group, the rating was by definition immediately available, while for CR Cento's exclusive customers a notional default rating was applied, for IFRS9 purposes only, and then a progressive rating plan was expected to be completed by mid-2022.

Methods used to measure expected losses

Description of the scenario

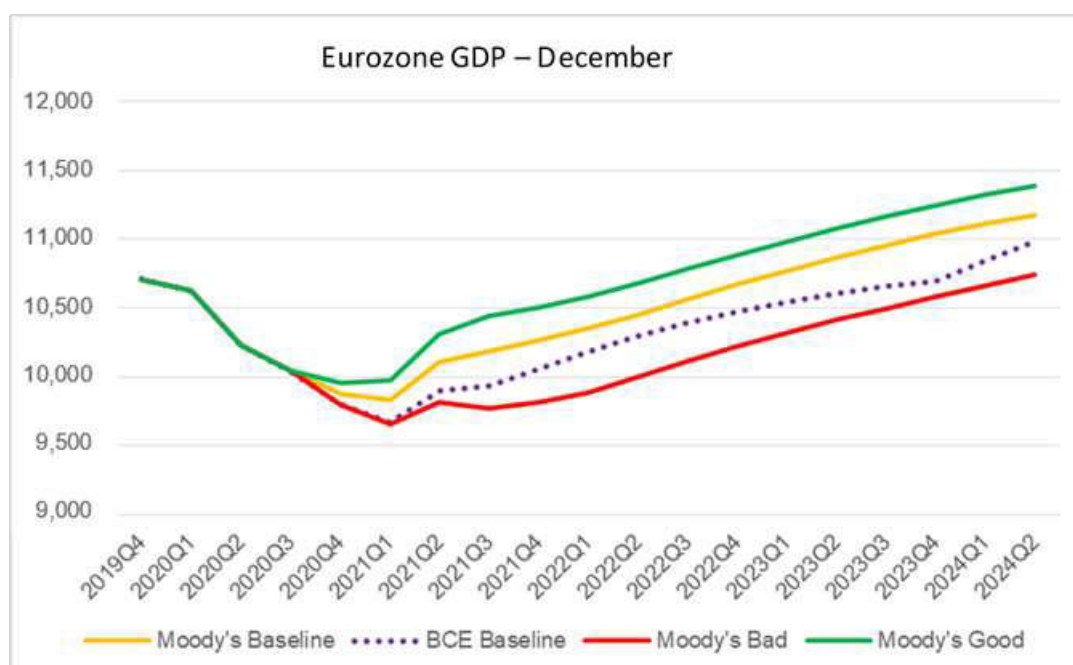
The scenarios are provided by the external provider Moody's. In detail, three Scenarios are identified: *Baseline* (as indicated by Moody's), *Bad* and *Good* (respectively identified as Scenarios S3 and S1 of the same supplier). For these different scenarios, the relevant probabilities of occurrence are also provided, which are used to weight the different derived ECL estimates and arrive at the overall estimate.

Following the recommendations received from ECB in the letter of 1 April 2020, the Institutions are required to guarantee the sustainability and correctness of the Scenarios in use with respect to the forecasts provided quarterly by the European Central Bank. In this regard, starting from June 2020, a monitoring and comparison activity was carried out between the data published by ECB and the scenarios provided by Moody's the previous quarter (i.e. the latest Moody's scenarios available at the date of the release of the ECB scenario) has been carried out, verifying their substantial similarity.

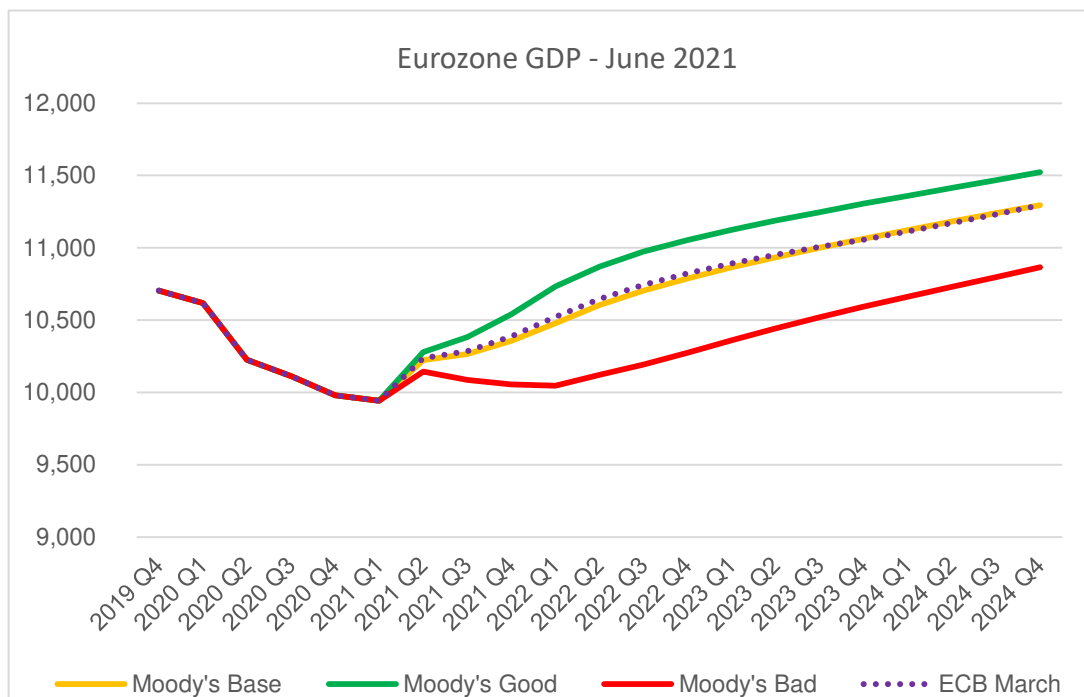


In this context, the Group confirmed the use of the Moody's provider, required by the current IFRS9 framework, also in light of the failure to provide, within the ECB projections, the probability of occurrence of the scenarios and all the variables necessary to feed the Group's PD and Prepayment satellite models.

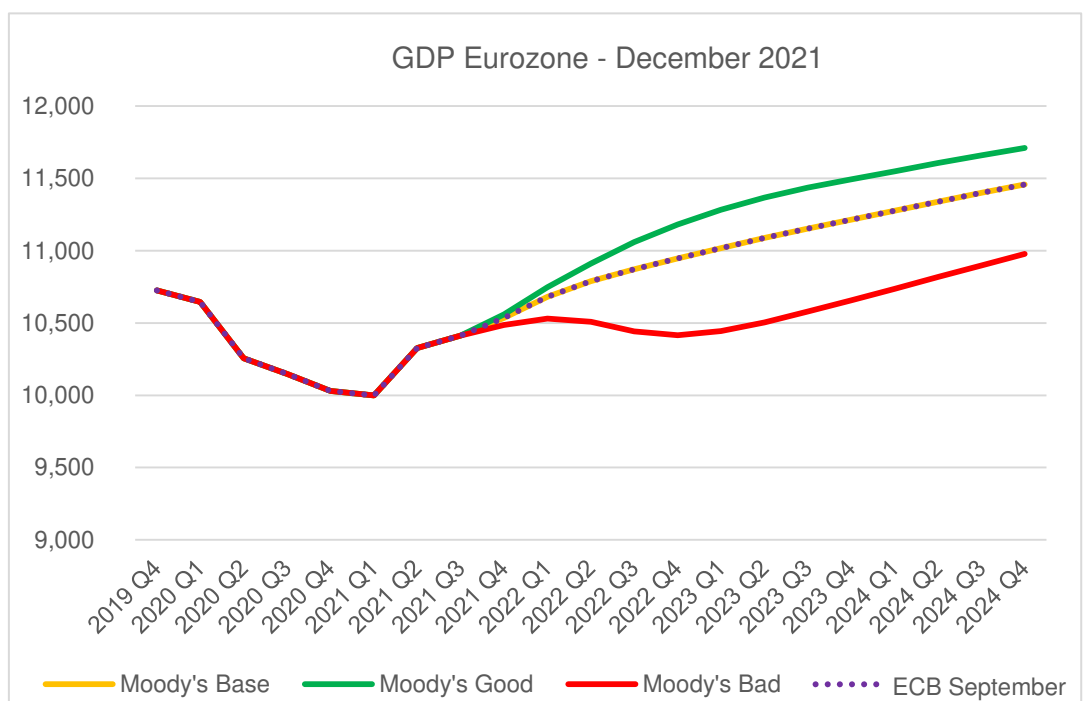
With regard to the ECB delivery in December 2020 (shown below), the comparison related to the aforementioned monitoring clearly showed that the so-called "Good" was well above the ECB forecasts, which were instead intermediate compared to the Baseline scenarios, and Bad for the entire projection horizon.



In line with the aforementioned recommendations received from the Regulator, it was therefore decided to recalibrate the weighting of the scenarios, defining a stricter alternative weighting that seemed more sustainable and consistent with the ECB forecasts: 0% Good, 60% Baseline, 40% Bad.



In light of the comparison shown in the chart above, with Moody's March 2021 delivery updates, the weightings of the three scenarios have been adjusted in order to undertake a gradual realignment to the standard values (80% baseline, 10% good and 10% bad). In detail, for the update in question relating to the half-yearly financial statements of June 2021, the probability relating to the good scenario was maintained at 0%, while the baseline and bad scenarios were weighted with probability equal to 70% and 30%, respectively.



At the time of the current update, the weightings of the 3 Moody's scenarios have been tightened slightly more conservatively than in the June 2021 Semi-Annual Report. In particular, for this update, the probability for the good scenario has been kept at 0%, while the baseline and bad scenarios have been re-weighted with probabilities of 60% and 40% respectively. It should be noted that the rationale for the decision to maintain prudential weightings lies in the intent to maintain a margin of caution associated with the uncertainty that still remains in the *assumptions* made by Moody's regarding the various scenarios, with particular reference to the good scenario. In addition, the Group considered it appropriate to maintain a margin of caution, mainly related to the occurrence of a fourth Covid wave during the autumn/winter period 2021-2022, and the consequences of the related containment actions. It should be noted that the rationale for this decision derives from the observation of the first empirical evidence of a resurgence of the Pandemic in October and November 2021, months later than the reference date of the Moody's scenarios (September 2021) and therefore not included in them.

Adaptation of models and overlays

The quantification of ECLs is based on:

- the application of scenarios provided by the external provider to the satellite models developed internally;
- the application of scenario effects (i.e. shifts) to migration matrices including PDs and the adoption of the Markovian approach and survival analysis approach to quantify PDs from a lifetime forward-looking perspective;
- the integration of forward-looking approaches also in the LGD through the incorporation of forward-looking information on the performance of the real estate market and application of the shifts to the Danger Rate in line with that carried out for the PDs.

These rules were identified with a view to minimizing discretionary interventions in the quantification of loan loss provisions.

In the Covid-19 context, some adjustments to the models (overlay factors) were defined and implemented to take into account the effects related to the extraordinary nature of the macroeconomic context that has emerged and the measures to support the economy issued by the Government, not directly incorporated in the current methodological framework, in order to ensure a realistic estimate and cushion excessive pro-cyclicality effects, as requested by the Supervisory Authority, deriving from the components of the IFRS 9 framework that are strongly linked to the expected macroeconomic situation, which will not necessarily produce negative effects due to the measures introduced.

These adjustments include the following elements.

- A stabilisation of macroeconomic forecasts when satellite models are applied: in order to avoid significant changes between quarters, which are not representative of changes in portfolio risk but of the specific impacts arising from the satellite models (and in particular due to the effect of the lags predicted by the models, applied to a sudden change in scenario), the shift applied to PD (and Danger Rate) was calculated, for the first year, as the percentage change between the default rate observed in December 2019 (the date on which the default rates that determine the PD PiTs were updated prior to the application of the scenario shift) and the projected rate of June 2022, while for subsequent years the projected rates of June 2023 and June 2024 were used.
- The sterilisation of the expected prepayment rates: it is considered that, in the current context, the historical average data relating to the phenomenon of prepayment of instalment credits, even if projected on the basis of current macroeconomic scenarios, are not representative. Given the difficult predictability of this phenomenon in light of the current situation and the uncertain continuation of measures to support the real economy, it was decided to set the expected prepayment rates at zero, effectively excluding this variable from the calculation of expected IFRS 9 losses on performing instalment loans.
- As from December 2021, a more prudential reclassification of all the exclusive

positions resulting from the CR Cento merger that had not yet been rated was adopted (i.e. modification of the default rating assigned to the former Cr Cento exclusive positions from Class 5 to Class 7).

In the third quarter of the year, on 05.07.2021, the Joint Supervisory Team provided the results of the verification activities carried out by the horizontal teams of the ECB relating to the prudential supervision activities on the identification and measurement of credit risk related to the coronavirus pandemic. In general, the assessments made were positive and the CREDEM Group was judged to be broadly compliant with the good practices described in the so-called "Dear CEO Letter" of 04.12.2020. Also in the third quarter of 2021, the update of the Covid Framework in the credit risk area, the update of the IFRS9 parameters and the calibration of the IFRS9 macroeconomic scenarios were analysed and discussed at the Board of Directors' meeting.

Sensitivity analysis of scenarios

The information relating to the average values of the main macro-economic and financial indicators used in the scenarios, relating to the three-year period 2022-2024 is provided below. It should also be remembered that the comparative analysis of the latter with the Scenario provided by the ECB resulted in the following alternative weighting: 0% Good, 40% Bad, 60% Baseline.

The actual reference value is shown for each indicator (in this case December 2021) in absolute terms, the value of the same variables in the Baseline scenario and the percentage change with respect to it of the scenarios designated as adverse and favourable for each of the 3 years in the time horizon in which the standard requires a forward-looking approach to be adopted for estimates of ECL.

Macro variable	Actual	Year 1			Year 2			Year 3		
	dic-21	Bad	Baseline	Good	Bad	Baseline	Good	Bad	Baseline	Good
Italy GDP	1,664	-5.05%	1,733	177.00%	-5.13%	1,775	1.97%	-4.26%	1,808	1.87%
Euro GDP	10,534	-5.20%	11,018	2.41%	-4.98%	11,215	2.49%	-4.20%	11,457	2.21%
Unemployment rate	9.80%	30.37%	9.55%	-3.29%	27.75%	9.23%	-3.58%	19.74%	9.00%	-2.95%
Industrial production index	105	-10.85%	109	4.13%	-8.01%	113	2.97%	-5.36%	116	2.39%
Italian residential property price index	1,983	-8.03%	2,096	2.82%	-10.14%	2,233	3.89%	-10.74%	2,375	4.53%

Treatment of public guarantees

In the ECL calculation, State guarantees provided as an extraordinary response to support the real economy in the context of the ongoing health emergency are considered in the same way as other State guarantees in the portfolio. There are no ad hoc treatments, the guarantees contribute to mitigate the ECL on the relationships to which they are associated through a substitution principle: the portion covered by them is, therefore, associated to the risk level of the issuer (in this case the Italian State, with a DBRS BBBH rating) instead of that of the counterparty.

2.4 Credit risk mitigation techniques

Collateral and guarantees are of particular importance in the Credem Group's lending strategies insofar as they enable mitigation in the complex life cycle of the loans, albeit being additional in the assessment and granting process of the loan, where the fundamental element is the assessment of the customer's ability to repay the loan. In this sense, acquiring collateral and guarantees involves an in-depth analysis, both in the acquisition phase and in monitoring and management phase. General principles have been defined for property collateral, in accordance with legislative requirements, which enable a sound and prudent process of valuing the property which is to be used as collateral to be made:

- Independence of the valuation by using independent external appraisers unrelated to the lending process.

- Compliance and consistency of the valuation, adequate to the complexity of the transaction, its size and the type of property, to identify the market value on which the loan to value indicator is calculated.
- A robust system of controls, compliant with regulatory requirements, to monitor the valuation process.

Given the importance of the mortgage loans segment in the overall portfolio, and with a view to adaptation to supervisory provisions, a periodic monitoring process for the value of mortgaged properties has been set in place as regards real estate mortgage loans, in order to properly assess the degree of coverage of collateral.

The weighting to be applied to the various mortgage transactions, based on the nature of the property, is included in the “Regulation for the assumption of credit risk for customers”. The Credit Strategy Committee also periodically proposes guidelines in terms of the average Loan To Value of the portfolio and of new loans. In particular, due to the very nature of medium-term credit, collateral for mortgage loans is envisaged on the basis of varying percentages, depending on the type of the loan.

For collateral in the form of securities, safety margins are applied according to the type of product acquired as a guarantee and to the issuer rating, if applicable. In addition, collateral in the form of securities and their valuation for the purposes of Credit Risk Mitigation are constantly monitored.

As regards sureties, their valuation is always carried out on the basis of a prudential assessment of the assets of guarantors.

As regards public guarantees, the Credem Group adopts specific procedures to comply with the *modus operandi* required by the legislative provisions issued by the Government or by the entities that issued said guarantees.

3. Non-performing exposures

3.1 Management strategies and policies

The Non-performing Credit department provides technical support to the bank network in managing problem and non-performing loans and in calculating the write-downs.

Within this department, credit collection is managed according to processes established on the basis of the channel/segment, the type of loan and the level of irregularity, and is conducted by central offices or by local offices. The business model allows for an all-inclusive vision of the loan throughout the life cycle, enhancing the fluidity and integration of processes and continuity of vision. In particular, there are central structures dedicated to the management, monitoring and recovery of positions with a status of Unlikely To Pay or Bad Loan. There is also an organisational unit responsible for managing outsourcing companies in order to directly and centrally oversee relations with said companies. The valuation of losses is based on extremely prudent criteria, following the indications of the document approved by the Board of Directors entitled “Guidelines and criteria for the write-down of loans of the Credem Group”; the purpose of this document is to guide and standardise the work of the offices in charge of managing non-performing loans, in terms of calculating the relative write-downs, both for statutory purposes and as regards recovery times. The ECB Guidelines recommend that Banks establish a clear strategy aimed at reducing the amounts of NPLs in a credible, sustainable and timely manner. Although those guidelines are a non-binding instrument, the Banks are required to promote rapid convergence towards the indications provided. During the first half of 2018, the Credem Group, starting from the evidence that emerged from the assessment/gap analysis phase, and on the basis of the classification of shared remediation actions, has defined, on a voluntary basis, the first NPL Strategic-Operational Plan for the period 2018 -2022, subsequently updated annually.. In December 2021, the Credem Group, in line with the Group Strategy Planning, updated the NPL Strategic-Operational Plan for the period 2021-2025.

3.2 Write-offs

Autonomy with respect to the valuation of losses and write-offs is almost completely centralised under monocratic structures, thus enabling particularly short response times to settlement proposals; in any case, recourse to this measure is of a marginal nature and only occurs when the actions of direct (or through the *outsourcer/legal network*) recovery or sale have not had the desired effects. By virtue of the residual/secondary use compared to the other envisaged collection activities, as well as due to the lower stock of NPLs, the amount of write-offs remains at contained levels.

3.3 Purchased or originated credit impaired assets

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

These receivables, pursuant to IFRS 9, are valued by setting aside – from the date of initial recognition – provisions to cover losses that cover the entire residual life of the credit (so-called Expected Credit Loss lifetime). As impaired loans, they are initially recognised as Stage 3, although they may be moved to Stage 2 over their lifetime if, based on the credit risk analysis, they are no longer impaired. These assets are never classified as part of Stage 1 since the expected credit loss must always be calculated considering a time horizon equal to the residual duration.

For POCI receivables recognized in the Group's financial statements, in accordance with the provisions of the IFRS 9 standard, two types of credit are distinguished:

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

In December 2021, the receivables falling into this category, present in the balance sheet assets of Credito Emiliano Group, are all deriving from the merger by incorporation of the former Cassa di Risparmio di Cento.

4. Financial assets subject to commercial renegotiations and forbearance exposures

In March 2014, given the changes in regulations, which placed supervisory powers in the hands of the European Central Bank and the application of new EU legislation on supervisory reporting, the "Guidelines to identify and manage forborne exposures", which were then assimilated by the Group credit policy, were approved. In line with EBA standards, forborne means exposures against which forbearance measures have been agreed, namely measures to sustain debtors who are facing, or are about to face, difficulties in meeting their financial obligations (so-called financial hardship status).

In general, possible forbearance measures agreed for the debtor in financial difficulty may fall into the following categories:

- changes to the terms and contractual conditions of an exposure that the counterparty is unable to repay, with new conditions that would not have been agreed if the customer had not been in financial difficulty;
- partial or total refinancing of the debt, which would not have been agreed in the absence of financial difficulty of the counterparty.

In accordance with the reference standards, classification in the forborne portfolio is independent of the classification as default or of the presence of specific write-downs. By virtue of the unique characteristics of these types of exposures, the evaluation and granting of forbearance measures is delegated to central decision-making structures, through the use of automated systems for *alerting* the presence

of "potential" forbore, addressing credit proposals to the competent bodies and the expiry of terms relating to the *cure period* and *probation period*.

In relation to this type of exposure, the instructions in the ECB *Guidelines* on NPLs were followed, which have an impact on both processes and on applications to enable adequate tracking of the valuations made at the time forbearance measures were granted, as well as the valuations of the triggers on Unlikely To Pay Exposures, with the involvement of the Risk Management department to draw up a binding opinion in cases of repeated measures.

The amortised cost before the change of the financial assets, for which the contractual cash flows were changed during the year, amount to around € 110.3 million.

In relation to the COVID contingency scenario, the guidance, published by the EBA on 2 April 2020 and subsequently amended on 25 June 2020 on "Guidance on legislative and non-legislative moratoria on loan payments applied in light of the Covid-19 crisis" (EBA/GL/2020/02), provided that moratorium applications submitted to banks by 30 September 2020 could benefit from the temporary suspension of the automatic reclassification of loans to "forborne" exposures. Subsequently, new amendments were made, in particular those relating to the EBA communication of 02 December 2020, "Guidelines amending the EBA/GL/2020/02 guidelines on legislative and non-legislative moratoria on loan payments applied in light of the COVID-19 crisis", extended the period of application of the guidelines to 31 March 2021. However, they provided for some limitations, in particular the introduction of a maximum "cap" of 9 months as the total duration of suspensions under the "privileged" regime, which led our Institute to carry out an extraordinary activity of forbore allocation for those positions that no longer met this criterion. For a quantification of the customer support measures implemented from the beginning of the pandemic period to date, an estimate of those in place and considerations on how they have currently limited the deterioration of positions, see the chapter on Lending in the Report on Operations.

Disclosure to the public of information regarding capital adequacy, exposure to credit risk and the general features of the systems set up to identify, measure and manage risk, envisaged by EU Regulation 575/2013 (CRR), publication of the disclosure related to "Pillar 3", shall be communicated to the market in accordance with legal requirements, on the website www.credem.it.

Quantitative information

A. Credit Quality

A.1 Non-performing and performing credit exposures: amounts, value adjustments, changes and breakdown by business segment

A.1.1 Prudential consolidation - Breakdown of financial assets by past due ranges (book value)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3			Purchased or originated credit impaired		
	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days
1. Financial assets measured at amortised cost	178,081	753	4,767	32,482	43,005	4,325	19,239	20,018	197,084	778	369	15,328
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	178,081	753	4,767	32,482	43,005	4,325	19,239	20,018	197,084	778	369	15,328
Total 31/12/2020	190,603	834	756	27,791	47,693	14,315	44,089	19,278	240,586	-	-	-

The table above provides the breakdown, for each risk stage, of the book value of the past due financial assets measured at amortised cost and of the past due financial assets measured at fair value through other comprehensive income.

A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: changes in overall value adjustments and in total provisions

Type/risk stages	Overall value adjustments																				Total provisions for commitments to disburse funds and financial guarantees given				Total			
	Assets included in stage 1						Assets included in stage 2						Assets included in stage 3						Purchased or originated credit impaired assets									
	Loans to banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Loans to banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Loans to banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Stage 1	Stage 2	Stage 3	Commitments to disburse funds and guarantees issued,	
Opening balance of overall adjustments	41	62,026	2,260	-	-	64,327	6	47,535	-	-	-	47,541	-	455,598	-	-	455,598	-	-	-	-	-	-	4,649	1,616	954	-	574,685
Increases from purchased or originated credit impaired assets	-	18,482	-	-	-	18,482	-	7,142	-	-	-	7,142	-	-	-	-	-	-	X	X	X	X	X	3,393	736	-	-	29,753
Derecognitions other than write-offs	-	(11,277)	-	-	-	(11,277)	-	(7,012)	-	-	-	(7,012)	-	(40,652)	-	-	(40,652)	-	-	-	-	-	(3,908)	(1,158)	-	-	(64,007)	
Net value adjustments/recoveries for credit risk	(19)	(19,012)	(513)	-	-	(19,544)	5	(10,326)	-	-	-	(10,321)	-	56,900	-	-	56,900	-	1,357	-	-	1,344	13	(371)	(117)	2,076	205	30,185
Contractual changes without derecognitions	-	-	-	-	-	-	-	13	-	-	-	13	-	(19)	-	-	(19)	-	-	-	-	-	-	-	-	-	-	(6)
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recorded in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,566)	-	-	(33,566)	-	-	-	-	-	-	-	-	-	-	(33,566)
Other changes	-	(3,385)	-	-	-	(3,385)	-	3,385	-	-	-	3,385	-	589	-	-	589	-	-	-	-	-	-	(27)	(3)	-	-	559
Closing balance of overall adjustments	22	46,834	1,747	-	-	48,603	11	40,737	-	-	-	40,748	-	438,850	-	-	438,850	-	1,357	-	-	1,344	13	3,736	1,074	3,030	205	537,603
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	397	-	-	397	-	62	-	-	62	-	-	-	-	-	559
Write-offs directly recorded in the income statement	-	(10)	-	-	-	(10)	-	(2)	-	-	-	(2)	-	(2,841)	-	-	(2,841)	-	-	-	-	-	-	-	-	-	-	-

A.1.3 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	970,032	362,598	49,860	21,633	68,962	8,638
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given	26,448	6,091	84	28	3,810	81
Total 31/12/2021	996,480	368,689	49,944	21,661	72,772	8,719
Total 31/12/2020	653,177	341,681	39,756	20,044	64,771	11,640

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

Portfolios/risk stages	Gross values					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans measured at amortised cost	345,275	31,696	12,579	259	18,705	366
A.1 subject to forbearance compliant with the GLs	263	79	23	-	11	-
A.2 subject to existing moratorium measures no longer compliant with GL and not assessed as subject to forbearance	60,618	13,457	-	-	850	-
A.3 subject to other forbearance measures	91,060	-	9,528	47	7,153	-
A.4 new loans	193,334	18,160	3,028	212	10,691	366
B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 subject to forbearance compliant with the GLs	-	-	-	-	-	-
B.2 subject to existing moratorium measures no longer compliant with GL and not assessed as subject to forbearance	-	-	-	-	-	-
B.3 subject to other forbearance measures	-	-	-	-	-	-
B.4 new loans	-	-	-	-	-	-
Total 31/12/2021	345,275	31,696	12,579	259	18,705	366
Total 31/12/2020	308,942	65,683	4,441	1,518	7,013	693

The table shows the gross value of the loans, subject to moratoriums or other forbearance measures in place at the reporting date, or which constitute new

liquidity granted through public guarantee mechanisms, broken down by applicable portfolio, when the risk stage in which the exposures were included at the end of the year is different from the stage in which the exposures were included at the beginning of the year.

A.1.4 Prudential consolidation – Balance sheet and off-balance sheet credit exposures to banks: gross and net amounts

Type of exposure/amounts	Gross exposure					Overall value adjustments and total provisions					Net Exposure	Total partial write-offs*
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired				
A. Balance sheet credit exposures												
A.1 On demand	61,810	55,172	6,638	-	-	32	21	11	-	-	61,778	-
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	61,810	55,172	6,638	X	-	32	21	11	X	-	61,778	-
A.2 Others	9,919,784	9,908,567	9,466	-	-	837	820	14	-	-	9,918,951	-
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Non-performing past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	-	-	-	X	-	2	-	-	X	-	2	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing assets	9,919,784	9,908,567	9,466	X	-	839	820	14	X	-	9,918,949	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	9,981,594	9,963,739	16,104	-	-	871	841	25	-	-	9,980,729	-
B. Off-balance sheet credit exposures												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	790,220	546,769	4,547	X	-	1	-	1	X	-	790,219	-
Total (B)	790,220	546,769	4,547	-	-	1	-	1	-	-	790,219	-
Total (A+B)	10,771,814	10,510,508	20,651	-	-	870	841	26	-	-	10,770,948	-

As per the indications of Banca d'Italia Circular No. 262 of 22 December 2005, and subsequent amendments, balance sheet credit exposures include all cash financial assets due from banks or customers regardless of the accounting portfolio they are allocated to (designated at fair value through profit and loss, designated at fair value through other comprehensive income, measured at amortised cost, held for sale) with the exception of equity securities and units of UCITS; off-balance sheet credit exposures include all financial assets other than cash-based ones (financial guarantees given, revocable and irrevocable commitments, derivatives, etc.) which involve the assumption of credit risk, regardless of the purpose of said transactions (trading, hedging, etc.).

Non-performing credit exposures (balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore conventionally recorded under performing loans credit exposures.

A.1.5 Prudential consolidation – Balance sheet and off-balance sheet credit exposures to customers: gross and net amounts

Type of exposure/amounts	Gross exposure					Overall value adjustments and total provisions					Net Exposure	Total partial write-offs*
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired				
A. Balance sheet credit exposures												
a) Bad loans	397,954	X	-	387,457	10,497	296,063	X	-	295,689	374	101,891	10,923
- of which: forborne exposures	104,560	X	-	104,532	28	69,426	X	-	69,413	13	35,134	-
b) Unlikely to pay	378,117	X	-	358,137	19,981	136,051	X	-	135,082	970	242,066	-
- of which: forborne exposures	176,946	X	-	165,122	11,823	42,012	X	-	41,617	385	134,934	-
c) Non-performing past due exposures	42,968	X	-	42,824	144	8,082	X	-	8,081	1	34,886	120
- of which: forborne exposures	2,054	X	-	1,974	80	182	X	-	181	-	1,872	-
d) Performing past due exposures	266,758	184,607	82,119	X	32	2,858	552	2,307	X	1	263,900	-
- of which: forborne exposures	12,897	-	12,874	X	23	398	-	398	X	-	12,499	-
e) Other performing assets	45,367,464	43,513,647	1,820,892	X	1,657	85,636	47,207	38,417	X	12	45,281,828	-
- of which: forborne exposures	334,924	-	333,421	X	1,503	9,086	-	9,082	X	5	325,838	-
Total (A)	46,453,261	43,698,254	1,903,011	788,418	32,311	528,690	47,759	40,724	438,852	1,358	45,924,571	11,043
B. Off-balance sheet credit exposures												
a) Non-performing	44,472	X	-	42,959	1,513	3,234	X	-	3,029	205	41,238	-
b) Performing	11,173,825	11,002,416	162,878	X	10	4,809	3,736	1,074	X	-	11,169,016	-
Total (B)	11,218,297	11,002,416	162,878	42,959	1,523	8,043	3,736	1,074	3,029	205	11,210,254	-
Total (A+B)	57,671,558	54,700,670	2,065,889	831,377	33,834	536,733	51,495	41,798	441,881	1,563	57,134,825	11,043

The table shows the gross value of the loans, subject to moratoria or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms, broken down by applicable portfolio, when the risk stage in which the exposures were included at the end of the year is different from the stage in which the exposures were included at the beginning of the year.

A.1.5a Balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net values

Types of financing/Values	Gross exposure				Overall value adjustments				Net exposure	Total partial write-offs*		
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired				
A. Bad loans:	1,567	-	-	1,567	-	463	-	-	463	-	1,104	-
a) Subject to forbearance in compliance with the GLs	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer compliant with GL and not considered	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject of other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New Loans	1,567	-	-	1,567	-	463	-	-	463	-	1,104	-
B. Unlikely to Pay Loans:	35,647	-	-	33,817	1,832	7,939	-	-	7,905	34	27,708	-
a) Subject to forbearance in compliance with the GLs	226	-	-	226	-	45	-	-	45	-	181	-
b) Subject to moratorium measures no longer compliant with GL and not considered	1,006	-	-	597	410	410	-	-	393	17	596	-
c) Subject of other forbearance measures	23,145	-	-	22,092	1,054	4,889	-	-	4,879	10	18,256	-
d) New Loans	11,270	-	-	10,902	368	2,595	-	-	2,588	7	8,675	-
C. Impaired overdue loans:	2,211	-	-	2,211	-	341	-	-	341	-	1,870	-
a) Subject to forbearance in compliance with the GLs	23	-	-	23	-	1	-	-	1	-	22	-
b) Subject to moratorium measures no longer compliant with GL and not considered	253	-	-	253	-	31	-	-	31	-	222	-
c) Subject of other forbearance measures	67	-	-	67	-	9	-	-	9	-	58	-
d) New Loans	1,868	-	-	1,868	-	300	-	-	300	-	1,568	-
D. Other unimpaired overdue loans:	11,115	6,309	4,806	-	-	47	18	28	-	-	11,068	-
a) Subject to forbearance in compliance with the GLs	19	-	19	-	-	2	-	2	-	-	17	-
b) Subject to moratorium measures no longer compliant with GL and not considered	2,555	2,403	153	-	-	19	16	2	-	-	2,536	-
c) Subject of other forbearance measures	586	-	586	-	-	15	-	15	-	-	571	-
d) New Loans	7,955	3,906	4,048	-	-	11	2	9	-	-	7,944	-
E. Other non-impaired loans:	4,151,320	3,708,837	442,483	-	-	9,743	4,107	5,635	-	-	4,141,577	-
a) Subject to forbearance in compliance with the GLs	9,231	8,254	977	-	-	81	42	39	-	-	9,150	-
b) Subject to moratorium measures no longer compliant with GL and not considered	619,009	534,736	84,273	-	-	3,406	2,087	1,319	-	-	615,603	-
c) Subject of other forbearance measures	136,289	-	136,290	-	-	3,470	-	3,470	-	-	132,819	-
d) New Loans	3,386,791	3,165,847	220,943	-	-	2,786	1,978	807	-	-	3,384,005	-
TOTAL (A+B+C+D+E)	4,201,860	3,715,146	447,289	37,595	1,832	18,533	4,125	5,663	8,709	34	4,183,327	-

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The table shows, with reference to loans subject to moratoriums or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms, the breakdown of gross exposure and total value adjustments, as well as the disclosure on the net exposure and total partial write-offs for the various categories of impaired/non-impaired assets.

A.1.7 Prudential consolidation – Balance sheet credit exposures to customers: changes in gross non-performing exposures

Source/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Gross exposure, opening balance	445,226	378,222	53,001
- of which: transferred but not derecognised	-	-	-
B. Increases	62,789	200,116	54,200
B.1 transfers from performing loans	4,206	83,906	32,049
B.2 transfers from impaired, acquired or originated financial assets	10,541	17,614	378
B.3 transfers from other categories of non-performing exposures	45,698	18,811	353
B.4 contractual changes without derecognitions	-	59	-
B.5 other increases	2,344	79,726	21,420
C. Decreases	110,061	200,221	64,233
C.1 transfers to performing loans	-	23,135	9,397
C.2 write-offs	29,711	6,544	152
C.3 collections	39,327	122,955	35,312
C.4 amount realised upon disposal of positions	3,098	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing exposures	110	45,511	19,239
C.7 Contractual changes without derecognitions	-	558	-
C.8 other decreases	37,815	1,518	133
D. Gross exposure, closing balance	397,954	378,117	42,968
- of which: transferred but not derecognised	-	-	-

A.1.7bis Prudential consolidation – Balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

Type/Quality	Forborne: non-performing	Forborne: performing
A. Gross exposure, opening balance	274,676	103,869
- of which: transferred but not derecognised	-	-
B. Increases	78,398	340,597
B.1 transfers from performing loans not forborne	11,401	308,155
B.2 transfers from performing loans forborne	28,869	X
B.3 transfers from non-performing loans forborne	X	15,450
B.4 transfers from non-performing loans not forborne	8	-
B.4 other increases	38,120	16,992
C. Decreases	69,514	96,645
C.1 transfers to performing loans not forborne	X	-
C.2 transfers to performing loans forborne	15,450	X
C.3 transfers to non-performing loans forborne	X	28,869
C.4 write-offs	2,751	-
C.5 collections	44,563	67,776
C.6 amount realised upon disposal of positions	-	-
C.7 losses on disposal	-	-
C.8 other decreases	6,750	-
D. Gross exposure, closing balance	283,560	347,821
- of which: transferred but not derecognised	-	210

A.1.9 Prudential consolidation – Balance sheet non-performing credit exposures to customers: changes in overall adjustments

Source/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance of overall adjustments	319,677	65,747	125,481	34,586	10,439	131
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	65,631	17,344	65,880	21,749	6,463	476
B.1 value adjustments from impaired, acquired or originated financial assets	374	X	650	X	1	X
B.2 other value adjustments	39,562	13,099	61,330	21,209	6,254	352
B.3 losses on disposal	907	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	24,182	4,245	3,800	457	208	124
B.5 contractual changes without derecognitions	-	-	93	81	-	-
B.6 other increases	606	-	7	2	-	-
C. Decreases	89,245	13,665	55,310	14,323	8,820	425
C.1 write-backs from valuation	7,395	1,191	10,460	2,654	1,446	85
C.2 write-backs from collection	12,826	9,646	14,010	7,485	3,437	193
C.3 profit from disposal	1,152	-	-	-	-	-
C.4 write-offs	29,710	2,702	6,544	50	153	-
C.5 transfers to other categories of non-performing exposures	229	119	24,177	4,132	3,784	147
C.6 contractual changes without derecognitions	-	-	112	-	-	-
C.7 other decreases	37,933	7	7	2	-	-
D. Closing balance of overall adjustments	296,063	69,426	136,051	42,012	8,082	182
- of which: transferred but not derecognised	-	-	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

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

Exposures	External rating classes						No rating	Total
	Class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	511,956	819,666	6,020,114	-	-	-	42,342,254	49,693,990
- Stage 1	511,956	819,666	6,020,114	-	-	-	39,609,046	46,960,782
- Stage 2	-	-	-	-	-	-	1,912,479	1,912,479
- Stage 3	-	-	-	-	-	-	788,418	788,418
- Purchased or originated credit impaired	-	-	-	-	-	-	32,311	32,311
B. Financial assets measured at fair value through other comprehensive income	3,833,130	1,965,083	656,584	-	-	-	103,533	6,558,330
- Stage 1	3,833,130	1,965,083	656,584	-	-	-	103,533	6,558,330
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-
Total (A+B+C)	4,345,086	2,784,749	6,676,698	-	-	-	42,445,787	56,252,320
D. Commitments to disburse funds and financial guarantees given	-	-	-	-	-	-	11,761,090	11,761,090
- Stage 1	-	-	-	-	-	-	11,549,184	11,549,184
- Stage 2	-	-	-	-	-	-	167,424	167,424
- Stage 3	-	-	-	-	-	-	42,959	42,959
- Purchased or originated credit impaired	-	-	-	-	-	-	1,523	1,523
Total (D)	-	-	-	-	-	-	11,761,090	11,761,090
Total (A+B+C+D)	4,345,086	2,784,749	6,676,698	-	-	-	54,206,877	68,013,410

The external rating classes indicated refer to classes of creditworthiness of debtors/guarantors set forth in prudential legislation.

The rating agencies used are shown below, and a reconciliation table of the risk classes and agency ratings is also provided.

Portfolios	ECA/ECAI
Exposure to Central administrations and central banks	DBRS Rating Limited
Exposure to international organisations	Fitch Ratings Standard & Poor's Rating Services*
Exposure to multilateral development banks	Fitch Ratings Standard & Poor's Rating Services*
Exposure to enterprises and other entities	Fitch Ratings Standard & Poor's Rating Services*
Exposure to undertakings for collective investment in transferable securities (UCITS)	Fitch Ratings Standard & Poor's Rating Services*
Positions in securitisations with a short-term rating	Fitch Ratings Standard & Poor's Rating Services Moody's
Positions in securitisations other than those with a short-term rating	Fitch Ratings Standard & Poor's Rating Services Moody's

*ECAI used only in the mitigation of the risk (CRM) on financial instruments borrowed by way of guarantee

Credit rating class	DBRS Rating Limited	Fitch Ratings	Standard & Poor's Rating Services	Moody's
1	from AAA to AAL	from AAA to AA-	from AAA to AA-	from Aaa to Aa3
2	from AH to AL	from A+ to A-	from A+ to A-	from A1 to A3
3	from BBBH to BBBL	from BBB+ to BBB-	from BBB+ to BBB-	from Baa1 to Baa3
4	from BBH to BBL	from BB+ to BB-	from BB+ to BB-	from Ba1 to Ba3
5	from BH to BL	from B+ to B-	from B+ to B-	from B1 to B3
6	CCC	CCC+ and lower	CCC+ and lower	Caa1 and lower

A.2.2 Prudential consolidation – Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating class (gross values)

Exposures	Internal rating classes									Total (A+B+C)
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	No rating	
A. Financial assets measured at amortised cost	4,095,905	11,855,355	5,084,760	5,176,032	3,311,360	886,831	1,274,532	514,010	17,495,205	49,693,990
- Stage 1	4,089,716	11,817,394	5,064,109	5,151,664	2,448,854	513,519	845,107	413,402	16,617,017	46,960,782
- Stage 2	6,189	37,961	19,547	24,118	862,506	373,289	429,388	100,599	58,882	1,912,479
- Stage 3	-	-	-	-	-	-	-	-	788,418	788,418
- Purchased or originated credit impaired	-	-	1,104	250	-	23	37	9	30,888	32,311
B. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	6,558,330	6,558,330
- Stage 1	-	-	-	-	-	-	-	-	6,558,330	6,558,330
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-	-	-
Total (A+B+C)	4,095,905	11,855,355	5,084,760	5,176,032	3,311,360	886,831	1,274,532	514,010	24,053,535	56,252,320
D. Commitments to disburse funds and financial	3,731,476	3,294,841	2,028,442	1,204,288	792,400	337,402	244,833	27,220	100,188	11,761,090
- Stage 1	3,731,476	3,294,054	2,028,416	1,204,049	755,372	268,805	234,590	19,965	12,457	11,549,184
- Stage 2	-	787	26	239	37,028	68,597	10,243	7,255	43,249	167,424
- Stage 3	-	-	-	-	-	-	-	-	42,959	42,959
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-	1,523	1,523
Total (D)	3,731,476	3,294,841	2,028,442	1,204,288	792,400	337,402	244,833	27,220	100,188	11,761,090
Total (A+B+C)	7,827,381	15,150,196	7,113,202	6,380,320	4,103,760	1,224,233	1,519,365	541,230	24,153,723	68,013,410

On 2 October 2015, Banca d'Italia authorised the Credem Group to use the IRB Advanced method (PD, LGD and EAD parameters) from 30 September 2015 to quantify the capital requirement against customer credit risk classified under the Corporate and Retail supervisory function of Credito Emiliano and Credemleasing.

The internal rating classes are shown insofar as they are used in credit risk management; to calculate prudential capital requirements, only those relating to the Corporate and Retail supervisory function are used. Details of the various rating classes used are shown below.

- C1 no risk issues at the moment nor, most likely, over the medium/long term
- C2 no risk issues at the moment nor, most likely, over the medium term
- C3 no risk issues at the moment nor, most likely, over the short term
- C4 risk compatible with possibility for reduction/slight worsening over the short term
- C5 risk situation with symptoms of worsening already evident
- C6 situation highlighting evidently problematic aspects
- C7 highly problematic situation with potential risk of default
- C8 highly problematic situation with short-term risk of default

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

A.3.1 Prudential consolidation – Secured balance sheet and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral				Guarantees										Total (1)+(2)
							(2)										
							Credit derivatives					Signature loans					
			Property - mortgages	Property - Loans for leases	Securities	Other collateral	CLN	Other derivatives				Public administrations	Banks	Other financial companies	Other entities		
Central counterpartie s	Banks	Other financial						Other entities									
1. Secured balance sheet credit exposures:	244	243	-	243	-	-	-	-	-	-	-	-	-	-	-	-	243
1.1. totally secured	244	243	-	243	-	-	-	-	-	-	-	-	-	-	-	-	243
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	26,810	26,810	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1. totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	26,810	26,810	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation – Secured balance sheet and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Guarantees (2)								Total (1)+(2)	
			Property - mortgages	Property - financial leases	Securities	Other collateral	CLN	Credit derivatives				Signature loans				
								Other derivatives	Other derivatives	Other derivatives	Other derivatives	Public administrations	Banks	Other financial companies		Other entities
1. Secured balance sheet credit exposures:	23,055,084	22,762,451	11,257,799	3,020,497	1,330,774	789,891	-	-	-	-	-	2,993,257	83,935	34,267	2,039,786	21,550,206
1.1. totally secured	18,882,658	18,608,794	11,257,458	3,020,497	1,242,860	720,143	-	-	-	-	-	752,934	37,935	26,854	1,583,935	18,642,616
- of which non-performing	519,637	300,608	218,977	33,143	5,816	15,498	-	-	-	-	-	7,717	-	233	18,606	299,990
1.2. partially secured	4,172,426	4,153,657	341	-	87,914	69,748	-	-	-	-	-	2,240,323	46,000	7,413	455,851	2,907,590
- of which non-performing	26,721	13,117	232	-	723	150	-	-	-	-	-	7,403	-	-	2,308	10,816
2. Secured off-balance sheet credit exposures:	868,446	865,751	54,309	-	159,413	65,779	-	-	-	-	-	173	48	3,258	383,627	666,607
2.1. totally secured	622,886	620,539	54,309	-	143,577	60,163	-	-	-	-	-	173	30	3,258	357,197	618,707
- of which non-performing	4,253	2,270	531	-	358	110	-	-	-	-	-	-	-	-	1,268	2,267
2.2. partially secured	245,560	245,212	-	-	15,836	5,616	-	-	-	-	-	-	18	-	26,430	47,900
- of which non-performing	3,288	3,045	-	-	265	-	-	-	-	-	-	-	-	-	2,684	2,949

During the year, mortgage guarantees of € 12.0 million were called in, expected to be collected over the next few years, while € 4.0 million was collected with respect to enforcements of pledges, insurance policies and sureties. During the year, € 22.0 million were also collected from calling in mortgage guarantees initiated in previous years.

During 2021, legal activities were initiated for calling in guarantees via property foreclosures in the cases where it had not been possible to reach satisfactory settlements. The positions entrusted to the outsourcing companies, comprising exposures > € 75,000 and <€ 300,000 originating from mortgage loans, were assessed and activated according to the same approach; in fact, the activities of the external companies in the first few months of handling of the cases concentrate on attempting to contact the customers, so as to gauge the possibility of reaching settlements (full and final settlement or by means of contained repayment plans over time). Even during the course of the enforcement action, the outsourcing company continues with the contact activity to explore the possibility of settlement of the positions.

B. Distribution and concentration of credit exposures

B.1 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to customers by business segment

Exposures/Counterparties		Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance sheet credit exposures											
A.1 Bad loans		716	757	131	239	-	-	46,941	171,290	54,103	123,777
- of which: forborne exposures		-	-	-	26	-	-	17,413	40,003	17,720	29,397
A.2 Unlikely to pay		3,167	1,677	2,632	75	-	-	78,913	47,945	157,354	86,354
- of which: forborne exposures		2	11	3	31	-	-	48,355	17,227	86,573	24,743
A.3 Non-performing past due exposures		747	36	21	6	-	-	6,935	970	27,183	7,070
- of which: forborne exposures		-	-	-	-	-	-	548	68	1,325	114
A.4 Performing exposures		11,401,725	4,606	2,029,644	771	49,336	3	17,205,784	38,665	14,822,961	44,452
- of which: forborne exposures		9	1	554	2	-	-	193,958	5,863	143,816	3,618
Total (A)		11,406,355	7,076	2,032,428	1,091	49,336	3	17,338,573	258,870	15,061,601	261,653
B. Off-balance sheet credit exposures											
B.1 Non-performing exposures		3	-	7	-	-	-	24,714	3,163	16,514	71
B.2 Performing exposures		9,985	1	132,858	17	29,040	-	9,283,930	3,342	1,742,243	1,449
Total (B)		9,988	1	132,865	17	29,040	-	9,308,644	6,505	1,758,757	1,520
Total (A+B)	31/12/2021	11,416,343	7,077	2,165,293	1,108	78,376	3	26,647,217	265,375	16,820,358	263,173
Total (A+B)	31/12/2020	6,874,435	6,130	1,741,694	1,256	27,189	15	24,519,700	289,512	14,896,830	276,761

B.2 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to customers by geographic area

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance sheet credit exposures										
A.1 Bad loans	101,857	296,052	33	11	-	-	-	-	1	-
A.2 Unlikely to pay	241,739	135,897	211	32	-	2	-	-	116	120
A.3 Non-performing past due exposures	34,842	8,070	39	10	3	1	2	1	-	-
A.4 Performing exposures	38,510,946	86,537	4,167,063	1,436	2,406,833	404	8,038	68	367,234	49
Total (A)	38,889,384	526,556	4,167,346	1,489	2,406,836	407	8,040	69	367,351	169
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	41,214	3,234	20	-	2	-	2	-	-	-
B.2 Performing exposures	11,159,722	4,804	5,740	3	2,309	1	918	1	327	-
Total (B)	11,200,936	8,038	5,760	3	2,311	1	920	1	327	-
Total (A+B) 31/12/2021	50,090,320	534,594	4,173,106	1,492	2,409,147	408	8,960	70	367,678	169
Total (A+B) 31/12/2020	45,499,173	571,683	2,219,248	1,458	300,099	287	11,530	164	2,609	67

The geographic breakdown NORTH-WEST, NORTH-EAST, CENTRE, SOUTH AND ISLANDS is also enclosed for ITALIAN exposures.

B.2 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to customers by geographic area

Exposures/Geographic areas	North West Italy		North East Italy		Central Italy		South Italy and Islands		
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	
A. Balance sheet credit exposures									
A.1 Bad loans	12,078	51,215	29,175	63,078	19,699	56,924	40,905	124,835	
A.2 Unlikely to pay	36,612	24,908	64,894	31,059	37,056	17,928	103,177	62,002	
A.3 Non-performing past due exposures	4,325	989	7,560	1,920	5,640	983	17,317	4,178	
A.4 Performing exposures	8,840,841	17,369	10,343,975	31,904	11,431,749	15,285	7,894,381	21,979	
Total (A)	8,893,856	94,481	10,445,604	127,961	11,494,144	91,120	8,055,780	212,994	
B. Off-balance sheet credit exposures									
B.1 Non-performing exposures	11,351	120	12,384	2,480	4,120	204	13,359	430	
B.2 Performing exposures	3,735,407	788	4,267,472	2,450	1,458,072	476	1,698,771	1,090	
Total (B)	3,746,758	908	4,279,856	4,930	1,462,192	680	1,712,130	1,520	
Total (A+B)	31/12/2021	12,640,614	95,389	14,725,460	132,891	12,956,336	91,800	9,767,910	214,514
Total (A+B)	31/12/2020	11,591,668	100,422	12,965,640	159,538	11,789,210	95,090	9,124,158	216,633

B.3 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to banks by geographic area

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	8,240,226	372	1,651,247	488	-	-	-	-	87,199	11
Total (A)	8,240,226	372	1,651,247	488	-	-	-	-	87,199	11
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	87,131	-	693,269	-	6,500	-	2,515	-	804	1
Total (B)	87,131	-	693,269	-	6,500	-	2,515	-	804	1
Total (A+B) 31/12/2021	8,327,357	372	2,344,516	488	6,500	-	2,515	-	88,003	12
Total (A+B) 31/12/2020	8,157,319	489	2,107,186	525	31,745	8	1,343	-	4,344	8

B.4 Large exposures

	31/12/2021
Number of positions	19
Exposure	31,368,780
Risk position	1,837,963

In the calculation of “large exposures”, all of the balance sheet and off-balance sheet risk assets of an individual customer (or group of related customers) are considered, without applying weighting factors, while the threshold that qualifies an exposure as a “large risk” is when the exposure, as calculated above, is equal to or over 10% of own funds.

To gain a more accurate picture of the degree of credit concentration, the regulations also recognise exposures with a weighting factor of zero percent in terms of counterparty risk, such as for example exposures towards the Italian State, etc.

Note that the scope also includes repurchase agreements. The regulations envisage that these transactions are included in nominal exposure to the counterparty for the amount of the “securities to be received”, while weighted exposure, in specific cases, may envisage zero-weighting.

At the end of the period there were 19 positions classified as “large exposures”, amounting to a total of € 31,368.8 million corresponding to a weighted value of € 1,838.0 million (at the end of 2020 there were 9 positions amounting to a total of € 20,795.5 million, corresponding to a weighted value of € 1,229.1 million).

The positions recognised include the Italian Ministry of the Treasury, several EU and non-EU member States and leading national and international banks.

C. Securitisation operations

Qualitative information

The Group holds a 10% interest in Emilia SPV S.r.l., a “special purpose vehicle” specifically established for the exclusive purpose of performing one or more securitisation operations pursuant to Italian Law No. 130 of 30 April 1999.

Emilia SPV S.r.l. has one *revolving* securitisation operation in place regarding performing residential mortgage loans not eligible for the “Covered Bond Programme” guaranteed by Credem CB S.r.l.

The *revolving* structure allows the Bank, during a period known as *replenishment*, which may last up to 5 years, to sell new portfolios of suitable loans to the special purpose vehicle which pays for them by using the income from the existing portfolio and/or income from the payment the *note-holders* of further shares of the price of the notes issued. Once the *replenishment* period is over, the notes are redeemed during an amortisation period defined at the time of issue. The *replenishment* period ended in May 2020 and was renewed for a further 5 years on 23 March 2021.

The loans of the operation in question, originated by Credem, were sold without recourse, meaning without the guarantee of solvency of the debtors or their guarantors, to Emilia SPV S.r.l.

At the time of the issue, Credem subscribed the total liabilities issued by the vehicle and holds them in its portfolio. Therefore, based on the regulations of IFRS 9 as regards *derecognition*, the loans subject to securitisation remain recorded under assets in Credem’s financial statements.

At 31 December 2021, the “Financial assets measured at amortised cost” category also includes € 639 million in ABS issued by third party special purpose entities linked to loans originated in Europe, with preponderance of the component of French *origination* (€ 204.5 million). The portfolio consists of different types of ABS with a prevalence of residential mortgage securitisations, which account for 41.8%.

Current exposure broken down by country risk is as follows:

Country	Amount (thousands of Euro)	Exposure %
FRANCE	204,496	32.2
GERMANY	157,616	24.8
NETHERLANDS	143,968	22.6
SPAIN	65,834	10.4
ITALY	55,191	8.1
IRELAND	10,201	1.6
UNITED KINGDOM	1,345	0.2
PORTUGAL	734	0.1
TOTAL	639,385	100.0

The securitisation portfolio is diversified over 34 issuers and 44 issues with maximum concentration of € 47.6 million per single issue, and € 60.2 million per single issuer.

C.2 Exposures arising from major “third-party” securitisation transactions broken down by type of securitised asset and type of exposure

Type of underlying assets/Exposures		Balance sheet exposures						Guarantees given						Credit facilities					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery
A.1	ABEST 15 A SR SEQ FI CONSUMER CREDIT	2,687	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2	AUTO ABS FRGN33FRN CONSUMER CREDIT	33,350	- 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3	AUTOF 2 A 21-43 EUR CONSUMER CREDIT	32,352	- 6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4	AUTONORIA ST35 FRN CONSUMER CREDIT	10,547	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5	BP MORTGAGES 07/44TV CONSUMER CREDIT	84	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6	BPCE HOME19OT24FRN CONSUMER CREDIT	13,283	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7	BPCE HOME21OT55FRN CONSUMER CREDIT	35,604	- 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.8	BSKY FRE4A FRN-29 EU CONSUMER CREDIT	34,192	- 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.9	BUOS 3 A SR SEQ FLT LOANS TO SMEs	3,320	- 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.10	BUOS 3 B MEZZ SEQ FL LOANS TO SMEs	-	-	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.11	CARS ALL FRN OT29 CONSUMER CREDIT	2,796	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.12	CORDUSIO FRN42 EUR CONSUMER CREDIT	486	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.13	CR.AGR.HABITAT MTGE CONSUMER CREDIT	6,256	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.14	DRIV ESP A SR 6 FLT CONSUMER CREDIT	5,627	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.15	DUTCH MBS BV18-50EUR CONSUMER CREDIT	10,157	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.16	DUTCH RMPH 16-48EUR CONSUMER CREDIT	2,546	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.17	E-MAC NL FRN -A-GE37 RESIDENTIAL MORTGAGES	1,660	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.18	FINANCE (IR)ST60FRN CONSUMER CREDIT	10,201	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.19	GINKO 44 A 2017-1EUR CONSUMER CREDIT	38	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.20	GLOBALDRIVE27FRN EUR CONSUMER CREDIT	17,959	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Type of underlying assets/Exposures		Balance sheet exposures						Guarantees given						Credit facilities					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery	Book value	Net value adjustments/recovery
A.21	GLOBALDRIVE29FRN EUR																		
	CONSUMER CREDIT	17,247	- 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.22	GREAT H.FRAN-A2B-MZ39																		
	RESIDENTIAL MORTGAGES	1,347	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.23	GREEN APPLE-19-GE58																		
	CONSUMER CREDIT	10,406	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.24	HFHL 2020-1 FB61																		
	CONSUMER CREDIT	14,032	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.25	HFHL 2021-1A MTGE61E																		
	CONSUMER CREDIT	31,914	- 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.26	HIPOTOTTA4-CL/A ST48																		
	CONSUMER CREDIT	734	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.27	MAGOI 19 LG39 FLT																		
	CONSUMER CREDIT	11,189	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.28	NORIA 2021-1EUR																		
	CONSUMER CREDIT	22,312	- 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.29	PRADO 8 A SR SEQ FLT																		
	CONSUMER CREDIT	30,141	- 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.30	PRADO 9 A SR SEQ FLT																		
	CONSUMER CREDIT	30,070	- 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.31	PROGQ 1 A EUR																		
	CONSUMER CREDIT	16,253	- 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.32	R&B AUTO L2GER11/28																		
	CONSUMER CREDIT	14,718	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.33	SC GERMAN CONS 21-1A																		
	CONSUMER CREDIT	47,632	- 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.34	SILVER A AP31 FRN																		
	CONSUMER CREDIT	40,248	- 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.35	SILVER A MZ27 FRN																		
	CONSUMER CREDIT	5,372	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.36	SILVER A ST27 FRN																		
	CONSUMER CREDIT	14,021	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.37	STORM 17 I 17-64 TV																		
	CONSUMER CREDIT	25,024	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.38	STORM 2017GRN A MTGE																		
	CONSUMER CREDIT	15,331	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.39	STORM 2018GRN A MTGE																		
	CONSUMER CREDIT	27,412	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.40	TTSOC 2017-1 A MTGE																		
	CONSUMER CREDIT	182	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.41	VCL29-A1-FRN GN25EUR																		
	CONSUMER CREDIT	7,950	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.42	VCL31-A-FRN ST26EUR																		
	CONSUMER CREDIT	17,377	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.43	VCL32-A1-FRN GE27EUR																		
	CONSUMER CREDIT	15,346	- 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Prudential consolidation - Investments in Special Purpose Vehicles for securitisation

As already illustrated under qualitative information, the Group has one special purpose vehicle for securitisation, Emilia Spv, in which Credito Emiliano has a stake of 10%, and therefore this company is not consolidated.

D. Disposal of financial assets

A. Financial assets sold and not fully derecognised

Qualitative information

Disposal of financial assets

In 2015, Credem finalised a *revolving* securitisation operation, regarding performing residential mortgage loans, not eligible for purposes of the use in the “Covered Bonds Programme” by the special purpose vehicle Credem CB S.r.l., disbursed to its customers and selected on the basis of pre-defined criteria in order to form a “block” pursuant to and in accordance with the law applicable to credit securitisation.

Following the first disposal of assets, finalised in the fourth quarter of 2014 at a price of € 1,002,811,119.07, between 2015 and the end of 2021, in the periods indicated below, six disposals of portfolios of eligible loans were made to the special purpose vehicle for a price of:

- Fourth quarter 2015: € 285,392,481.54
- Fourth quarter 2016: € 293,707,640.58
- Fourth quarter 2017: € 245,710,926.70
- Fourth quarter 2018: € 52,416,789.64
- Second quarter 2021: € 1,304,130,865.63
- Fourth quarter 2021: € 353,874,864.16

The loans were acquired without recourse, meaning without the guarantee of solvency of the debtors or their guarantors, by EMILIA SPV S.r.l., a “special purpose vehicle” specifically established in which Credem has a 10% interest, for the exclusive purpose of performing one or more securitisation operations pursuant to Italian Law no. 130 of 30 April 1999.

The special purpose vehicle financed the operation through the issue, during April 2015, of different classes of “RMBS” bonds (*senior and junior*). The senior bonds have an official rating assigned by accredited agencies DBRS and Moody’s Investor Services (“A” rating assigned by DBRS and “A1” by Moody’s at end of December 2021). However, the junior bonds are unrated. The senior notes pay quarterly variable interest corresponding to the 3 month Euribor rate plus 75 bps, while the junior notes pay 3 month Euribor rate plus 200 bps. Junior noteholders have also the right to receive, at each payment date and, in the order of priority of payments and available funds, a residual bonus after payment of all other amounts of greater priority. The notes are structured as partly paid notes (PPN) and are fully issued for their nominal value on the issue date (€ 3,000,000,000 for the senior notes and € 900,000,000 for the junior notes). The price of the notes was paid by subscribers only partially on the issue date, while the remaining balance can be paid in a number of instalments over time, in accordance with the *revolving* logic of the operation.

The *revolving* structure allows the Bank, during a period known as *replenishment*, which may last up to 5 years, to sell new portfolios of suitable loans to the special purpose vehicle which pays for them by using the income from the existing portfolio and/or income from the payment the *note-holders* of further shares of the price of the notes issued. Once the *replenishment* period is over, the notes are redeemed during an amortisation period defined at the time of issue. The *replenishment* period ended in May 2020 and was renewed for a further 5 years on 23 March 2021.

At 31 December 2021, the current tranche of *senior* notes stood at € 1,781,746,192.67 and that of the tranche of *junior* notes at € 526,015,626.77.

The *senior* notes are listed on the *Irish Stock Exchange*. Both of the tranches were purchased by Credem. The senior notes may be used for refinancing operations with the Eurosystem.

The aim of this operation is to create liquidity reserves and falls within the scope of the liquidity management activities implemented by Credem.

The special purpose vehicle has also given Credem the following options to repurchase individual loans, within certain parameters, to repurchase loans en bloc that may become eligible for use in the Covered Bond Programmes by Credem CB S.r.l. and to repurchase the whole loans portfolio en bloc and without recourse (in accordance with the contractual limitations envisaged).

During 2021, two new sales of assets relating to performing residential mortgages not eligible for use in the covered bonds programmes were finalised, while there were no transactions involving partial block repurchases of loans from the special purpose vehicle.

In 2021, the Group did not assign any non-performing exposures classified as “unlikely to pay”.

Quantitative information

D.1 Prudential consolidation – Financial assets sold fully recognised and associated financial liabilities: book values

	Financial assets sold fully recognised				Associated financial liabilities		
	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase obligation	of which non-performing	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase obligation
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	3,739,229	-	3,739,229	-	3,757,007	-	3,757,007
1. Debt securities	3,739,229	-	3,739,229	-	3,757,007	-	3,757,007
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	3,446,406	-	3,446,406	-	3,494,875	-	3,494,875
1. Debt securities	3,446,406	-	3,446,406	-	3,494,875	-	3,494,875
2. Loans	-	-	-	-	-	-	-
Total 31/12/2021	7,185,635	-	7,185,635	-	7,251,882	-	7,251,882
Total 31/12/2020	2,873,244	-	2,873,244	-	2,925,498	-	2,925,498

Key:

A= financial assets sold fully recognised (book value)

B= financial assets sold partially recognised (book value)

C= financial assets sold partially recognised (full value)

The operations refer to the use of securities in the portfolio for short-term repurchase agreements.

D.3 Prudential consolidation - Disposals of liabilities with recourse exclusively on assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31/12/2021	31/12/2020
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	3,739,229	-	3,739,229	1,233,676
1. Debt securities	3,739,229	-	3,739,229	1,233,676
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	3,446,406	-	3,446,406	1,639,568
1. Debt securities	3,446,406	-	3,446,406	1,639,568
2. Loans	-	-	-	-
Total financial assets	7,185,635	-	7,185,635	2,873,244
Total associated financial liabilities	7,251,882	-	X	X
Net value 31/12/2021	(66,247)	-	7,185,635	X
Net value 31/12/2020	(52,253)	-	X	2,873,244

The financial liabilities entered against financial assets sold and not derecognised (shown in the Deposits from customers and Deposits from banks columns) relate to repurchase agreements against securities recorded under assets.

The non-derecognition of the securitization operations, already extensively illustrated in paragraph “C.1 Securitization operations”, is the direct result of the subscription by the Group of the tranches of the Junior notes or of similar exposures, which entail the risk of first losses and, similarly, the benefit related to the yield of the portfolio of assets transferred. These assets are the subject of a servicing agreement, for which the Group remains committed to providing management services.

Following the transfer, the fee collected is recorded as a balancing entry to the recognition of a debt towards the special purpose vehicle, net of the tranches of the securities subscribed. The debt recognised towards the special purpose vehicle will be reduced by virtue of the sums collected by the originator, acting as servicer, and repaid to the same vehicle.

D.4 Prudential consolidation - covered bond transactions

Credem CB Programme

At meetings held on 26 May 2010 and 25 June 2010, the Board of Directors of Credito Emiliano resolved to launch the structuring of a programme to issue covered bonds for a maximum amount of € 5 billion.

On 22 October 2010, the Board of Directors approved the first disposal by Credem of a loans portfolio worth a maximum of € 2.4 billion to Credem CB S.r.l., a Special Purpose Vehicle (SPV) selected to participate in the Programme and in which Credem holds 70% equity.

In Italy, the legislative framework for the issue of Covered Bonds (hereinafter also the “Legislation”) is represented, in particular:

- by the CICR resolution of 2 August 1996, regarding administrative and accounting organisation and internal controls, as amended and supplemented by the resolution on 23 March 2004 made by the same Committee;
- by Art. 7-bis of Italian Law no. 130 of 30 April 1999, and subsequent amendments and supplements (“Law 130”);
- by the Decree of the Ministry of the Economy and Finance no. 310 of 14 December 2006 (“MEF Decree”);
- by the Decree of the Ministry of the Economy and Finance, CICR Chairman, dated 27 December 2006, no. 933;
- by the Decree of the Ministry of the Economy and Finance, CICR Chairman, dated 12 April 2007, No. 213;
- by the provisions issued by Banca d'Italia on Covered Bonds pursuant to the Third Part, Chapter 3 of Circular 285 dated 17 December 2013 containing the “Supervisory provisions for banks” as amended and updated on each occasion (the “Instructions”);
- by the additional regulatory, European community and national sources, expressly referred to in the Instructions, in paragraph 2, Section 1, Chapter 3, Part Three (including therein EU Regulation no. 575/2013).

The issue of Covered Bonds by Credem is part of the Group’s strategic plan, the objective of which is, among other things, to obtain several benefits in terms of funding, such as diversifying sources of deposits, reducing the relative cost as well as extending the maturities of liabilities.

Generally speaking, the basic structure of a covered bond issue – according to that outlined in the legislation – envisages the following steps:

- the bank (Banca Credente, Credem) transfers a package of assets with specific characteristics (the “Portfolio”) to a Special Purpose Vehicle (Credem CB S.r.l.). The assets transferred to the Special Purpose Vehicle represent a separate equity with respect to the Special Purpose Vehicle’s own equity, a benefit to the holders of covered bonds and other parties in whose favour the guarantee is issued. The Transferring Bank gives the Special Purpose Vehicle a subordinated loan, the purpose of which is to fund the purchase of the assets by the same Special Purpose Vehicle;
- Credem issues bonds. The Special Purpose Vehicle issues a guarantee in favour of the holders of the bonds issued by the issuer.

As a result of the above, the repayment of the covered bonds, which will be issued as part of the transaction, is guaranteed, not only by the issuer but also by an unconditional and irrevocable guarantee, issued by the Special Purpose Vehicle to the exclusive benefit of the investors that will subscribe the Covered Bonds and other counterparties, including those providing hedging, involved in the transaction. The latter guarantee is issued by the Special Purpose Vehicle on the Portfolio.

Given the above, it is clear that the covered bond transaction illustrated can be categorised as a “simple transaction” insofar as the originator bank, financing bank and issuing bank are all a single entity, Credem.

Transferred Portfolio

The portfolio which, on each occasion, is assigned to the Special Purpose Vehicle must possess several common features.

The main criteria common to identifying and selecting the mortgages from which the loans that make up the *Cover Pool* originate have been established following consultation with the rating agencies, who were asked to give a rating to the covered bonds that Credem will issue under the Programme.

At the end of October 2010, September 2011, February 2012, April 2014, October 2014, October 2015, April 2016, October 2016, April 2017, November 2017, May 2018, October 2018, May 2019, November 2020 and November 2021 mortgage loans originating from mortgage agreements were selected, which, on the relative *cut-off* dates, met, by way of example and not limited to, the following main cumulative criteria:

- loans not deriving from mortgage agreements that benefit from forms of financial support;
- loans not classified as “bad loans”, pursuant to the applicable “Supervisory instructions for banks” issued by the Bank of Italy;
- loans not disbursed (even jointly) to employees or directors of Credito Emiliano or of its subsidiaries that are part of the Credem Banking Group.

On the accounting date of 31 December 2021, the *Cover Pool* comprised receivables originating from 57,095 mortgage loans, with a total residual debt of approximately € 4,353.56 million, as specified below in more detail.

Region where the borrower is located	Residual Debt (€ / thousand)	% Residual Debt	No. of mortgages	% no. of mortgages
Abruzzo	32,926.59	0.76	497	0.87
Basilicata	9,007.75	0.21	126	0.22
Calabria	127,237.38	2.92	2,258	3.96
Campania	437,995.25	10.06	5,436	9.52
Emilia Romagna	734,249.96	16.87	10,554	18.49
Friuli Venezia Giulia	43,209.52	0.99	647	1.13
Lazio	487,852.21	11.21	5,045	8.84
Liguria	98,617.76	2.27	1,335	2.34
Lombardy	719,157.27	16.52	8,160	14.29
Marche	79,810.83	1.83	1,031	1.81
Molise	7,860.36	0.18	123	0.22
Piedmont	138,535.14	3.18	1,863	3.26
Puglia	250,854.18	5.76	4,350	7.62
Sardinia	157,789.97	3.62	1,721	3.01
Sicily	400,161.35	9.19	6,433	11.27
Tuscany	328,116.67	7.54	4,039	7.07
Trentino Alto Adige	21,397.18	0.49	223	0.39
Umbria	18,706.23	0.43	293	0.51
Val D'Aosta	1,587.53	0.04	11	0.02
Veneto	258,489.07	5.94	2,950	5.17
Total Portfolio	4,353,562.20	100	57,095	100

Subordinated Loan

When the Initial Portfolio was assigned, on 29 October 2010, Credem and Credem CB signed a subordinated loan agreement, through which Credem granted Credem CB a subordinated loan to pay the purchase price of the Initial Portfolio and undertook to grant Credem CB further subordinated loans, each for an amount

equal to the price to be paid by Credem CB for the purchase of subsequent loans portfolios, assigned by Credem in accordance with the terms of the framework agreement governing the transfer of assets.

A further subordinated loan was therefore then granted at the time of the assignment of each subsequent portfolio, for an amount corresponding to the relative assignment price.

Asset Swap

Swap contracts were stipulated between the Special Purpose Vehicle and Credem, for an amount sufficient to hedge the *Cover Pool*, in order to guarantee the Special Purpose Vehicle protection against interest rate risk and/or base rate risk due to the presence of assets with different indexation. In June 2013, at the time of the programme's annual renewal, the structure of the hedging mechanisms for the operation was reviewed and, with the approval of the rating agencies, all swap contracts stipulated at the time between the Special Purpose Vehicle and Credem were closed in advance.

At 31 December 2021, there are no asset swap contracts between the Special Purpose Vehicle and Credem.

Covered Bond Swap (or Liability Swap)

When the Covered Bond is issued on the market, a swap contract may be stipulated between the Special Purpose Vehicle and Credem in order to mitigate interest rate risk between the cash flows received by the Special Purpose Vehicle and that due from the same to investors in the event of the default of the issuer.

There is currently a swap contract entered into at the time of issuance of the Covered Bonds with a term of 30/08/2013-2028.

Bank accounts

The Programme envisages a complex structure of current accounts to sustain the cash flows of the transaction. Said structure means that a series of accounts in the name of the Special Purpose Vehicle have been opened and in particular, but not limited to: *Collection Accounts*, *Reserve Account*, *Payments Account*, *Eligible Investment Account* e *Expenses Account*. Following the downgrade that Credem suffered in May 2020, the above current accounts in Credem CB's name were transferred from Credem to the company BNP Paribas Securities Services – Milan Branch.

Parties involved in the Programme

This section illustrates the main roles and counterparties involved in the transaction:

- *Servicer: the role played by Credem, which, as such, has been engaged by Credem CB to collect and recover the loans included in the Initial Portfolio and in the portfolios that Credem itself assigns to Credem CB under the Assignment Framework Agreement;*
- *Back-Up Servicer: role played by Securitisation Services which, in this capacity and upon the occurrence of certain events, governed by the Programme, may take over from Credem in the role of Servicer described above;*
- *Investment Manager: the role played by Credem, which, as such, has been engaged to invest the available liquidity in the current accounts opened by Credem CB and to draw up and send the Investment Manager report, which contains the results of the investment activities, to the parties to said contract;*
- *Account Bank: role currently played by BNP Paribas Securities Services where, in that capacity, the current accounts in the name of Credem CB have been opened and where the liquidity to be used for the payments envisaged by the Programme is deposited;*
- *Principal Paying Agent: the role played by BNP Paribas Securities Services, which has the main task of determining and making (both on behalf of Credem and on*

behalf of Credem CB) the payments due, in terms of both principal and interest, to the Covered Bondholders;

- *Calculation Agent: the role played by BNP Paribas Securities Services which, as such, has the main task of drawing up and sending the Payments Report to the parties to the contract. This Report contains an indication of the Credem CB funds available and of the payments to be made, according to the order of priority of the payments determined according to the Intercreditor Agreement;*
- *Asset Monitor: role played by BDO Italia S.p.A. which that, in that capacity, makes the calculations and checks the Compulsory Tests and the Amortisation Test conducted according to the Cover Pool Management Agreement, verifying the accuracy of the calculations made by the Calculation Agent. Separately, it is currently envisaged that the Asset Monitor also checks whether the assets making up the Portfolio comply with the requirements envisaged by the legislation and the integrity of the guarantee in favour of investors;*
- *Representative of the Bondholders: the role played by BNP Paribas Securities Services which, as such, exercises the rights of the counterparties involved in the transaction in relation to Credem and Credem CB;*
- *Listing Agent: the role played by BNP Paribas Securities Services which, as such, has the main task of managing, on behalf of Credem and Credem CB, relations and compliance with the stock exchange on which the Covered Bonds are listed.*

Lastly, it should be noted that some of the Programme's contracts envisage that the parties engaged to perform some of the activities and some of the roles indicated above, for the purpose of the same, are in possession of specific ratings. Therefore, although some roles are currently played by Credem (or by third parties to the Group), it is possible that in the future the same may be assigned to parties external to the Group (or to Credem).

Risks associated with the transaction

The Covered Bond issue programme entails the following financial risks, with respect to which various mitigating measures have been taken: issuer risk, interest rate risk, credit risk, liquidity risk, refinancing risk, counterparty risk, legal risks related to the transaction.

At least once every 12 months, Credem's Internal Audit department (Auditing service) conducts a full audit of the controls set in place, also on the basis of information received and the evaluations made by the Asset Monitor. The results of these audits are reported to the competent management bodies.

Main characteristics of the Programme

The financial structure of the Programme envisages that Credem proceeds with the issue, in several consecutive series, of Covered Bonds with the ratings of Aa3 and AA- in December 2021, assigned respectively by the following rating agencies: Moody's Investors Services Inc. and Fitch Rating Limited.

Said bonds have been placed with institutional investors with the support of *Dealers* selected on each occasion. At the initial stage, the Programme Arrangers were Barclays Bank PLC and Société Générale; at present there is just one Arranger, Barclays.

Under the Programme, Credem may issue Covered Bonds for a total amount, on each occasion, of no more than € 5 billion. Said maximum amount may be increased in accordance with the provisions of the Programme's contractual documentation. With the Programme, Credem may issue a wide range of different types of securities; however, at present, the type most widespread on the market is the so-called *soft-bullet* securities, that envisage the periodic payment of interest, a one-time repayment on maturity and the option, for the Special Purpose Vehicle, if Credem should default, to extend the maturity date by a further period (usually one year).

Other than the issues already made in 2010, 2011, 2012, 2013, 2014 and 2019, no new Covered Bonds were issued from 2015 to 2018. During 2021, for the value date of 7 July, the eleventh Covered Bond issue was carried out for a value of € 750 million, therefore the total nominal value of the outstanding Covered Bonds at 31

December 2021, issued under the programme guaranteed by Credem CB S.r.l., is €1.6 billion.

E. Prudential consolidation - credit risk measurement models

On 2 October 2015, Banca d'Italia authorised the Credem Group to use the IRB Advanced method (PD, LGD and EAD parameters) from 30 September 2015 to quantify the capital requirement against customer credit risk classified under the Corporate and Retail supervisory function of Credito Emiliano and Credemleasing. In this way, the roll-out plan launched in June 2008 was concluded with the authorisation for the use of the IRB Foundation method for Corporate customers. Periodically, the various parameters are validated in terms of control and monitoring activities to assess the overall adequacy of the credit risk measurement process. The models and methods were found to be adequate and the performance of the rating systems was confirmed as high, therefore indicating that the rating models have a good discriminatory ability.

1.2. Market risk

1.2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

The aim of the risk management model is to facilitate the achievement of a series of objectives:

- the governance and guidance role of the Parent Company in the management of the risks for each individual company and their impact on the Group's risks, in compliance with supervisory provisions in force and the Group's Risk Appetite Framework;
- management control to optimise the risk-return profile at Group level;
- uniformity of the method of analysis and of the "language" used by all Group companies.

In this regard, Market Risk, intended as the risk of losses caused by negative changes in risk factors (interest rate, price, exchange and other market factors), is measured and monitored both with reference to the banking book (on demand and maturity items) and the trading book (financial instruments traded for the purposes of positioning, trading and dealing).

Organisational structure

The main tasks of the organisational units involved in the process of market risk control and management are described below.

The Board of Directors of the Parent Company, BoD, is responsible for defining the general risk management guidelines for each business area; it also decides the powers to be assigned in relation to operational strategies, assumption of risks and corrective action; it identifies the set of Risk Appetite indicators and the relative calculation metrics, the latter proposed by the Executive Committee, EC; it establishes and approves risk objectives and tolerance thresholds, periodically assessing the adequacy of the Risk Appetite Framework (RAF) and the compatibility between objectives and effective risk; it approves the general structure of the operating limits and powers and the lines of responsibility and authority for the risk management process.

The Boards of Directors of the individual companies adopt the risk appetite and the tolerance threshold established in the RAF by the Parent Company; they approve the strategic plans and the guidelines for risk management formulated by the Parent Company as well as the structure of the internal operating limits and powers within the scope set by the Board of Directors of the Parent Company.

The Management of the individual companies conduct their business operations in compliance with the powers and operating limits for risk assigned by the respective Boards of Directors.

The Parent Company EC, as a management body, handles the implementation of the strategic plans and the risk management policies defined by the BoD, and in particular defines and oversees the implementation of the risk management process. The EC is also tasked with proposing risk measurement, control and analysis methods to the BoD and for establishing operating limits consistent with risk appetite.

The Parent Company's Committees involved in the RAF have the following responsibilities.

The Group Advisory Risk and Sustainability Committee carries out the evaluation and puts forward proposals in order for the BoD to approve the risk objectives and tolerance thresholds and periodically assess the adequacy of the RAF and the compatibility between objectives and effective risk.

It also expresses an opinion to the BoD on the proposals of the EC regarding risk measurement, control and analysis methods also for calculating the internal capital; lastly, it assists the Parent Company BoD by proposing general strategies for risk management.

The Risk Management Committee, set up to inform the EC on the monitoring of the overall risk assumed and its monitoring within the strategies and methods defined by the Parent Company in the RAF, performs the following functions:

- it manages the overall risk taken by each company and its monitoring within the strategies and methods defined by the Parent Company in the Risk Appetite Framework;
- it periodically assesses the overall level of risk taken by monitoring RAF indicators by type of risk;
- it also analyses any internal or external event that can considerably change the risk profile and so request the competent bodies, through the Risk Officer, to carry out additional revisions of the RAF.

The Risk Management department assists the Group Advisory Risk and Sustainability Committee and performs the following activities. As regards the RAF:

- it assesses, at least once a year, the adequacy of the metrics used by backtesting the risk estimation models, introducing the results, any shortcomings and the need to develop new methods to the RAF;
- it reports to Group Risk Committee at least once a quarter on the performance of the risk profile assumed as a whole in relation to the Risk Appetite objectives in respect of all the indicators, including those related to market risk.

It also handles:

- the measurement and reporting of financial risks by individual company and at Group level, mainly using risk measures in terms of sensitivity, aimed at verifying compliance with the limits assigned and consistency with the risk-return objectives established;
- the development and management of the risk measurement system through the acquisition of the market data required for the calculation;
- the definition of the risk profile for new products.

The results of Risk Management department operations are reported on a regular basis to the Group Advisory Risk and Sustainability Committee.

A. General aspects

Interest rate risk

Credembanca

The management of financial risks takes place through the definition of a structure of limits, which represents a direct expression of the acceptable level of risk with reference to the individual business areas/lines, in line with the Group's Risk Appetite Framework. Specifically, market risks stem from the following operations:

- traditional funding and lending;
- trading and investment in financial markets;
- trading in financial instruments where customers are the counterparty.

Interest rate risk in the regulatory trading book is generated by operations carried out in the markets for bonds and derivatives on interest rates. The interest rate risk generated by these activities is managed and controlled by means of overall limits in terms of delta (i.e. sensitivity with respect to parallel shifts in the curve), curve spread (i.e. sensitivity with respect to non-parallel shifts of the curve) and vega.

The specific or issuer risk is monitored by means of concentration limits per sector and rating class, both in terms of countervalue and of sensitivity. Furthermore, the VaR model adopted exclusively for management purposes includes issuer risk, through the use of specific time series on market spreads.

The Risk Management department produces risk reports on a daily, weekly or quarterly basis depending on the department they are to be sent to, indicating any overruns of the limits assigned by the Regulations in terms of the assumption of financial risk and the measurement of management risk in terms of VaR.

Any amendments to the Regulations and to the limits set forth therein can be submitted to the Board of Directors or the Executive Committee, as appropriate, for resolution, on the proposal of the Finance Business Unit, after having obtained the opinion of the Risk Management department.

Banca Euromobiliare

Market risks related to interest rate risk are managed by defining an operational ceiling in terms of overall sensitivity to a rate movement of 1 bp.

The Parent Company's Risk Management department checks compliance with this limit and monitors the capital requirement trend, calculated according to the standard approach.

Price risk

The main source of price risk in the "regulatory trading book" consists of shares, funds and the relative derivative instruments.

Credembanca

Equity risks stem from trading activities. Stock market and foreign exchange trading operations involve assuming directional positions managed and controlled through position limits, both gross and net, limits in terms of Greek frets and concentration limits by underlying.

To raise seed money, there are also positions in hedge funds and private equity funds managed by Group companies.

Banca Euromobiliare

The Regulations on the assumption of financial risk, monitored by the Risk Management department, do not contemplate ordinary limits for operations on equity risk. The company also holds a position in the same hedge funds set forth in the previous point. The risk generated by said position is limited and is monitored through the capital requirement for market risks.

Impacts resulting from the Covid-19 pandemic

As regards exposure to market risk in 2021, there are no significant impacts deriving from Covid-19. In order to ensure the timeliness of controls and disclosure to corporate bodies, the increased frequency of monitoring the Risk Appetite Framework, from quarterly to monthly, introduced following the pandemic, was maintained.

B. Interest rate risk and price risk: management processes and measurement methods

Interest rate risk – measurement methods and metrics

Interest rate risk for Credembanca is calculated daily using the VaR method; the measurement is for management purposes, and is not used to calculate capital requirement on market risk for which the Credem Group adopts the standard approach. The VaR measures the maximum potential loss that the portfolio may incur based on the trend in market factors, given a certain level of confidence, over a given time horizon. The methodology applied within the Credem Group includes the following parameters:

- 99% confidence level;
- 1-day time horizon;
- volatility calculated on the basis of 2 years of daily observations, giving more weight to the most recent data (decay factor $\lambda = 0.94$).

To calculate absorption in terms of internal capital, the figure is converted into a 10-day VaR, prudently applying a multiplication ratio of 3.

The risk figure also undergoes stress testing as part of the process to verify capital adequacy, which aims to verify the change in capital (estimated in terms of VaR) in the event of future turbulence of the financial markets. The analysis is based on determining a variance and covariance matrix of risk factors on the assumption of a condition of stress in the markets, which increases the volatility of the financial variables and changes the structure of relationships between the same.

The matrix was determined using the same methodology as that used for VaR estimates. In particular, the option of setting the historic period used as an analysis

sample for the calculation of volatility and correlations was taken, selecting critical time intervals (of high volatility) in the markets, consistent with the overall stress scenario identified.

With regard to Banca Euromobiliare, interest rate risk is monitored through the capital requirement for market risk, which follows the standard approach.

Impacts resulting from the Covid-19 pandemic

In 2021, there were no significant impacts on the market risks of the trading book and interest rate risks of the banking book due to the pandemic.

Quantitative information

1. Regulatory trading book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date)

The table in question has not been included because a sensitivity analysis for interest rate risk based on internal models and other methods is provided below.

2. Regulatory trading book: breakdown by equity exposures and stock indices by main listing countries

Type of transaction/Stock exchange market	Listed						Unlisted
	ITALY	U.S.A.	UNITED KINGDOM	FRANCE	GERMANY	OTHER COUNTRIES	
A. Equity securities							
- long positions	139	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
B. Unsettled equity securities trades							
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
C. Other equity securities derivatives							
- long positions	-	-	-	-	91	3,090	-
- short positions	-	-	-	-	-	-	-
D. Stock index derivatives							
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-

This section briefly summarises the results of the interest rate risk analyses relative to the trading book. In particular, the average, maximum and minimum VaR values generated by the interest rate risk factor for Credembanca are reported for 2019, 2020 and 2021.

Table 1. Interest Rate Var Data

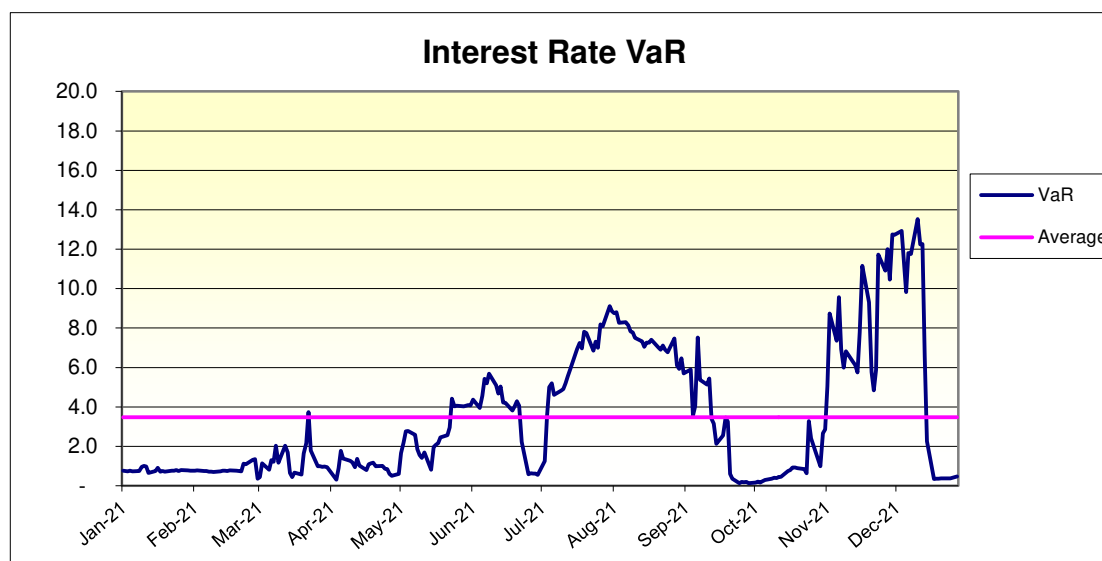
	2021	2020	2019
Credem			
Interest Rate VaR - average	3.5	1.9	3.4
min	0.1	0.3	1.4
max	13.5	5.6	9.2

Figures in €/million, VaR 99% 10days * Multiplication coefficient

The comparison with the previous year shows an increasing interest rate risk factor for Credem, although at very modest levels.

The following figures show the performance of the afore-mentioned VaR for Credem in 2021.

Figure 1.1 Performance of Interest Rate VaR Credem (99%, 10-day* multiplication coefficient). Figures in €/million



As regards the shift sensitivity analysis and restricted to the regulatory trading book, the table below illustrates the data regarding the impact on the net interest income over a time horizon of 12 months, in the hypothesis of a parallel shift in interest rates of +/-100 bps (figures refer to the Group).

The analysis was conducted in line with the methodology used to measure the interest rate risk of the banking book for the Risk Appetite Framework and for Short Term Exercise reports - STE interest rate risk, in line with the reference European guidelines.

"Parallel shift" assumption (figures in €/million)		
	Shock -100 b.p.	Shock +100 b.p.
Figures at 12/2021	+0.1	-0.0

Price risk – measurement methods and metrics

Equity market risk is calculated with the same frequencies and methods indicated for interest rate risk.

Quantitative information

This section briefly summarises the results of the price risk analyses relative to the trading book. In particular, the average, maximum and minimum VaR values generated by the interest rate risk factor for Credembanca are reported for 2019, 2020 and 2021.

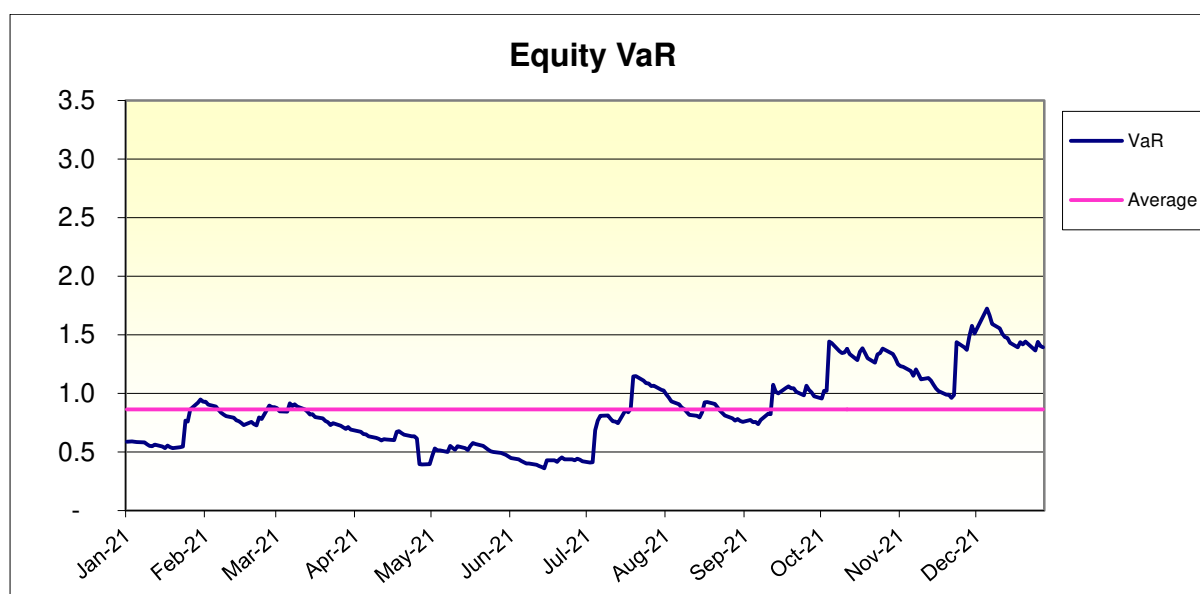
Table 2. Equity Var Data

	2021	2020	2019
Credem			
Equity VaR - average	0.9	1.2	0.4
min	0.4	0.4	0.4
max	1.7	3.2	0.8

Figures in €/million, VaR 99% 10days * Multiplication coefficient

The Credem figure, down from the previous report and always on very limited levels, is substantially determined by the position in hedge funds mentioned above. The figures below illustrate the performance of VaR for Credem in 2021.

Figure 2. Performance of Equity VaR Credem (99%, 10 day* multiplication coefficient). Figures in €/million



The results of backtesting are shown in paragraph 1.2.3 “Foreign exchange risk”.

SPECIFIC RISK – QUANTITATIVE INFORMATION

Specific risk is the risk of losses caused by an unfavourable change in the price of the financial instruments traded, due to factors related to the situation of the issuer. The average, maximum and minimum values (in €/million) of specific risk, calculated on the basis of supervisory weightings, for 2019, 2020 and 2021, are provided below.

Table 3. Specific Risk Data

	2021	2020	2019
Credem			
Specific Risk - average	0.4	0.1	0.1
min	0.1	0.0	0.1
max	0.1	0.1	0.1

Figures in €/million

With regard to Banca Euromobiliare, the capital requirement for generic and specific market risks is substantially insignificant.

1.2.2 Interest rate risk and price risk – banking book

Qualitative information

A. Interest rate risk and price risk: general aspects, management processes and measurement methods

Interest rate risk

Credem adopts the regulatory definition of interest rate risk in the banking book, according to which, the risk in question is: “interest rate risk deriving from activities other than trading: risk deriving from potential changes in interest rates.”

The exposure to interest rate risk may be broken down into:

- *income risk, resulting from the possibility that an unexpected change in interest rates leads to a fall in the net interest income and depends on the timing difference between maturities and periods to redefine the interest rate conditions of loans and deposits;*
- *investment risk, namely suffering negative changes in the values of all off-balance sheet assets, liabilities and instruments, following a change in interest rates, with a consequent destabilising impact on capital equilibrium.*

The Group policy to manage interest rate risk in the banking book seeks to manage risk at Group level in a healthy and prudent manner, in order to ensure that risk/return objectives are optimised consistent with the Risk Appetite Framework defined at Group level. These objectives are pursued by maintaining a slight imbalance within set limits, depending on the significance of the risk of individual companies, in Regulations on the assumption of financial risks.

The Group has drawn up a specific internal regulation, Group Policy for the management of interest rate risk in the banking book, with a view to establishing the guidelines and the principles of governance and management for interest rate risk on the banking book (IRRBB), outlining a set of rules and control processes in order to stabilise the net interest income in the banking book for the Group and for individual companies.

The guidelines contained in the Policy refer to provisions issued by national and European authorities relating to instructions for the governance and management of the interest rate risk of the banking book.

The Policy, in accordance with European legislation, provides for two reference metrics to measure interest rate risk, economic value sensitivity and net interest income sensitivity within the Risk Appetite Framework, as well as in Capital Adequacy processes (ICAAP).

These metrics, calculated by the Risk Management department and reported periodically to the relevant committees, are supported by operating indicators included in the regulations of existing companies for the assumption of Financial Risk.³

The main bodies to which the Parent Company BoD refers by virtue of its role of strategic supervision and to which the EC refers as the body responsible for the management of interest rate risk in the banking book, are the Group Advisory Risk and Sustainability Committee, the Risk Management Committee (with the responsibilities set forth in paragraph 2.1 Interest rate risk and price risk - regulatory trading book) and the Asset & Liability Management (ALM) Committee, which makes proposals to the BoD, after examining the Group risk profile by monitoring the risk limits with respect to the objectives set under RAF and identifies the guidelines and strategies to management interest rate risk.

The operational management of interest rate risk on the banking book is assigned to the Finance Business Unit, which has the following responsibilities:

- proposing guidelines for the management of interest rate risk in the banking book to the ALM Committee, and formulating proposals to Risk Management for the subsequent approval of the Group Advisory Risk and Sustainability

³ Risk Management Committee and Asset Liability Management (ALM) Committee

Committee, on the strategic direction of the interest rate risk profile of the banking book;

- managing the interest rate risk of the Parent Company and of Group companies, consistent with the overall risk profile defined and with the guidelines received from the ALM Committee, as well as within the limits assigned;
- establishing, together with Risk Management, the structure of operating limits to submit to the EC, consistent with the RAF and the common models to measure interest rate risk in the banking book defined by Risk Management.

In performing its operational management activities, the Finance Business Unit relies on overall and bucketised interest rate sensitivity analyses, in order to highlight the degree of asset- or liability-sensitive exposure on individual curve sections. The Finance Business Unit is also responsible for making proposals to the ALM Committee on the actions considered necessary to improve the overall profile in terms of interest rate risk (and structural liquidity) and to implement these actions operationally.

Within the process of risk management and assessment of current and future capital adequacy, the Risk Management department:

- assists the BoD in evaluation exercises, with a view to setting risk objectives and tolerance thresholds within the RAF, as well as continuously checking its implementation;
- proposes to the Group Risk Committee, in collaboration with the Finance department, within the RAF process, the strategic direction as regards the interest rate profile of the banking book and adoptable tolerance thresholds;
- defines the methods for measuring interest rate risk in the banking book with the support of the Finance Business Unit, to be submitted to the EC;
- validates the models used to quantify interest rate risk and the assessment of the adequacy of the underlying stress assumptions;
- defines, together with the Finance department, the structure of the limits of the operating proxies and of the stress tests to submit to the EC, consistent with the tolerance threshold established by the BoD;
- prepares interest rate risk management and monitoring reports for the relevant committees;
- on a daily basis, monitors compliance with the operating limits established in the Regulations for the assumption of financial risks, including therein verifying that any overruns of said limits are corrected.

The Daily Report summarises compliance with the operating limits, and includes the following information:

- interest rate risk ceiling in terms of overall interest rate sensitivity;
- ceilings in terms of interest rate sensitivity per bucket;
- interest rate sensitivity limit on positions in currencies other than the Euro.

As regards demand items, the Group adopts a valuation model that quantifies the effects of persistence over time and the imperfect elasticity to changes in market interest rates (viscosity effect). Modelling is based on internal time series of customer behaviour, and it entails two components: an estimate, based on an econometric model, of the relationship between the interest rates of demand items and market interest rates and further regressors that enable interest rate risk to be separated, in the proper sense, from other phenomena (e.g. credit); an estimate of the persistence of volumes related to the mean-life concept, which enables the holding period of the aggregates to be linked more closely to the historic volatility of assets, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items (replicating portfolio).

The Group also used the prepayment behavioural model on mortgage loans. The modelling adopted is behavioural, based on historical series analysis of the early termination and renegotiation of the rate. Unlike market models, in behavioural models the predominant factors that contribute to determining the value of the early redemption option are not exclusively financial, but include explanatory variables that

depend on the characteristics of the loan (e.g. loan to value) and of the borrower (e.g. age).

Changes in the European regulatory framework on interest rate risk in the banking book (IRRBB) are continuously monitored, and the suitable adaptations made, taking the indications of the JST in relation to SREP into account.

During 2021, the Group continued to report its exposure to interest rate risk on a quarterly basis to the ECB, through Short Term Exercise reports (STE-IRRBB).

Quantitative information

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

The table in question has not been included because a sensitivity analysis for interest rate risk based on internal models and other methods is provided below.

2. Banking book: internal models and other sensitivity analysis methods

This section briefly summarises the results of the interest rate risk analyses relative to the banking book. In particular, the table below shows the data regarding the impact on the net interest income (shift sensitivity analysis), over a period of 12 months, on the assumption of a parallel shift in interest rates of +/- 100 basis points. The measurement is based on end-of-year positions, and therefore does not include assumptions on future changes of the composition of assets and liabilities. For the purpose of the analysis, the floor on the customer interest rates of items with customers was set as zero.

The analysis was conducted in line with the methodology used to measure the interest rate risk of the banking book for the Risk Appetite Framework and for Short Term Exercise reports - STE interest rate risk, in line with the reference European guidelines.

"Parallel shift" assumption (figures in €/million)		
	Shock -100 b.p.	Shock +100 b.p.
Figures at 12/2021	-53.0	+60.7

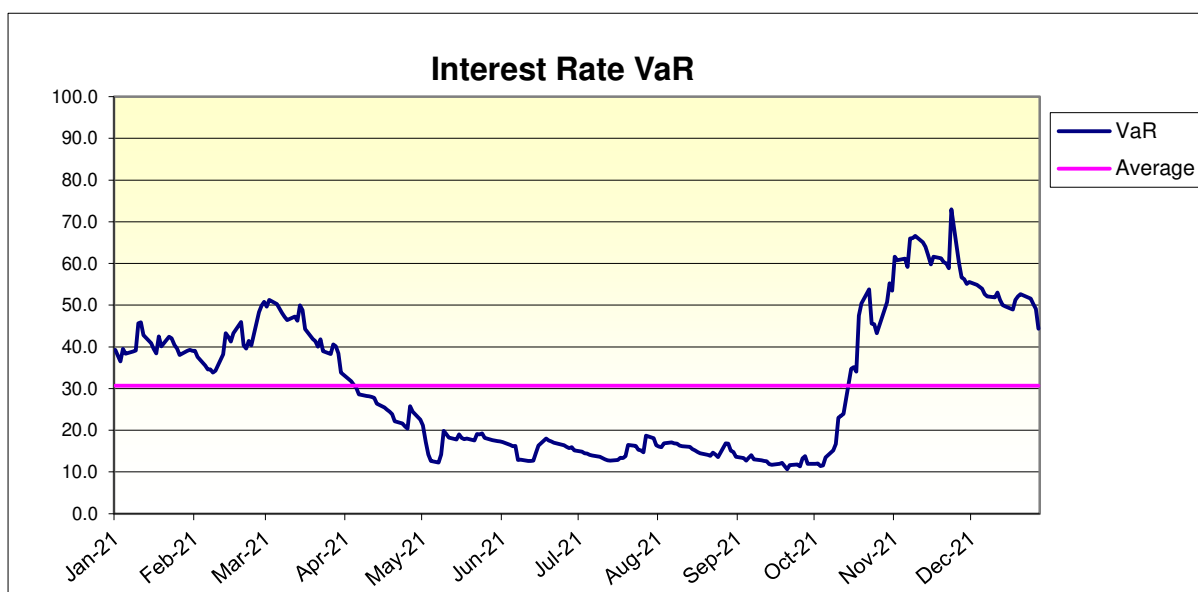
The exposure to interest rate risk from an equity perspective is measured at a consolidated level by a sensitivity analysis of the economic value (change in fair value of asset and liability items), based on a *full evaluation* approach, following a parallel shock on the spot interest rate curve of +/- 200 basis points. In 2021, the maximum change in economic value with relation to own funds was equal to 5.4%. In addition to the impact of the parallel shocks of interest rates, stress tests are periodically conducted internally, assuming non-parallel shocks based on the historical trend of the interest rate curve.

The methods used to analyse sensitivity to interest rate risk also include the modelling of demand items and prepayments on mortgages according to the behavioural models described above.

For the interest rate risk of the banking book, the same VaR analyses are provided as described in the paragraph on the trading book are envisaged, to which readers should refer for a description of said method. The figures below show the performance of the VaR of the Credem banking book over 2021.

The results of backtesting are shown in paragraph 1.2.3 "Foreign exchange risk".

Figure 5. Performance of Interest Rate VaR Credem – banking book (99%, 10 day* multiplication coefficient). Figures in €/million



The increase in VaR in the last few months of the year is mainly due to the volatility of rates in the markets.

Price risk

The Group does not have positions in shares or listed equity investments in the banking book. There are € 1.3 million in a private equity fund managed by a group company and insignificant shares in funds resulting from the merger with Cassa di Risparmio di Cento, of which € 1.5 million in a real estate fund.

Price risk hedging

The Group does not have any hedging transaction in place.

1.2.3 Foreign exchange risk

Qualitative information

A. General aspects, management processes and measurement methods

Foreign exchange transactions involve the assumption of positions managed and controlled through position limits, both gross and net, and concentration limits by currency.

The currency market risk is calculated with the same frequency and method indicated for interest rate and equity risk.

B. Hedging of foreign exchange risk

The Group does not have any hedging transaction in place.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Item	Currencies					
	USD	GBP	JPY	CAD	CHF	OTHER CURRENCIES
A. Financial assets	2,277,002	57,184	5,382	1,777	6,826	8,286
A.1 Debt securities	2,159,979	50,466	-	-	-	83
A.2 Equity securities	2,924	-	-	-	-	-
A.3 Loans to banks	28,616	4,742	4,378	1,776	2,045	7,983
A.4 Loans to customers	85,483	1,976	1,004	1	4,781	220
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	7,508	1,304	216	405	2,157	953
C. Financial liabilities	2,244,560	59,434	6,287	4,512	9,592	12,935
C.1 Deposits from banks	1,873,116	39,960	28	19	1,345	257
C.2 Deposits from customers	371,444	19,474	6,259	4,493	8,247	12,678
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	3,105	1,955	1	375	201	34
E. Financial derivatives	-	-	-	-	-	-
- Options	-	-	-	-	-	-
+ Long positions	1,853	-	-	-	-	-
+ Short positions	1,853	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	402,807	64,644	19,204	21,861	27,095	26,151
+ Short positions	494,844	62,559	16,521	2,887	770	7,084
Total assets	2,689,170	123,132	24,802	24,043	36,078	35,390
Total liabilities	2,744,362	123,948	22,809	7,774	10,563	20,053
Difference (+/-)	(55,192)	(816)	1,993	16,269	25,515	15,337

Internal models and other sensitivity analysis methods

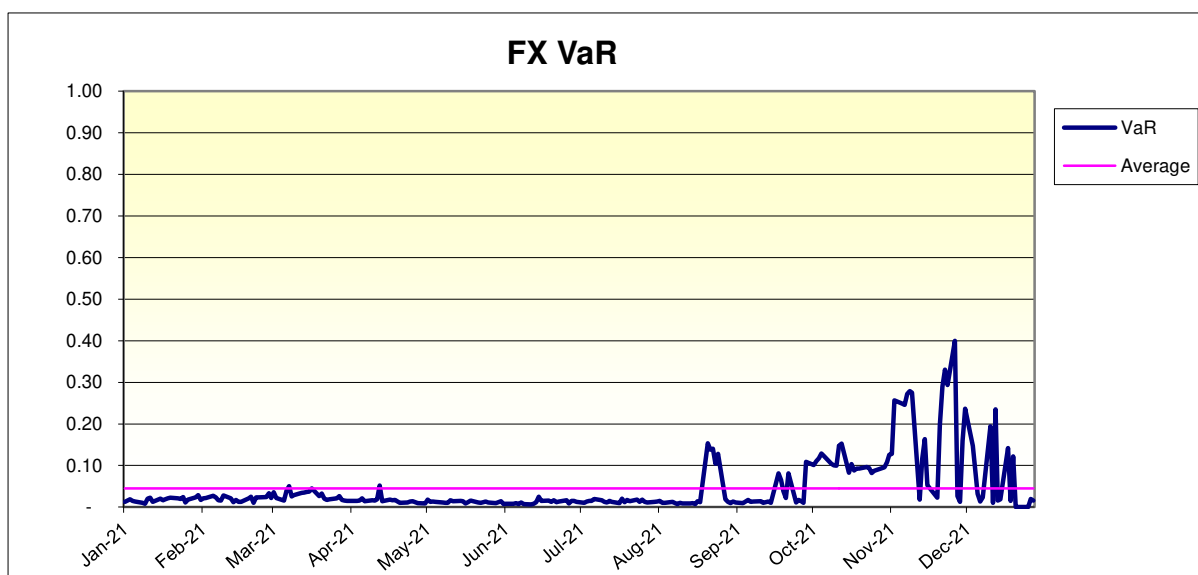
This section briefly summarises the results of the foreign exchange risk analyses relative to the trading book. In particular, the average, maximum and minimum VaR values (in €/million) generated by the currency risk factor are reported for the years 2019, 2020 and 2021.

Table 4. Currency VaR data

	2021	2020	2019
Credem			
VaR - average	0.0	0.0	0.0
min	0.0	0.0	0.0
max	0.4	0.2	0.3

Figures in €/million, VaR 99% 10days * Multiplication coefficient

The following figures show the performance of the afore-mentioned VaR for Credem in 2021.



The table below shows the average contributions of equity risk, foreign exchange risk and interest rate risk in 2021 to the total non-diversified VaR.

Table 5. Average % contribution of risk factors to the total non-diversified VaR

	Equity Risk	FX Risk	Interest Rate Risk
Credem 2021	4.6%	0.1%	95.3%

As part of the more comprehensive annual backtesting analysis of models, the VaR data is compared with the effective P&L recorded. The backtesting guidelines are described in the document Market Risk, Backtesting Methodology, Owned Portfolio VaR, which sets out the objectives and methodology.

Backtesting is carried out by comparing the VaR figures with the daily management P&L figures (or weekly, for the portfolios for which the calculation of profitability is on a weekly basis), based on the analysis of “exceptions”, or cases in which the loss recorded is higher than the estimated VaR for the same reference period, both in terms of numbers and in terms of time breakdown.

The scope of the backtest analysis consists of the portfolios of Finance Regulations, the VaR time horizon is in line with the calculation of the P&L. The financial year is based on 12 months of figures. The cases were checked through a series of tests:

- Frequency Test: Basel and Kupiec (or POF, Proportion of Failure);
- Independent Test: Christoffersen and Mixed Kupiec;
- Joint Test: POF + Christoffersen, POF + Mixed Kupiec.

With regard to annual backtesting, the tests conducted confirm the solidity of the VaR model.

1.3 Derivatives and hedging policies

Transactions in derivative instruments are managed by the Group by means of a specific application that makes daily valuations on a Mark to Model basis. The reference document "Technical Annex to the Group Fair Value Policy: Pricing Models Manual" governs the main pricing models most often used by the Group for its derivatives measured on a Mark to Model basis. In particular, a specific section provides a detailed illustration of these models. The series of models illustrated identifies the methods used to date and validated for valuations of own instruments.

Classification of derivative instruments and market parameters

The Credem Group has drawn up a Fair Value Policy and relative technical attachments, which also contain the accounting rules for the valuation of instruments on a Mark to Model basis, the relative parameters and the processes used for the valuation of said instruments.

In particular, the manual is divided into the following sections:

- classification of the derivative instruments, historicised within the application;
- mapping and detail of the market parameters used by the application for the valuation of all instruments;
- description of automated procedures to historicise prices.

Market parameters

The market parameters used for the valuations and managed within the application may be:

- data acquired automatically, information downloaded periodically from Info Providers (e.g. daily market parameters);
- market data estimated by the application, mainly through data acquired automatically.

In general, the parameters entered manually are those that don't need to be updated continuously and on a daily basis.

Process to validate models and parameters

As already mentioned, the reference documents illustrate all of the pricing models and market parameters validated and used by the Group for the valuation of derivative instruments.

In the event that new parameters and/or models need to be introduced, the process envisages the involvement of the validation office, which issues a specific opinion on the new element and organises the validation of the models, as provided for in the specific Group regulations for new products.

The validation office is responsible for periodically updating the reference documents with new models and/or parameters used and for analysing the validity of the models in use.

Automatic procedures and specific controls enable the valuations of the derivatives and of the parameters used to be monitored on a daily basis.

The type of valuation is shown for each type of derivative (through market quotation - Mark to Market or through valuation according to the Mark to Model technique). If the derivative has been measured using the Mark to Model technique, the pricing model and the market parameters used for the valuation are indicated.

Family	Group	Transaction Type	Description	Mark to Market/Mark to Model	Pricing model Market parameters
CURR	FXD	FXD	Spot Forward	Mark to Market for the spot, Mark to Model for the forwards	Model: Cost of Carry Parameters: exchange rates, forex curves
	FXD	XSW	Forex-Swap	Mark to Model	Model: Cost of Carry Parameters: exchange rates, forex curves

Family	Group	Transaction Type	Description	Mark to Market/Mark to Model	Pricing model Market parameters
EQD	EQUIT		Equities	Mark to Market	Listed Price
		CNV	Convertible Bond	Mark to Market	Listed Price Model (sens): CN Credit All Parameters: interest rate curve, equity volatility, equity dividends
IRD	ASWP		Asset Swap	Mark to Model	Model: Discounted cash flow Parameters: interest rate curve
	BONDS		Bonds	Mark to Market	Listed Price
	BONDS		Bonds	Mark to Model	Additional Features: Capped/floored rate Model: Bond component: Discounted cash flow, optional component: Fischer Black Parameters: interest rate curve, interest rate volatility, credit spread
	OPT	OTC	Bond Option	Mark to Model	Model: Fischer Black Parameters: Interest rate curve, bond volatility
	C/F		Cap/Floor	Mark to Model	Model: Black Normal Yield Parameters: interest rate curve, interest rate volatility
	IRS		Interest Rate Swap	Mark to Model	Model: Discounted cash flow Parameters: interest rate curve
	LFUT		Long Future	Mark to Market	Listed Price
	LN_LR		Loans/Deposit	Mark to Model	Discounted cash flow Parameters: interest rate curve
SCF	SCF	SCF	Simple Cash Flow		

1.3.2 Derivative trading instruments

A. Financial derivatives

A.1 Derivative trading instruments: end of period notional amounts

Underlying assets/Type of derivatives	Total 31/12/2021					Total 31/12/2020				
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
1. Debt securities and interest rates	-	1,322,441	499,453	-	-	1,290,433	396,117	-		
a) Options	-	38,688	236,201	-	-	53,390	140,618	-		
b) Swap	-	1,283,753	261,252	-	-	1,237,043	251,127	-		
c) Forward	-	-	-	-	-	-	4,372	-		
d) Futures	-	-	2,000	-	-	-	-	-		
e) Others	-	-	-	-	-	-	-	-		
2. Equity securities and stock indices	-	-	6,748	-	-	-	7,813	-		
a) Options	-	-	6,748	-	-	-	7,813	-		
b) Swap	-	-	-	-	-	-	-	-		
c) Forward	-	-	-	-	-	-	-	-		
d) Futures	-	-	-	-	-	-	-	-		
e) Others	-	-	-	-	-	-	-	-		
3. Currencies and gold	-	622,764	401,460	-	-	571,754	425,126	-		
a) Options	-	1,942	1,942	-	-	3,260	3,260	-		
b) Swap	-	-	-	-	-	-	-	-		
c) Forward	-	620,822	399,518	-	-	568,494	421,866	-		
d) Futures	-	-	-	-	-	-	-	-		
e) Others	-	-	-	-	-	-	-	-		
4. Commodities	-	-	-	-	-	-	-	-		
5. Other	-	-	-	-	-	-	-	-		
Total	-	1,945,205	907,661	-	-	1,862,187	829,056	-		

A.2 Financial trading derivatives: gross positive and negative fair value – breakdown by product

Types of derivatives	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	104	908	-	-	6	1,433	-
b) Interest rate swaps	-	25,568	3,797	-	-	8,643	5,061	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	5,252	(3,311)	-	-	3,047	9,879	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	30,924	8,016	-	-	11,696	16,373	-
2. Negative fair value								
a) Options	-	136	458	-	-	609	59	-
b) Interest rate swaps	-	26,230	63	-	-	11,975	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	3,629	2,633	-	-	13,493	1,659	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	29,995	3,154	-	-	26,077	1,718	-

A.3 OTC financial trading derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional amount	X	2,000	76,434	421,020
- positive fair value	X	-	1,755	2,674
- negative fair value	X	-	32	431
2) Equity securities and stock indices				
- notional amount	X	-	10	6,738
- positive fair value	X	-	1	263
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional amount	X	-	-	401,460
- positive fair value	X	-	-	3,322
- negative fair value	X	-	-	2,690
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional amount	-	1,322,441	-	-
- positive fair value	-	25,615	-	-
- negative fair value	-	26,354	-	-
2) Equity securities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Gold and currencies				
- notional amount	-	544,394	78,370	-
- positive fair value	-	4,541	769	-
- negative fair value	-	3,172	468	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 OTC financial derivatives – residual life: notional amounts

Underlying/residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	261,742	1,255,589	304,565	1,821,896
A.2 Financial derivative contracts on equity securities and stock indices	-	6,738	10	6,748
A.3 Financial derivative contracts on currencies and gold	982,241	41,984	-	1,024,225
A.4 Financial derivative contracts on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	1,243,983	1,304,311	304,575	2,852,869
Total 31/12/2020	1,265,841	1,005,536	419,866	2,691,243



1.3.2 Hedge accounting

Qualitative information

With regard to hedge accounting, as envisaged by IFRS 9, the Group will continue to apply the provisions of accounting standard IAS 39 (adopting the carved-out version approved by the European Commission) for all hedges in place.

Fair value hedging, hedging instruments and items hedged

The Macro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with:

- Fixed-rate mortgages/loans, therefore alongside the Cash Flow Hedge method;
- floating-rate mortgages/loans with a cap option, to hedge the interest rate risk generated by the option;
- the core inelastic component of demand deposits;
- TLTRO for the plain vanilla component at fixed interest rates.

In addition, the Micro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with:

- debt securities held as fixed rate HTCS and HTC (including inflationary BTP, where only inflation risk is hedged);
- fixed-rate bonds issued by Credito Emiliano;

By applying hedge accounting, it is possible to symmetrically represent, in accounting terms, both the hedged items and the derivative products used for the hedge. In particular, to hedge interest rate risk, unlisted derivative instruments (IRS, OIS, IRO, IRS inflation) are used, which allow the differences between the financial features of loans and deposits to be realigned.

The Fair Value Hedge method requires that the hedging relationship be formally documented by a hedging card and that the effectiveness of the hedge is verified by prospective and retrospective tests of effectiveness. If the tests of effectiveness give a positive result, an adjustment of the fair value of the hedge instrument is recorded in the accounts, to align its valuation method with that of the hedging instrument. These effectiveness tests are performed periodically during the life of the operation. The hedge is considered effective if the ratio between the change in fair value of the hedged item with respect to the hedging instrument is within the range of 80% - 125%. The test of prospective and retrospective effectiveness of the hedge is carried out on a quarterly basis.

Hedge accounting cannot be maintained when the hedge becomes ineffective (outside of the range of 80%-125%). Possible sources of inefficiency may include different payment dates or arrangements between the hedged and hedging instrument, and the credit spread for the FVH security.

Cash flow hedging, hedging instruments and items hedged

The basic objective of cash flow hedging is to avoid that unexpected changes in market rates have a negative impact on the net interest income.

There are cash flow hedges on various forms of floating-rate deposits already issued and to be issued (forecast transaction).

In particular, for interest rate risk hedging, unlisted derivative instruments (interest rate swaps) are used, which allow realignment of the financial differences between loans and deposits. The objective of hedging is to partially eliminate the risk of fluctuations in future cash flows caused by changes in the floating rate over the period hedged, and the consequent achievement of indexing at a “target” fixed rate, equal to that calculated from the “fixed-leg” cash flows of the group of hedging instruments.

In previous years, the Cash Flow Hedge was also introduced for floating-rate mortgages. The definition of mortgage packages with Cash Flow Hedges was made on the basis of the following criteria:

- same payment frequency
- same type of indexing

- frequency of interest rate review and payment of interest (split into the following 3 buckets: from the 1st to the 10th day of the month, from the 11th to the 20th day of the month and from the 21st day to the end of the month).

The similarity of these characteristics in the loans portfolio and the relative derivatives guarantees the effectiveness of the hedge and therefore means that the test in point 2 of the paragraph below does not need to be conducted (this test is compulsory for the Cash Flow Hedge on various forms of funding).

Method for evaluation of effectiveness:

For floating-rate deposits with Cash Flow Hedges, the following tests are conducted:

- Verification of the minimum nominal capacity for each future period, starting from the current bucket;
- performance of prospective and retrospective tests using the hypothetical derivative approach, namely a comparison between the fair value of the hedge derivative and the fair value of the hypothetical derivative, with the fixed leg as the same flows of the hedging derivatives and the floating leg as the variable flows of the hedged instrument weighted by hedge percentages.

For loans covered by the Cash Flow Hedge, the hedging swap is checked to ensure that it has been concluded at market conditions, by verifying the Mark To Market value with the real-time curve when the transaction is closed.

Comments on the method presented

As regards the Cash Flow Hedges of the various forms of funding (the same applies to the mortgage Cash Flow Hedge, changing the signs of the cash flows and liabilities into assets) the derivatives for which the method in question is applied are considered as part of a single group of transactions whose overall exposure can be classified as “floating-rate collection/fixed-rate payment”. These transactions are considered, throughout their duration, as partial hedging of the cash flows generated on a group of floating-rate liabilities (floating-rate payment); these liabilities are represented by outstanding debit positions, as well as by future transactions with the same characteristics (if these respect the requirements for designation as hedged items).⁴ Within each bucket, which hedges the homogeneous set of cash flows generated by the hedged liabilities, the identification of hedged cash flows is independent from their correlation with respect to the nominals that generated them (individual floating-rate liabilities), however the hedged cash flows are identified as “the first” of all that generated within the same bucket.

The objective of hedging is to eliminate a portion of the risk of variability in cash flows resulting from redefinition of the “coupons” of hedged items. The designation of the hedge relationship refers to specific periods of future time (quarterly buckets for the securities Cash Flow Hedge, monthly buckets for the mortgage Cash Flow Hedge) and, in terms of amount hedged, may differ from bucket to bucket, depending on the overall position of the group of hedging derivatives and the outstanding transactions hedged at the end of each specific bucket.

The reduction of the risk of cash flow variability is achieved by creating a group of hedged items and hedging items with indexing features at the same floating rate and with rate definition dates that are “reasonably” close (a quarter in the case of Cash Flow Hedges on different forms of funding, 10 days in the case of mortgage Cash Flow Hedges).

In essence, the cash flows collected during each of the periods defined by the variable coupons of the group of hedging instruments will offset a portion (equal to the portion generated on the hedged principal) of the total cash flows paid on the group of hedged items (the flows generated by the first nominals in repricing each bucket until reaching the nominal value of hedging transactions for each period), transforming the total exposure in the bucket from floating to fixed.

⁴ If transactions that are solely “prospective” satisfy the requirements set forth by IAS 39 to be qualified as “forecast transactions”, even the future cash flows generated by these may in turn be included under the same definition and, consequently, measured as hedged items. For the mortgage Cash Flow Hedge, it was decided not to use “forecast transactions”.

For this situation to occur with a high level of probability, it is necessary that the cash flows (floating) generated by the two groups be aligned in terms of indexing parameter and frequency and that the floating-rate definition dates for the individual items within the two groups be sufficiently close to one another.

The concept of high probability of forecast transactions

In order to designate the hedge ratio of different forms of funding at variable interest rates, a forecast transaction must be:⁵

- highly probable;
- able to have a final impact on the income statement as the cash flows referring to it are variable.

“Highly likely” refers to a situation where it is more likely that the transaction will occur rather than not occur.⁶ To this end, it is not possible to label future transactions as “highly probable” solely on the basis of management’s intentions: the analysis must be supported by objectively verifiable facts and circumstances.

The standard provides a list of points to be taken into consideration when defining the requirement of high probability.⁷ These are:

- the frequency of similar, past transactions;
- the financial and operational ability of the entity to carry out the transaction;
- the strategic business plans (the forecast transactions must be in line with the size of the company and its growth prospects);
- the relevance of the transaction with the entity’s core business;
- the likelihood that transactions with substantially different characteristics might be used to achieve the same business purpose;
- the presence of a substantial commitment of resources for a specific activity.

Three factors affect the extent and relevance of the “evidence” necessary to demonstrate the “high probability” of a future transaction:

- the length of time until the future transaction is expected to occur. Other factors being equal, the more distant a forecast transaction is, the less certain its occurrence is and, therefore, the less likely it is that it would be considered as being “highly probable”. In these cases, much more substantial evidence of “high probability” is required (such as, for example, contracts supporting the future transaction; the accounting standard highlights how interest payments in twenty years arising from a debt instrument with said maturity would be “highly probable” if supported by a contractual obligation for the payment of said amounts);⁸
- the quantity/value of forecast transactions with respect to the actual transactions of the same type. Other factors being equal, the higher the value of forecast transactions compared to current transactions, the lower the probability that these will actually occur. Therefore, stronger evidence will be required to support the claim of “high probability”;
- the history of past designations. If the company has a history of designating hedges of forecast transactions that do not actually occur because the transaction does not take place, this is an indication of the company’s limited ability to reliably evaluate forecast transactions as “highly probable”.

⁹As highlighted in the Implementation Guidance of IAS 39, the company is not required to determine the exact date in which the forecast transaction will take place. However, it must clearly identify and document the period in which the transaction is expected to occur.

As regards the above, the ALM Committee has set a limit to the maximum value of forecast transactions.

The amount of the forecast transactions may not exceed the total estimated value of future floating-rate bond issues (defined as the difference between the expected outstanding volumes each year and the total amount of bonds already issued).

⁵ IAS 39 § 88

⁶ IAS 39 IG F.3.7

⁷ IAS 39 IG F.3.7

⁸ IAS 39 IG F.3.7

For correct determination of the maturing cash flows, in addition to the inertial amount of transactions already carried out, the amounts for transactions carried out in the forecasted/projected years are also determined; conventionally, the duration of these issues is assumed to be two and three years.

A decreasing percentage over time has also been established for the ratio of total assumed forecast transactions to envisaged issues, in order to express the lower probability of forecasts the more distant they are.



Quantitative information

A. Hedging financial derivatives

A.1 Hedging financial derivatives: end of period notional amounts

Underlying assets/Type of derivatives	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	-	20,745,453	73,934	-	-	15,115,328	102,327	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	20,745,453	73,934	-	-	15,115,328	102,327	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	20,745,453	73,934	-	-	15,115,328	102,327	-

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

Types of derivatives	Positive and negative fair value								Change in the value used to calculate the effectiveness of the hedge	
	Total 31/12/2021					Total 31/12/2020			Total 31/12/2021	Total 31/12/2020
	Over the counter			Organised markets	Over the counter		Organised markets			
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	
b) Interest rate swaps	-	211,101	-	-	-	273,385	-	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	-	
e) Forwards	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	211,101	-	-	-	273,385	-	-	-	
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	
b) Interest rate swaps	-	406,366	1,718	-	-	355,749	-	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	-	
e) Forwards	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	406,366	1,718	-	-	355,749	-	-	-	

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

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional amount	X	73,934	-	-
- positive fair value	X	-	-	-
- negative fair value	X	1,718	-	-
2) Equity securities and stock indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional amount	-	20,745,453	-	-
- positive fair value	-	211,101	-	-
- negative fair value	-	406,366	-	-
2) Equity securities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Gold and currencies				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 OTC hedging financial derivatives – residual life: notional amounts

Underlying/residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	1,639,315	9,358,689	9,821,384	20,819,388
A.2 Financial derivative contracts on equity securities and stock indices	-	-	-	-
A.3 Financial derivative contracts on currencies and gold	-	-	-	-
A.4 Financial derivative contracts on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	1,639,315	9,358,689	9,821,384	20,819,388
Total 31/12/2020	2,516,930	5,247,723	7,453,002	15,217,655

D. Hedged instruments

With regard to hedge accounting, as envisaged by IFRS 9, the Group will continue to apply the provisions of accounting standard IAS 39 (adopting the carved-out version approved by the European Commission) for all hedges in place.

D.1 Fair value hedges

Fair value hedges						
	Micro-hedges: book value	Micro-hedges - net positions: book value of assets or liabilities (before netting)	Micro-hedges			Macro-hedges: book value
			Cumulative changes in fair value of the hedged instrument	Termination of hedging: residual cumulative change in fair value	Changes in value used to recognise the ineffectiveness of the hedge	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income - hedging of:	5,393,851	-	(22,696)	-	-	-
1.1 Debt securities and interest rates	5,393,851	-	(22,696)	-	-	X
1.2 Equity securities and stock indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets measured at amortised cost - hedging of:	6,806,379	-	93,286	-	-	(4,053)
1.1 Debt securities and interest rates	6,806,379	-	93,286	-	-	X
1.2 Equity securities and stock indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
Total 31/12/2021	12,200,230	-	70,590	-	-	(4,053)
Total 31/12/2020	7,628,261	-	82,319	-	-	127,194
B. Liabilities						
1. Financial liabilities measured at amortised cost - hedging of:	958,435	-	8,180	-	-	72,610
1.1 Debt securities and interest rates	958,435	-	8,180	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total 31/12/2021	958,435	-	8,180	-	-	72,610
Total 31/12/2020	226,937	-	22,619	-	-	161,035

E. Impact of hedging transactions recognised in shareholders' equity

E.1. Reconciliation of components of shareholders' equity

	Cash flow hedging reserve						Foreign investment hedging reserve					Hedging instruments (elements not designated)			
												Temporal value of option		Forward element value and currency spread	
	Debt securities and interest rates	Equity securities	Currencies and gold	Loans	Other		Debt securities	Equity securities	Currencies and gold	Loans	Other	Hedges relating to transactions	Hedges relating to a period	Hedges relating to transactions	Hedges relating to a period
Opening balances	50,350	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value (effective portion)	(27,558)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reversals to income statement	204	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer envisaged	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which: transfers at initial book value of hedged instruments	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X
Closing balances	22,996	-	-	-	-	-	-	-	-	-	-	-	-	-	-

1.4 Banking group – liquidity risk

Qualitative information

A. Liquidity risk: general aspects, management processes and measurement methods

Liquidity risk is defined as the possibility that the Group finds itself in a situation in which it is unable to meet its ordinary or extraordinary payment commitments when they become due without incurring losses that may undermine daily operations or the overall financial situation of the Group. Liquidity risk management can be divided into:

- management of short-term liquidity, including intra-day liquidity, the objective of which is to ensure the capacity to meet expected or unexpected cash payment commitments by maintaining a sustainable balance between the incoming and outgoing cash flows; this management constitutes the essential condition for normal operational continuity of banking activities;
- structural liquidity management, the objective of which is to maintain an adequate ratio between total liabilities and assets, in order to avoid pressures on short-term, current and future sources.

The Credito Emiliano Group adopted a liquidity risk management policy some time ago. The approved Policy regulates:

- the principles of liquidity risk governance and management adopted by the Group, and
- the set of regulations and control processes that aim to prevent the emergence of liquidity crisis situations for the Group and for individual Group companies, with the objective of encouraging proper and careful management of liquidity risk at consolidated level, with a view to assuring the stability and safety of company transactions, financial solidity and consequently Group solvency.

The basic principles behind the liquidity management policy are:

- definition of the Risk Appetite and Risk Tolerance (or tolerance threshold) in the context of the normal business activities and stress scenarios;
- definition and formalisation of roles and functions, in line with the principle of separating operational functions from control functions (known as “segregation of duties”);
- centralization of the liquidity risk governance function on the Parent Company;
- implementation of a policy of transformation of the deadlines managed within the limits assigned;
- adoption of a diversified funding policy in terms of sources, duration and type of funding instruments;
- definition and formalization of the principles relating to the definition of the pricing system for the internal transfer of funds;
- definition and formalisation of an emergency plan to be activated in the event of stresses and/or market crises or in the event of specific Group situations (Contingency Funding Plan);
- adoption of an internal control system.

The changes in cash flows over time are examined, on a daily basis, through a liquidity gap model, enabling the implementation of transactions aimed at establishing equilibrium between cash inflows and outflows.

The Group Asset Liability & Management Committee is awarded with decision-making powers to draw up strategies on Group funding policies. The financial equilibrium status is also regularly analysed, within the committee, to guide funding strategy decisions. This includes the Committee’s analysis of extraordinary measures that may become necessary due to contingent market situations.

Under the RAF process, the Risk Tolerance thresholds, the metric and control procedures are also defined for the following liquidity indicators:

- *Liquidity Coverage Ratio (LCR)*;
- *Asset Encumbrance*;
- *Net Stable Funding Ratio (NSFR)*.

The Liquidity Management rules adopted establish liquidity limits for short-term maturities and other indicators to monitor the overall position on a daily basis.

As regards structural liquidity, limits are envisaged to control and manage risks resulting from mismatches of medium/long-term maturities of assets and liabilities. Gap ratios at 1, 2 and 5 years are envisaged.

These limits enable the bank to avoid medium-long term transactions triggering excessive imbalances that require short-term financing.

The stress test scenarios envisaged by the Regulation are broken down into:

- systemic stress - low severity: systemic liquidity crises entailing an unexpected instability of the money and capital markets and/or political tension, accompanied by high levels of intensity and global impacts;
- idiosyncratic stress - medium severity: liquidity crises caused by particularly negative events for the Group;
- combined stress - high severity: this is the combination of the two previous scenarios. The purpose of the Contingency Funding Plan procedures, recently revised, is to safeguard the Group's stability during the initial stages of a state of liquidity tension and to guarantee the continuity of the Group in the event of a serious liquidity crisis.

The management of short-term liquidity and structural funding is carried out by the Parent Company's Finance Business Unit, which, overall:

- manages the intragroup cash flows arising from the net liquidity needs/surplus of the Group companies;
- measures and monitors the liquidity position of the Group and the individual Group companies;
- coordinates and raises funds in the interbank market to maintain adequate liquidity conditions for the Group;
- periodically establishes the financial interventions required to achieve medium and long-term equilibrium, sustainable growth and greater efficiency in funding;
- manages relations with the ECB (overseeing the management account and any lending or funding activity) and participates in the ECB's refinancing operations.

This set-up enables the Group's financial requirements to be adequately supported and is aimed at:

- reducing the total requirements for funding from counterparties external to the Group;
- optimising access to markets and thus, minimising total costs of external funding.

During the 2021 financial year, starting from 30 June 2021, the new Net Stable Funding Ratio (so-called "NSFR CRR2"), whose reporting is made quarterly, as required by Regulation (EU) 2019/876 (so-called «CRR2»). This indicator replaces the liquidity reporting required by EU Regulation 575/2013 (CRR) in the form of a requirement for stable financing (SF). Reports relating to the *Liquidity Coverage Ratio (LCR)* and *Additional Liquidity Monitoring Metrics (ALMM)* have not been updated and are produced on a monthly basis, based on formats compliant with EU Implementing Regulations nos. 322/2016 and 2114/2017 respectively.

The Group is also continuing to participate in the half-yearly Basel III monitoring.

The total amount of funding with the ECB at the end of December 2021 relates to TLTRO III operations for a total amount of € 8.29 billion. During the first quarter of the year, an additional TLTRO III transaction was carried out in the amount of € 740 million, following the ECB's decision of December 2020 to increase the amount of financing that can be obtained by the banks. In July 2021, following the merger by incorporation with Cassa di Risparmio di Cento, the participation in the TLTRO III operations increased at Group level by € 450 million, equal to the amount of TLTRO III loans in place obtained from the merged bank.

During the year, the Group continued to carry out weekly funding transactions in euro and in US dollars for limited amounts, as part of its process and procedure backup plan.

At 31 December 2021, total unrestricted liquidity reserves, meaning the high-quality liquid assets used to calculate the LCR indicator, amounted to € 9.3 billion. 93% of these reserves belong to the Parent Company and the remaining 7% to the domestic subsidiaries.

Covered Bond Programmes

In July 2021, a new € 750 million issue was placed as part of Credem CB's Covered Bank Bonds programme. On 18 December 2021, the Base Prospectus of the OBG Program expired, for which renewal is expected in 2022.

At 31 December 2021, the nominal value of the issues in circulation was € 1.6 billion.

"Euro Medium Term Note" (EMTN) issue programme

In 2021, no new issues were performed under the EMTN Programme, which, at present, has not been renewed for the year.

On 21 October 2021, Credem exercised the early repayment option provided for the € 50 million subordinated Tier 2 bond issued in 2016.

Outside the Programme, as a "Stand Alone" issue, another inaugural Green Senior Preferred issue was placed for a nominal amount of € 600 million for institutional investors on 19 January 2022.

Securitisation operations

With reference to the securitisation transaction with Emilia SPV S.r.l. as the vehicle, in 2021 two new asset disposals were carried out relating to performing residential mortgage loans that are not eligible for use in the covered bonds issuance programmes. At 31 December 2020, the *senior tranche's* working capital was approximately € 1.78 billion, while that of the *junior tranche* was approximately € 0.53 billion.

Impacts resulting from the Covid-19 pandemic

In 2021, there are no significant impacts on liquidity deriving from the COVID-19 pandemic.

1. Time breakdown by contractual residual maturity of financial assets and liabilities

EURO

Items/time	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	3,390,221	895,810	434,861	841,591	2,891,976	2,853,593	3,338,353	16,425,426	14,135,504	7,720,849
A.1 Government securities	1,943	10	85	125	5,528	166,872	45,923	4,032,405	3,566,471	-
A.2 Other debt securities	6	360	1,358	16,287	13,644	29,587	48,210	1,581,540	1,733,859	-
A.3 Units of UCITS	8,161	-	-	-	-	-	-	544	1,315	-
A.4 Loans	3,380,111	895,440	433,418	825,179	2,872,804	2,657,134	3,244,220	10,810,937	8,833,859	7,720,849
- Banks	483,256	188,908	-	519	24,216	114	21	159	46	7,720,849
- Customers	2,896,855	706,532	433,418	824,660	2,848,588	2,657,020	3,244,199	10,810,778	8,833,813	-
Balance sheet liabilities	33,864,982	4,016,968	590,216	861,887	175,710	69,146	1,451,931	8,353,093	1,248,696	1,256
B.1 Deposits and current accounts	33,576,584	12,186	26,307	52,076	131,436	43,574	12,006	123,231	98	-
- Banks	162,974	-	-	-	4,011	-	-	-	-	-
- Customers	33,413,610	12,186	26,307	52,076	127,425	43,574	12,006	123,231	98	-
B.2 Debt securities	145	-	-	8,438	-	-	18,725	1,250,000	1,150,000	-
B.3 Other liabilities	288,253	4,004,782	563,909	801,373	44,274	25,572	1,421,200	6,979,862	98,598	1,256
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions	-	43,089	17,470	103,428	431,927	237,996	125,866	22,810	-	-
- Short positions	2	145,160	53,833	102,423	71,151	81,018	68,532	359,783	86,514	-
C.2 Cash settled fin. derivatives										
- Long positions	30,353	52	12	-	24	74	173	-	-	-
- Short positions	30,353	5	10	-	3	10	245	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	97	500	460	97	284	415	836	167,704	187,337	-
- Short positions	357,733	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	49,783	6,155	7,298	34,742	96,096	116,142	122,891	180,516	674,155	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Cash settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Time breakdown by contractual residual maturity of financial assets and liabilities

OTHER CURRENCIES

Items/time	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	49,277	1,460	5,892	16,515	48,050	24,664	26,202	106,328	2,130,103	-
A.1 Government securities	-	-	53	3,101	3,612	4,262	10,976	41,899	1,904,862	-
A.2 Other debt securities	-	-	149	22	1,464	1,286	11,654	64,378	225,241	-
A.3 Units of UCITS	65	-	-	-	-	-	-	-	-	-
A.4 Loans	49,212	1,460	5,690	13,392	42,974	19,116	3,572	51	-	-
- Banks	48,607	-	-	-	-	-	-	-	-	-
- Customers	605	1,460	5,690	13,392	42,974	19,116	3,572	51	-	-
Balance sheet liabilities	350,350	196,835	471,048	1,237,580	59,080	4,052	-	-	-	-
B.1 Deposits and current accounts	350,272	-	194	66,270	1,666	4,021	-	-	-	-
- Banks	859	-	-	-	-	-	-	-	-	-
- Customers	349,413	-	194	66,270	1,666	4,021	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	78	196,835	470,854	1,171,310	57,414	31	-	-	-	-
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions	2	123,642	53,990	149,144	71,399	79,714	65,066	20,954	-	-
- Short positions	-	47,367	17,701	148,858	210,477	76,095	65,290	21,030	-	-
C.2 Cash settled fin. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Cash settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 Operational risks

Qualitative information

The Group has developed an integrated management system for the operational risks it is exposed to, which while following strategic guidelines, improves the ability of the Organisational Units to consciously manage risk, by introducing identification, measurement and control tools able to guarantee the conscious assumption of risk in line with Governance strategies and with financial and equity circumstances, in compliance with the instructions of the Supervisory Authorities. The Parent Company's Board of Directors has approved the "Operational Risk Management" regulation (ORM Regulation), which establishes policies for the management of operational risk at Group and bank level, and sets out a common and co-ordinated system with shared rules for the division of tasks and responsibilities.

According to the regulation, operational risk is defined as "the risk of incurring losses resulting from inadequacy or inefficiency of procedures, human resources and internal systems, or external events, including legal risk; it does not include strategic or reputational risk".

Furthermore, the Parent Company's Board of Directors has also approved the use of the TSA method for all companies belonging to the Banking Group to determine capital requirements.

No significant changes were recorded with respect to the previous year as regards the operational risk management model, which is outlined below: the Body entrusted with Group strategic supervision is the Board of Directors of Credito Emiliano S.p.A., the Parent Company of the Credito Emiliano - CREDEM Banking Group. The body acts with the support of the Group Risks Committee, (Governance Committee, without powers, created to play a preliminary investigative role).

A number of bodies entrusted with management functions have been identified at Group level. These coincide with the Boards of Directors of each of the individual subsidiaries that adopted the ORM Regulation, implementing the related "form" in their specific situation and establishing the "local" functions needed for the positive outcome of the process.

From an operational perspective, the bodies entrusted with strategic supervision and those with management functions are assisted by the Operational and Credit Risks Office (OCR). Within the process that is centrally coordinated by OCR (the so-called "Central ORM"), their work is carried out with the support of several "Peripheral ORMs" belonging to the bank's various services.

The Board of Statutory Auditors is the body with a controlling role, in compliance with regulations in force regarding entities that adopt a "traditional" model of corporate governance. More specifically, the Board of Statutory Auditors of the Parent Company is responsible for supervising compliance with provisions in force, both legal and statutory, fair administration, the adequacy of accounting and organisational structures of the Group, also through coordination with similar entities operating in the subsidiaries.

In carrying out its activities, this body is supported by the Group Audit Service.

Moreover, the ORM Regulation sets out specific information flows towards the supervisory entity of the companies included in the TSA model (at individual and consolidated level, according to respective competences).

The Operational Risk Management System is periodically reviewed independently by the Parent Company's Audit Service.

The operational risk management system is defined as the structured set of processes, functions and resources to identify, measure and audit operational risks, and is divided into the following sub-processes:

- Identification;
- Measurement;
- Monitoring and Control;
- Mitigation.

The companies included in the measurement, monitoring and mitigation processes are those which, for the purposes of operational and IT risk, are relevant on an annual basis based on the analysis carried out as part of the approval of the Risk Appetite Framework (RAF) and of the capital adequacy assessment process (ICAAP) carried out by the Parent Company.

The “Identification” process consists of the following procedures:

- Loss Data Collection: this entails collecting data regarding internal operating losses, with the direct involvement of all business units. Within this context, operating loss events (including IT-related) are classified by Business Line (corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, retail brokerage) and Event Type (internal fraud, external fraud, employment ratio and occupational safety, customers - products and professional practices, external damages and events, interruption of operations and malfunctioning of systems, execution, process delivery and management);
- Risk Self-Assessment: this entails collecting, through a questionnaire, subjective estimates expressed by the risk owners regarding operating events (including IT-related) potentially relevant for their business units and taking into account the development guidelines emerging from the preliminary group planning process;
- Data Pooling/Communication with external entities: this entails taking part in external common initiatives and in managing the relative relationships (e.g. DIPO consortium), as well as in communicating the operating loss data collected by the Supervisory Authorities (Banca d’Italia and European Central Bank).

The “Measurement” process involves quantifying Capital at Risk (CaR) through subjective estimates. The aim of the methods used to measure expected and unexpected losses is to monitor and identify potentially critical situations. These methods are based on questionnaires (RSA), carried out at least once a year, which, for each single type of event, ask the heads of the organisational unit (OU) that could generate/manage operational risks for a subjective estimate of some risk-generating factors:

- “standard occurrence”, the expected average number of events over the reference period of time;
- “standard impact”, the expected average loss by type of event;
- “worst impact”, the impact of an individual event when the same occurs in the worst (reasonably) conceivable way.

The analysis is performed on various levels: department, business units, company and consolidated group and an expected loss amount and an unexpected loss amount are calculated for each level. The results of the assessment are used for operational purposes to prevent and mitigate the operational risks and in the operational planning process, on a consistent basis with the matters defined by the “Group planning, scheduling and control regulations”.

The “Monitoring and Control” process seeks to promptly identify any dysfunctions in business processes or in risk management procedures so that the necessary mitigation measures are assessed.

Operational risks are also monitored within the wider Group Risk Appetite Framework (RAF) process (quarterly monitoring).

In order to ensure continuous monitoring, the Executive Committee/Board of Directors are responsible for reporting operating losses on a case-by-case basis, and for deciding independently (within the regulations already in force or, if this is not possible, beyond the threshold of €100,000) whether or not the controls have been successful and whether any organisational and/or process/product deficiencies have been remedied. If available, the peripheral ORM that is competent at any given time includes the information to be reported within the proposals and sends them to the relevant departments, depending on the particular case (e.g., the Audit and

Compliance Service). In any event, the resolutions adopted by the EC/BoD are sent, for informational purposes, to the Risk Officer of the Parent Company and the OCR. OCR checks every six months that the relevant departments have been set up by the Peripheral ORMs and if this has not happened, it directly sets up the relevant departments, if necessary, in coordination with the Peripheral ORMs.

In addition, the OCR checks, every six months, for BU/Credembanca Service and for relevant companies, that the respective losses recorded in the reference half-year or year do not exceed the related expected loss value estimated in the risk self-assessment and, if this occurs, reports at the Credembanca Executive Committee on the reasons for the deviation provided by the BU managers/Credembanca Service Managers. For the individual relevant companies, in the event that losses are greater than Expected Loss, the company's peripheral ORMs report to their BoD on the reasons for the deviation and notify the Parent Company's Risk Officer.

The reporting system provides the management bodies and the relevant functional heads with information on the level of exposure to operational risk and is a tool used to support their active management, representing a combination of measurement, monitoring and control processes.

The "Mitigation" process defines actions to be taken to prevent and mitigate operational risks and consists of the following procedures:

- Management analysis: this entails analysing critical events that have occurred and the various possible solutions available within traditional alternative risk management methods (retention, transfer, mitigation), from a cost-benefit perspective;
- Management of mitigation: this entails selecting, planning, starting-up activities, implementing and completing mitigation actions set in place and then checking the progress and efficacy of risk mitigation interventions performed;
- Management of forms of transfer: this entails identifying, evaluating, selecting and managing the various forms of risk transfer.

The mitigation action defined in the reporting is also included in the operational planning process.

The classification of activities into regulatory *business* lines is divided into the following stages:

- mapping of data;
- calculation of individual capital requirement.

Mapping of data is defined at individual level through the location of each management centre in the pertaining regulatory business line, according to the principles set forth in EU Regulation no. 575/2013; the data resources that report the income figures of such centres and any division criteria are then defined.

When applying the defined mapping, each company establishes values for each centre, their allocation to the envisaged business line and defines the individual requirement.

The defined activities to determine the consolidated capital requirement envisage the identification of the individual "Relevant Indicator" and the component relating to each Group company by regulatory *business line* (must be identified in compliance with criteria set out in the mapping used for individual purposes).

The capital requirement with respect to operational risks, calculated on the Relevant Indicator for the 2019-2021 three-year period, is € 153.1 million.

LEGAL RISKS

As part of its normal business operations, the Group is involved in various judicial proceedings, which may result in compensation and/or restitution obligations, and the consequent outlay of economic resources (so-called legal risk). All outstanding disputes have been duly analysed by the Bank and, in the light of these analyses, as well as of the recommendations of its external attorneys, the appropriate allocations have been made, where necessary, on the basis of the circumstances in question.

More specifically, a provision for risks and charges has been established to cover the contingent liabilities that may arise from pending lawsuits.

The majority of these disputes regard the Group's core businesses, particularly investment services, anatocism and taxes.

Disputes regarding real estate, administration and over the counter transactions are of minor significance.

The following paragraphs provide a description of the main categories of potential liabilities, for which, if they are deemed to be probable, allocations have been made to other provisions for risks and charges.

Labour disputes: the risks relating to labour disputes are assessed quarterly on the basis of the progress of the disputes and therefore the provisions are adjusted accordingly.

Bankruptcy revocations: these are disputes that the Bank may be involved in as part of its ongoing business activities when customers undergoing Bankruptcy arrange payments in favour of the Bank, issue remittances on a current bank account at a time close to the declaration of Bankruptcy. Revocatory action is a tool that can be used by the bankruptcy receiver in order to reconstitute the equity of the bankrupt party addressed to paying its creditors, by retracting amounts that had been paid out in the period prior to the bankruptcy (the so-called suspect period). The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documental/factual evidence. Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question. All relative lawsuits are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Misappropriation: this regards disputes the Bank may be involved in as part of its ongoing business activities. There are some claims and legal disputes resulting from irregular conduct by employees or financial advisors when carrying out the assignments entrusted to them or in their work, which have led to claims by customers against the Bank, which may be retained liable for said conduct.

The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documental/factual evidence.

Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question.

Disputes regarding anatocism: the overall number of pending lawsuits has remained stable, in the light, above all, of issues triggered by rulings (as well as by the development of sector-related legislation). All relative lawsuits - at times also including disputes regarding exceeding the Usury Threshold Rate - are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Disputes regarding investment services: with regard to legal disputes regarding investment services - bonds in default, derivatives, etc. - the policy adopted by the Bank in this regard is that of assessing each position on a case-by-case basis, paying particular attention to documentary evidence and to the adequacy profile of the investments disputed with respect to the position of the individual counterparty. Following said analysis, where considered necessary, allocations are therefore made in line with the specific circumstances.

Customer complaints: Appropriate provisions are made for customer complaints: specifically, if the damages claimed are higher than a set threshold of significance (equal, to date, to € 25 thousand), the loss provision is made analytically. If, on the other hand, the damages claimed are lower than said threshold, the provision is determined by applying a flat/statistical percentage based on the average of the losses actually incurred over the total number of similar complaints received in previous years.

Tax disputes

The risks resulting from the Group's tax disputes are covered by adequate allocations to provisions for risks and charges.

As regards the Parent Company, there are 26 disputes pending, mostly related to local taxes as well as minor income taxes, while the rest regard direct and registration taxes. With regard to these disputes, no effective risks have emerged or at least the estimated risk appears remote. Therefore, no specific provisions have been made.

Credemleasing is involved in 35 disputes, of which 30 relate to minor tax issues (ICI, IMU, TA.RI., car taxes), the remainder related to VAT, IRPEG, IRAP. Given the uncertain outcomes of three of the pending proceedings, the company adhered to the facilitated settlement of disputes, pursuant to Article 6 of Decree-Law 119/2018. For two of these disputes, a decree dismissing the case was filed in 2021; for the others, orders of dismissal are expected within the year.

For Banca Euromobiliare, in relation to the only pending litigation concerning registration tax on the sale of a business unit, in December 2021 the CTRMI, ruling at the time of re-employment, ruled in favour of the company. The terms are pending for any appeal filed by the Agency with the Court of Cassation

Lastly, there are disputes of lesser importance related to the work of financial advisors and labour-related matters, as well as the real estate and administration areas.

Total provisions for risks and charges amount to € 164.9 million.

Impacts resulting from the Covid-19 pandemic

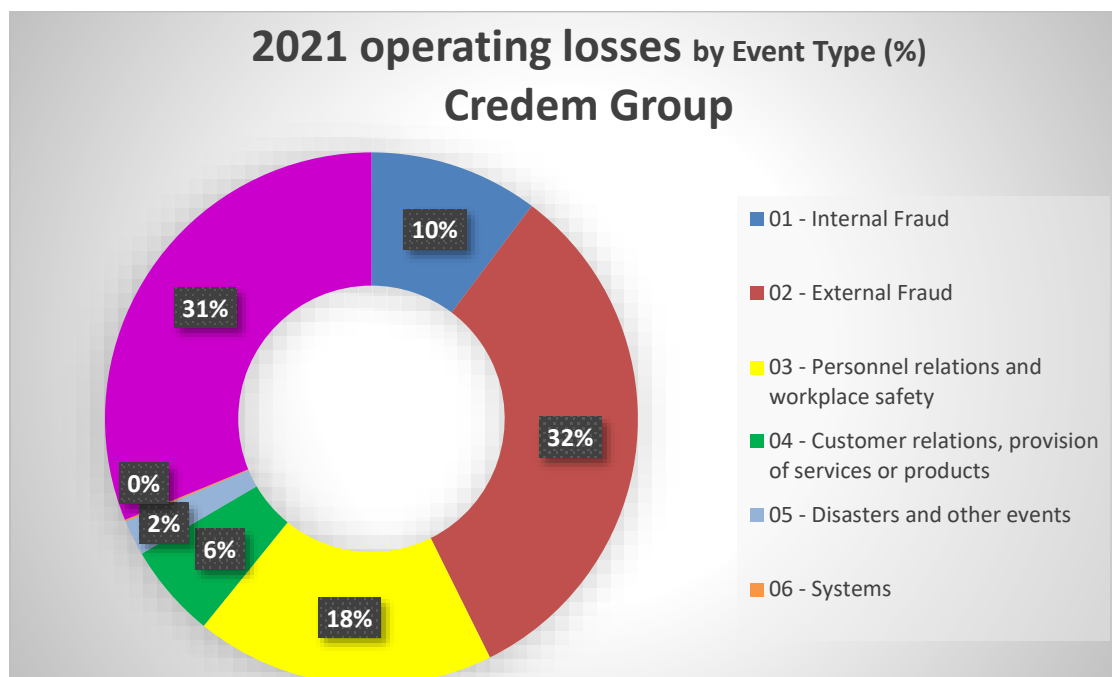
In 2021, there are no costs classified as losses attributable to the "Impacts arising from the Covid pandemic", since - conventionally - in line with the EBA guidelines,¹⁰ the costs incurred after June 2020 related to the management of the pandemic are to be considered as falling under the so-called "NEW NORMAL" management. Furthermore, there are no further operational losses related to Covid in other areas.

¹⁰ EBA REPORT ON THE IMPLEMENTATION OF SELECTED COVID-19 POLICIES- EBA / REP / 2020/39 of 21/12/2020
CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

Quantitative information

The breakdown (in %) of the operational losses of the Credem Group by type of event is illustrated below:

- ET 01 - Internal fraud
- ET 02 - External fraud
- ET 03 - Personnel relations and workplace safety
- ET 04 - Customer relations, provision of services and products
- ET 05 - Disasters and other events
- ET 06 - Systems
- ET 07 - Execution, management, delivery of services and products



In 2021, the main source of operational risk, by loss amount, was “External Fraud” (ET 02). The second source of operational risk regards losses due to “Execution, management and delivery of products or services” (ET 07) and followed by, based on percentages, are: losses due to “Personnel relations and workplace safety” (ET 03)”, “Internal Fraud” (ET01), “Customer Relations, Provision of Services or Products” (ET 04) and “Disasters and Other Events” (ET 05).

Finally, in percentage terms, losses relating to the malfunctioning of technological systems (ET 06) is almost zero.

The amount of losses attributable to IT risk is very limited (only 0.1% of the total and falls under Event Type 06). Almost all losses attributable to “Conduct Risk” refer to Event Types 01 and 04.

Section 3 – Risks of the insurance companies

3.1 Insurance risks

CREDEMVITA S.P.A.

Credemvita's approach to risk management

Risk management strategies

Credemvita S.p.A has adopted a strategy for undertaking and managing risk based on criteria of sound and prudent management, coherent with the company's level of capital. This strategy is based on risk assessment principles that consider aspects relating to the significance (impact on income statement) and probability of events. The risk management approach adopted is based on proportionality criteria and is conveyed through a specific internal policy, *Risk Management Policy* and a *Risk Management Policy of the Open Pension Fund* according to general principles, while specific documentation has been drawn up containing all of the relevant details (framework, risk analysis procedure, investment policies, risk assumption policies, etc.).

The key elements on which the Company's risk strategy and management policy are based are as follows:

- definition of the risk categories;
- internal analysis to identify the risk profile;
- definition of the Risk Appetite Framework (RAF);
- the risk management organisational model - operating limits and controls;
- risk management policies;
- risk measurement tools and methods;
- emergency plans.

The methods adopted for risk management must also allow:

- consistency checks between the level of risk assumed and the level of available capital;
- risk measurability/assessment to enable management to assess the impact of risk on business performance;
- continuous monitoring of the risk profile and comparison with the Risk Appetite Target.

As part of its risk management system, Credemvita has designed and implemented an independent process to assess its current and future capital adequacy, in relation to the significant risks to which the Company is exposed (ORSA - Own Risk and Solvency Assessment process). This process has the following phases:

- Forward-looking assessment of the Solvency II Ratio;
- Stress Test;
- Forward-looking Liquidity Plan;
- Adequacy of the Standard Formula with respect to the risk profile of the Company;
- Back Testing;
- Preparation and forwarding the ORSA Report.
- The following processes are also an integral part of the ORSA process:
- Definition of the preliminary plan and of the company budget;
- Definition of the Risk Appetite;
- Risk identification and assessment and Continuous Monitoring.

As part of the Company's strategic policy, the Board of Directors identifies and approves the proper size of the overall capital endowment and the profitability targets adjusted for risk. The formulation of preliminary strategic guidelines by the Board of Directors guides the calibration of the risk targets and the development of the strategic plan.

These activities are significantly connected and are both developed considering the starting situation of the Company, the prospective view of the external context, the risk profiles and the guidelines in terms of risk/return. The strategic policies

approved by the Board of Directors affect the production and organisational structure in order to determine the desired impact – in the time horizon of planning – on risk/return.

The Risk Management department continuously supports the corporate bodies in the choices deriving from the implementation of the plan by facilitating the understanding and awareness of the risks assumed / to be assumed and their monitoring.

Definition of risk categories

In order to promote a risk management culture and to gain full understanding of the strategic importance of the integrated management of the same, pursuant to regulatory legislation, which requires risks to be categorised according to the nature, the size and the complexity of the inherent risks, Credemvita has designed a risk classification which represents an adequate combination of the definitions used by national and European legislation and more generally by the market.

Risks are classified into the following main classes:

- Subscription risk (or technical insurance risk);
- Market risk (including concentration risk, liquidity risk and ALM risk);
- Credit risk;
- Operational risks (including IT risk and cyber risk);
- Compliance risk;
- Second-level risks;
 - o Risk associated with belonging to a group;
 - o Reputational risk;
 - o Conduct risks;
 - o ESG Risks
- Strategic risk
- Emerging risks.

Internal analysis to identify the risk profile

Credemvita, in line with regulatory legislation, has provided for a risk census procedure, to be intended as a methodological support tool in carrying out risk identification and assessment activities, which enables it to continuously collect information on existing and prospective internal and external risks to which it is exposed, and which may affect all operational processes and corporate areas. By its nature, this procedure is evolving based on the gradual refinement of the risk management system and the evolution of the reference regulatory framework.

Credemvita's risk analysis procedure is divided into four phases:

- analysis of the company's strategic plan and identification of emerging risk factors;
- identification of external risk factors;
- identification of operational (including IT and cyber risk), non-compliance with regulations and second-tier risk factors;
- identification of strategic risk factors.

The methods adopted for identifying risks are essentially based on one or more of the following approaches:

- Specific Risk Assessments (by risk families);
- Evaluations of the differences between each risk assumption and the current outcome;
- Loss or error events that have occurred;
- Review of processes, regulatory risk matrix or regulatory risk assessment;
- Brainstorming with management and risk owners;
- Internal/External Audit evaluations
- Communications and comparisons with regulators;
- Other external events;
- Reporting transmitted by the functional areas of the Company.

Risk Appetite Framework

The Company adopted a Risk Appetite Framework (RAF) that represents the framework that defines the risk appetite, the tolerance thresholds, the risk limits, the risk governance policies as well as the reference processes needed to define and implement them.

The RAF is defined taking into account the following aspects:

- the Company's strategy, including the organisational objectives, the strategic plan, financial and regulatory constraints and the expectations of the stakeholders;
- the key aspects of the Company's business;
- the willingness and capability of assuming risks;
- the skills, resources and technology available to the Company to manage and monitor risk exposures.

In defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years of development of the plan, with the target risk levels defined in the Risk Appetite Framework (RAF), in order to ensure consistency between the medium to long term objectives and the Company's capability and willingness to assume risks.

The concepts relevant for the purposes of defining the RAF are broken down below:

- the RiskProfile represents the actual risk of the Company assessed at a given time;
- the Risk Appetite represents the real propensity to risk of the Company and consists, therefore, of the risk level that it intends to assume to attain its strategic objectives;
- the Risk Tolerance identifies the maximum risk tolerance threshold, fixed in order to ensure the Company sufficient margins to operate, both in the normal course of business and in particularly stressed market conditions;
- the Risk Capacity represents the maximum risk that can be assumed by the Company; therefore, it consists of the level of risk that it is able to assume without violating regulatory requirements or other constraints imposed by the Supervisory Authority.

The risk appetite is mainly translated by means of appropriate limits (so-called Risk Limits), which support the operations of the business units and which are represented by quantitative indicators/metrics (also hereinafter "Risk Indicators"). When defining the Risk Appetite Framework, the Company makes a distinction between the risks as follows:

1. quantifiable risks which have a capital impact, in relation to which the Company determines the capital requirement;
2. quantifiable risks in relation to which the Company does not determine the capital requirement (e.g., liquidity, cash flow matching) which are measured using specific limitations and metrics;
3. risks difficult to quantify, measured on a qualitative basis, which due to their nature and characteristics are difficult to quantify and are not covered by the capital requirements required by legislation, even if the occurrence of the event associated with the same would lead to significant consequences for the activities carried out by the Company.

The indicators defined for each risk category are further divided into:

- first-level indicators: these are indicators mainly aimed at observing the solvency restrictions. They are indicators of possible negative impacts and provide warnings aimed at identifying potential damaging events which threaten the achievement of the objectives and the continuity of the Business. The indicators are supplemented within the RAF Policy and a Risk Appetite, a Risk Tolerance and a Risk Capacity and the related Risk Appetite Statement system are associated with the same;
- second-level indicators: these are operational/management type indicators useful for strengthening the risk monitoring activities and possibly providing preventive signs of a potential deterioration of the first-level metrics. These indicators are integrated into the Risk Management Policy and the Risk Management Policy of the Open Pension Fund.

The main first-level indicator of the Company is the Solvency II Ratio, that is, the ratio between Eligible Capital and Solvency Capital Requirement. The Company's objective is to have an Economic Capital level adequate and in line with the strategic objectives, greater than a previously established level of Solvency Ratio, as illustrated below:

- Risk Appetite: 139%;
- Risk Tolerance: 122%;
- Risk Capacity: 105%;

Moreover, when defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years over which the plan is developed, with the target risk levels defined in the Risk Appetite Framework, in order to ensure consistency between the medium- to long-term objectives and the Company's capability and willingness to assume risks.

In particular, any strategic decision, based on the risk profile of the Company at the time of preparing the strategic plan, takes into account the maximum risk that can be assumed without violating regulatory requirements or other constraints imposed by the Supervisory Authority, the risk appetite of the enterprise and, therefore, the level of risk that it intends to assume in order to achieve its strategic objectives and, at the same time, the maximum threshold of deviation from the risk target, set in order to ensure the Company sufficient margins to operate in conditions deemed satisfactory.

Moreover, the Company has defined a Capital Management Policy and a Capital Management Plan, the purpose of which is to adopt adequate procedures to ensure the safeguarding of the regulatory requirements and of Risk Appetite target levels, as well as to guarantee that, both at the time of issue and later, the elements of Own Funds, which the business intends to use in order to achieve the business objectives established at the time of strategic planning, meet the regulatory requirements defined by EIOPA and are correctly classified. This plan was drawn up in line with the results of the future risk assessment according to the Solvency II approach (ORSA), with the objectives and the methods established in the Capital Management Policy and with the solvency requirements established by the Regulator, in order to guarantee the Company's capital solidity for its own operations and potential future development.

Risk management organisational model

Credemvita's risk management organisational model involves all business departments, from operating units (involved in the management of risks for the relevant processes) to the Committees up to the Board of Directors, including therein the fundamental units.

In this context, the Risk Management department acts as coordinator of the risk monitoring activities. More specifically, it contributes to defining risk measurement methods and operating limits, defining appropriate verification procedures, and has the task of validating the information flows from risk monitoring activities, preparing reports for top management and verifying the consistency of the risk measurement models with the company's operations.

Risks are continuously monitored by the Risk Management department and by the relevant individual departments; to this end, reports on the development of risks have been created and have been fine-tuned over time and are submitted to the Board of Directors, Board Committee for Internal Controls and Risks, Investment and ALM Committee, Top Management and the relevant operational structures, with a view to improving the communication of the results and permitting a better understanding of the topics related to risk assessment.

The risk management model adopted by Credemvita is characterised by:

- a phase in which the risk indicators and/or the operating thresholds to manage risk are updated on the basis of organisational requirements and/or following changes of the internal and external scenario, or whenever they are no longer in line with the risk profile requested by the management body;

- a consequent monitoring of operational limits and risk governance. Activities to verify compliance with the risk tolerance levels established by the Board of Directors take the form of specific organisational control procedures established to guarantee compliance with the same and promptly trigger warning processes in the event of any overruns as well as to establish specific recovery plans in response to such overruns.

Risk management policies

As part of the risk management system and in line with regulatory requirements, the Board of Directors has drawn up a formal set of policies and attachments which, for each of the areas of risk to which Credemvita is exposed, specify the objectives, the tasks, the responsibilities, the process and define the tools and procedures, including those related to reporting, required to identify and consequently manage all risk areas. The documents also have a more general objective of encouraging a culture of risk control and management within the company.

Compliance with and application of the documents are guaranteed by an Internal Control System represented by a set of rules, procedures and control techniques and organisational structures aimed to ensure the proper functioning and satisfactory performance of the company.

Risk analysis

Pursuant to sector regulations, the Company has defined a risk analysis process that includes both a qualitative assessment and, for those risks that are quantifiable, the adoption of methods to measure exposure to risk, including a system to establish the amount of maximum potential loss, both current and future. These analyses make it possible to carry out a continuous profiling of the risks to which the company is exposed.

Note that in order to assess capital solvency requirements according to the regulatory Solvency II system, the Company uses the Standard Formula in compliance with that defined in the Delegated Regulation (EU) 2019/981 of the Commission. Therefore, the current and future risk assessments take into account all the risks, included in the framework of the Standard Formula, to which the business is exposed.

In order to continuously assess its solvency situation, the Company also calculates on a quarterly basis its Capital Requirement, determines its own eligible funds and the related quality and composition, checking at the same time the compliance with the operating limits and the risk appetite. Specific stress tests and sensitivity analyses are made with the same frequency on capital. Adequate documents are reported to the Board of Directors and sent to the Supervisory Authority through the Quantitative Reporting Templates (QRT). Compliance with the Level I indicators set out in the Risk Appetite Framework is verified with the same frequency.

If, in the context of the various monitoring activities carried out by the Company, continuous and/or significant deviations of the risk profile with respect to the company's Risk Appetite emerge or significant deviations with respect to the main technical/financial/market/product assumptions defined in the Strategic Plan (and therefore in the ORSA evaluations), a Non-Regular ORSA activity is carried out in order to assess the impacts of these changes also in perspective terms.

In 2021, the Company complied with the following regulatory deadlines:

- Preparation and forwarding to the Supervisory Authority of quarterly reports (QRT) required by Pillar III;
- Preparation of the Regular Supervisory Report - RSR (Periodic Report to the Supervisory Authority) approved by the Board of Directors in March 2021 and sent within the regulatory deadline to IVASS;
- Preparation of the Solvency Financial Condition Report - SFCR approved by the Board of Directors in March 2021 and sent, by the regulatory deadline, to IVASS;
- Execution of the ORSAs (Own Risk and Solvency Assessment) processing required to assess the solvency profile of the 2021-2023 strategic plan and

preparation of the ORSA Report approved by the Board of Directors in April 2020 and sent to IVASS within the regulatory deadline.

Finally, it should be noted that, in continuity with what happened in 2020, in 2021 given the situation resulting from the Covid-19 emergency, the Company participated at the request of the Supervisory Authority in the following activities:

- monthly monitoring of the solvency position (starting from March 2020);
- quarterly monitoring of liquidity risk (starting in June beginning with the database of 31 March 2020).

Subscription risk (or technical insurance risk)

Subscription risk is defined as the risk of a loss or an unfavourable change in the value of insurance liabilities due to inadequate assumptions in terms of price setting and establishing technical reserves (see Art. 1, paragraph 1, letter vv-bis 4 of the CAP).

Within the Company's risk framework, this risk can be further divided into the following categories:

- Assumption risk: represents the risk resulting from underwriting insurance contracts, linked to insured events, to the processes followed for the pricing and selection of the risks, to the unfavourable trend of actual claims compared to that expected (these risks consist in particular in the risk resulting from a price default linked to the valuation of the risk and in initial price assumptions unsuited to the evolution of the risk);
- Reserve risk: namely the risk relating to the fact that the amount of insurance reserves is insufficient to cover the commitments made to insured parties.

This class of risk can be broken down into the following risk factors:

- mortality: namely the risk resulting from an unexpected rise in mortality rates; it is associated with policies (such as insurance coverage in the event of death or mixed policies) in which the enterprise guarantees a series of individual or recurring payments in the event of the death of the policyholder or during the duration of the policy;
- survival: the longevity risk, which stems from an unexpected fall in mortality rates; this is associated with policies (for example, annuities) that envisage the enterprise guaranteeing a series of payments until the death of the policyholder or with policies (for example mixed policies) that envisage a guarantee by the enterprise of a single payment in the event of the survival of the policyholder for the entire duration of the policy;
- invalidity - morbidity: the risk that stems from an unexpected change in the level, trend or volatility of disability and morbidity rates, is applicable to policies associated with disability;
- mutuality: the mutuality risk factor means that a fall in the number of policies in the portfolio may have an unexpected negative impact on the benefits of mutuality. A high number of policies enable the company to "spread" the effects of events resulting in claims over the whole population; in the Life business, a fall in the number of contracts leads, for example, to a rise in random fluctuations of mortality. The mutuality risk factor is therefore closely related to the "Policyholder conduct" and "Counterparty" risk factors;
- early termination - policyholder behaviour: the risk of early termination, which stems from an unexpected change in option exercise rates by policyholders; it is applicable to all of the options envisaged for policyholders, both legal and contractual, that may significantly change the value of future cash flows, the options to fully or partially suspend, reduce, limit or terminate insurance cover, as for the options that enable the full or partial amendment, renewal, increase, extension or resumption of insurance cover;
- guarantees/coverage: the riskiness of Life products depends on the "guarantees/coverage" envisaged by said contracts and on the basis of which the company has committed to pay the benefits guaranteed to beneficiaries. If the occurrence of the damaging event covered by the insurance guarantee is

not correctly monitored or does not correspond to the estimates made at the time of pricing, this represents a risk element of said product;

- inflation/costs: this risk factor, which stems from an unexpected change in costs, refer to the operating costs of insurance contracts;
- disaster: the disaster risk factor, which stems from extreme or exceptional events, the impact of which is not sufficiently covered by the other subscription risks (e.g., pandemic events or nuclear explosions), refers to policies that are related to mortality;
- Review: the review risk factor is intended to capture the risk of an unfavourable change in the amount of an annuity, following an unexpected review of the claim process.

For protection products (pure risk), the following risk factors can also be identified:

- Risk Volatility: this risk factor in the underwriting process essentially depends on the presence of technical bases that are not correctly updated at the time of pricing; a very low technical margin and/or very narrow technical bases; the presence of new risks not taken into account at the time of pricing; high counterparty risk (on the part of the partner/distributor, especially in the case of upfront commissions/goodwill). As part of the reserving process, this risk factor depends on the risk of overpayment of the profit share if the parameters of the reserves are set improperly;
- Population: in the pricing process this risk factor is substantially related to a single pricing for a large population of age groups (especially for death risk) or duration range/interest rate range; high risk of adverse selection in the product structure. In the case of the reserving process, this risk factor essentially depends on: adequacy of the reserves strongly linked to the structure of the population (especially mathematical reserves/long-term liabilities); reserves that do not include the real cost of population options such as extinction, redemption; reserves that do not include the right level of overheads for the specific population/product.

With regard to the distribution of Credemvita underwriting risks according to Solvency II regulations, the table below shows the best estimate of the representation of the risk in the fourth quarter of 2021 (it should be noted that the total weight of life underwriting risks is equal to 23.9%).

Life risk - risk/sum of risk components - relative and total

	Relative	Total
Mortality risk	14.3%	3.4%
Longevity risk	2.9%	0.7%
Disability morbidity risk	0.0%	0.0%
Life Lapse risk	65.5%	15.7%
Expense risk	12.5%	3.0%
Revisionary risk	0.0%	0.0%
CAT risk	4.8%	1.1%

The Company has adopted guidelines for these risks which: establish the organisational and governance model, as well as the roles and responsibilities of the business departments involved in undertaking and monitoring the risk assumed and in allocating reserves; illustrate the reporting procedures applied and the communication flows between the departments involved in the underwriting and reserve processes; illustrate the manner in which the business takes reinsurance or other risk mitigation techniques into account in the process to design a new insurance product and to calculate the relative premium. The Company measures and monitors its exposure to underwriting risk based on the overall portfolio, in addition to verifying compliance with the limits and policies established.

Technical risks are identified with ALM (Asset-Liability Management) approaches in order to understand the interrelations between the trends of liabilities and of hedging assets, and by following the Solvency principles in order to seize any capital

requirement absorbed by each individual risk factor. This identification is made with reference to new products and to the existing portfolio.

- New products: in accordance with the Strategic Plan, the recognition of the risks related to new products is made on the basis of their technical characteristics within the ORSA process. Furthermore, in accordance with the process to create and launch new products defined within the more general POG (Product Oversight and Governance) process, the Risk Management department is tasked with drawing up a specific risk analysis (known as a risk sheet) for each individual product, the results of which are transmitted to the Management and Product Governance Committee. An integral part of the assessments of the profitability and the risks of new products is also the profit test conducted by the Company.
- Existing portfolio: with regard to the existing portfolio, risks are identified on the basis of the technical data of the portfolio and of the capital absorption measures determined through the instrument used by the Company to calculate SCR (Standard Formula). The information relating to the overall technical performance of the life insurance business concisely reflects the technical results of the individual Segments and therefore of the products contained in the portfolio (which in general can encompass more than one Segment). Again with regard to the existing portfolio, back testing assessments are conducted by the Company.

The risk measures used are summarised below:

- SCR Life in terms of ratio: provides an indication of capital absorption per unit of Gross Best Estimate Life;
- SCR Lapse in terms of ratio: provides an indication of capital absorption resulting from the Lapse risk per unit of Gross Best Estimate Life;
- PVFP portfolio in force: Present Value Future Profit is an indicator that monitors the contribution made to the creation of company economic value for each Lob Solvency II of the portfolio in force;
- SCR for LoB (Line of Business).

Market risk and ALM

The Market Risk category is made up of three sub-categories: Market Risk, ALM Risk and Liquidity Risk.

Market Risk is defined as the risk of a loss or an unfavourable change in the financial situation resulting directly or indirectly from fluctuations of the level or of the volatility of the market prices of assets, liabilities and financial instruments (see Art. 1, paragraph 1, letter vv-bis 3 of the CAP).

Market risks reflect the performance of the economic cycle, which may amplify or possibly reduce its significance, especially if the securities portfolio of the company is particularly concentrated in specific sectors, currencies or geographic areas. Consequently, businesses are exposed to the risk of receiving different returns, and possibly also lower than the returns expected at the time the commitment was made, or with respect to a minimum return defined contractually.

This risk can be broken down into the following risk factors:

- Interest rate risk: the value of the assets of an insurance company is sensitive to changes in interest rates. Furthermore, if the cash flows generated by the assets and those generated by the liabilities of a company are not perfectly aligned in terms of maturity, frequency of any payments and by nature of investment rates (maturity mismatching, interest rate mismatching, reset date mismatching, basic mismatching), a (positive or negative) shock of interest rates may generate unsynchronised variations in the value of the assets and liabilities. Essentially, exposure to interest rate risk refers to all of the assets and liabilities whose value is “sensitive” to changes in the term structure of interest rates or the volatility of interest rates;
- Share price risk: the market values of the stocks purchased by the company may be sensitive to the trend of the stock markets (for example, in the case of contracts whose performance is linked to the value of a share);

- Foreign exchange risk: the market value of the stocks purchased by the company may be sensitive to variations of exchange rates (for example, in the case of shares or bonds denominated in a foreign currency). Therefore, this risk factor is particularly important for insurance companies in the case of assets that are hedging the technical insurance reserves denominated in a currency other than that of the corresponding technical commitments made contractually. In fact, as the conversion of currencies is made at the end of the year at the current exchange rate, profits/losses may be recorded at said date due to variations in the exchange rates;
- Real estate risk: if the assets of an insurance company are invested in real estate, the values of said asset are sensitive to the market trend of the prices of the same;
- Credit risk: whenever an insurance company underwrites financial instruments, it may be exposed to the insolvency risk of its borrower, who may not be able to meet its obligations, or it may be exposed to the risk of a deterioration of creditworthiness, with a consequent fall in the value of the security. Exposure to credit risk refers to assets, liabilities and financial instruments that are sensitive to changes in credit spreads;
- Concentration risk: exposure to concentration risk, which results from an unexpected change in the prices, in the value of exposures towards issuers with whom the party has cumulative exposures, refers to assets subject to the share price risk, interest rate and spread risk and to real estate risk included in market risk, and excludes assets subject to the risk of counterparty default. At present, at regulatory level, government securities are also excluded;
- Other asset exposures: This risk factor materialises in the market risk related to private equity, alternative instruments, infrastructures, inflation-linked products and hybrids.

In addition to the risk factors associated with the types of positions present in the portfolio or the structure of the assets with respect to the underlying liabilities, there are other risk factors belonging to the market risk category and strictly related to operational risks:

- Market risk limits: Risk factor deriving from the lack of definition and/or renewal of market limits and from the violation of limits;
- Modelling risk: Poor or inadequate quality of models underlying assessments of currency, interest rate, liquidity, transformation, equity and other market risks (that form the basis of capital requirements, duration, sensitivities, correlations between risks, VaR and VEV metrics, stress testing, etc). This risk factor can also be substantially classified in the operational risk category;
- Monitoring of market positions: Inadequate or improper valuation of positions, resulting in poor quality in the assessment of market risk.

ALM risk is a risk closely related to mismatches between assets and liabilities. The ALM process includes dynamics related to risk management and strategic planning. It focuses on the medium to long term rather than offering risk mitigation or hedging solutions. The goal of such risk management is to maximise assets to meet complex liabilities that can increase profitability.

The following risk factors belong to the sub-category of ALM risks:

- Strategic Asset Allocation (AAT - Asset Allocation Tools): consists of the risk resulting from the inadequacy/inconsistency of the asset allocation to meet liabilities.
- Asset & Liability mismatch: consists of the risk of misalignment between assets and liabilities that may lead to an exposure of the company or to the disinvestment risk or to the reinvestment risk.

Market risk factors are mainly identified in the specific financial statement classes of the Segregated Funds and the Owned Portfolio.

The table below shows the distribution of the instruments in the aforementioned portfolios at 31 December 2021 by type, expressed as a percentage of the total market value.

Security type	Rate type		Total
Government issuers	Fixed	77.33%	
	Floating	0.9%	
	Total		77.46%
Bond Issuers	Fixed	5.79%	
	Floating	1.67%	
	Total		7.46%
UCITS			
	Total		15.08%

The breakdown in UCITS is as follows:

UCITS type	%
Equity UCITS	16.55%
Government UCITS	19.76%
Real Estate UCITS	17.73%
Loan UCITS	25.01%
Corporate UCITS	16.86%
Infrastructural UCITS	2.22%
Private Equity UCITS	1.87%

With regard to the distribution of Credemvita market risks according to Solvency II regulations, the table below shows the best estimate of the representation of the risk in the first half of 2021 (it should be noted that the total weight of market risks is equal to 62.1%).

Market risk - risk/ sum of risk components - relative and total

	Relative	Total
Interest rate risk	16.3%	10.1%
Equity risk	37.6%	23.3%
Property risk	8.0%	4.9%
Spread risk	27.8%	17.3%
Currency risk	10.4%	6.5%
Concentration risk	0.0%	0.0%

The Company adopts, in respect of the above risk factors, guidelines that establish the general principles for the activities of the Finance Area, the frequency of controls and the measures for recovery if the limits are exceeded. In the overall composition of the investment portfolio, exposure to risk, constraints related to covering insurance reserves and the impact on the Solvency Ratio are also taken into account. The limits and the indicators relating to investments are verified and controlled on a continuous basis by the relevant business departments and, periodically, the results of the same are brought to the attention of the Board of

Directors. The process also envisages a review stage of the above-mentioned limits conducted by means of a sensitivity analysis of asset and liability portfolios.

Market risks and ALM are identified with reference to the already acquired securities investment portfolio and the future investment scenarios. This activity is carried out both with an Asset-Liability Management approach, in order to capture the interrelationship between the dynamics of liabilities and the dynamics of assets covering technical provisions, and following the Solvency II principles in order to capture the capital requirement absorbed by each individual risk module and sub-module.

Market risks for the life insurance business are identified with reference to new investments and asset allocation targets, and to the existing portfolio.

- New investments: with regard to new investments, as part of the ORSA process, analyses relating to future investment scenarios are conducted with a view to identifying the risks related to said investment choices and to assess the quantitative impact on the risk profile. Furthermore, for “occasional” investments (according to the definition given in the Investment Policy), based on the information provided by the Finance Area (by way of example: investment objective, reference portfolio, size of the transaction) the Risk Management department conducts an ex-ante qualitative/quantitative assessment based on both management and regulatory logics. The Risk Management department also conducts an ex-ante risk assessment for all non-UCIT UCIs based on the Due Diligence prepared by the Finance Area in accordance with the provisions of the Policy on UCI/ETF.
- Existing portfolio: with regard to the existing portfolio, risks are identified based on the technical data of the portfolio, market data and the risk measures determined through the calculation tool of the SCR adopted.

The macro-indicators analysed to assess and monitor market risks are illustrated below:

- SCR Market Risk-Based: indicators based on regulatory amounts relating to the capital requirement pertaining to the market risk class;
- Percentage Exposure in Asset Class: this indicator seeks to quantify and monitor exposures in the main asset classes set forth in the Investment Policy;
- Percentage of Financial and Corporate Issuer Concentration: this indicator seeks to quantify and monitor the concentration of Corporate issuers based on specific credit rating brackets;
- Exposure limit of UCITS and strategic exposure limit of UCITS.

The macro-indicators analysed to assess and monitor ALM risks are illustrated below:

- SCR Interest Rate – Based: indicators that aim to identify capital absorption, according to Solvency II metrics, of interest rate risk based on a regulatory and management approach;
- Mismatch of returns for separate management products: this indicator measures the mismatch between the returns of separate management products and the minimum returns guaranteed to policyholders;
- Cash Flow Matching: this indicator shows the mismatch, on each occasion, between the cash flows of assets and the cash flows of liabilities;
- Duration Matching: misalignment between the duration of the Active Cashflows and the duration of the Passive Cashflows;
- KPI on Adj Technical Provision: indicator aimed at monitoring the Solvency II loss absorption capacity of Technical Provisions.

Liquidity risk

The Companies are subject to potential tension in terms of liquidity, resulting from different maturities between assets and the relative liabilities. Liquidity risk is defined as the risk that the Company is not able to liquidate investments and other assets to meet its financial obligations when these fall due (see Art. 1, paragraph 1, letter vv-bis 2 of the CAP).

The possibility of performing a timely disinvestment of the portfolio is highly conditioned by the marketability of the securities in which the same is invested. The poor marketability of the securities in the portfolio may actually expose the Company to the risk of incurring losses associated with difficulties in finding counterparties on the market interested in purchasing the securities the company wishes to disinvest.

The Company quantifies its solvency position with Standard Formula metrics, which do not require liquidity risk to be quantified in terms of capital absorption.

Liquidity risk is identified with reference to the investment portfolio underlying products with guaranteed capital and/or yield. The risks are identified on the basis of the technical data of the portfolios and of the metrics defined as a function of the time horizon with which the risk in question is analysed and studied.

The indicators used by the Company to monitor the liquidity risk are set below:

- amount in current accounts: the Company has decided to monitor the amount held in current accounts in order to set a lower limit that represents the Liquidity Reserve (as prescribed by IVASS Reg. 38) and an upper limit in terms of the maximum amount to be held in the current accounts in order to render the management of the portfolio effective and to limit any effects on the Default SCR. Quantifying the Liquidity Reserve includes not only Current Account exposures, but also Government bonds of the Eurozone with a credit quality exceeding 2 and a maturity of less than three months.
- Liquidity Buffer: the number of consecutive periods, monthly, in which the Liquidity Buffer is negative, over the annual time horizon considered, provides a summary indication of the Company's liquidity situation;
- liquidity plan: this indicator seeks to demonstrate that the Company has financial resources on a continuative basis to manage liquidity risk. This condition is also the basis for the application of the Volatility Adjustment at Regulatory level.
- Liquidity contingency: securities that can be easily liquidated.
- Current accounts default SCR: for the purpose of limiting any effects on the default SCR deriving from the increase in the volumes of the current accounts, the Company has fixed a higher limit in terms of the default SCR.

Credit (default) risk

Credit risk (default risk) is defined as the risk of a loss or an unfavourable change in the financial situation resulting directly or indirectly from fluctuations of the creditworthiness of the issuers of securities, counterparties and borrowers to which the insurance or reinsurance company is exposed in the form of the risk of default of the counterparty, spread risk or concentration of market risk (see Art. 1, paragraph 1, letter vv-bis 1 of the CAP).

The loss of value of the credit position is mainly linked to the quality of the issuer or of the counterparty (including reinsurers, co-insurers, insured parties and intermediaries), but may also originate from a deterioration of the economic-financial conditions of the borrower, which determine the ability of the latter to meet its financial obligations, as well as from causes not related to the economic or financial situation of the debtor counterparty, such as political-military reasons for example.

From a purely representative point of view, we identify three macro areas of credit risk:

- Reinsurance;
- Intermediaries and other counterparties;
- Investments.

The risk factors underlying the individual credit risk sub-categories are as follows:

- Regarding the sub-class of reinsurance:
 - o Credit risk towards reinsurers: represents the risk of losses resulting from the insolvency of one or more reinsurers;
 - o baseline risk: resulting from any discrepancies between reinsurance requirements and the actual coverage envisage by the

arrangement, entailing a greater risk for the Company with respect to that envisaged.

- With regard to intermediaries and other counterparties:
 - o Credit risk towards intermediaries and other counterparties: represents the risk of losses following the contractual default of third parties (e.g. receivables from policyholders, insurance intermediaries, current accounts in banks).
- As for the sub-class investment credit risk (related to the asset management process), it represents the risk of losses arising from the default of one or more bonds and therefore the following risk factors are identified:
 - o Bond default: risk related to the issuer's default before the fulfilment of its obligation;
 - o Other investment assets: credit risk towards other assets;
 - o Credit limits: deficiencies in the definition, renewal or monitoring of credit limits, violation of limits, incorrect assignment or non-renewal of credit lines.
 - o Risk modelling and scoring: poor assessment of default risk for counterparties and/or countries and inadequate, incomplete or misused assessment tools.
 - o Credit position monitoring: incomplete, inadequate or improper assessment of actual commitments resulting in poor credit risk assessment.

With regard to the counterparty default risk distribution of Credemvita according to Solvency II regulations, the table below shows the best estimate of the representation of the risk in the fourth quarter of 2021 (it should be noted that the total weight of counterparty default risks is equal to 6.7%).

Credit risk - risk/sum of risk components - relative and total

	Relative	Total
Type 1 counterparties	100.0%	6.7%
Type 2 counterparties	0.0%	0.0%

The policies relating to the credit risk of issuers of financial instruments refer to that illustrated above for market risk in terms of the general principles for the control of financial investments. With regard to reinsurers, Credemvita has drawn up policies to manage and control this risk in terms of guidelines and limits for counterparties. The counterparty default risk is identified with reference to the counterparties for which there are credit positions.

The risk measures used are summarised below:

- Maximum amount in current accounts: this represents the maximum amount in a current account to be held for an individual portfolio;
- current accounts default SCR: for the purpose of limiting any effects on the default SCR deriving from the increase in the volumes of the current accounts, the Company has fixed a higher limit in terms of the default SCR;
- SCR Counterparty Default Risk Reinsurance/Recoverables SII: this indicator is obtained by comparing the SCR Counterparty Default Risk towards Reinsurers (pre-diversification) and Recoverables (balance of reserves transferred and net receivables due from reinsurers);
- Exposure by Reinsurer: this indicator identifies the exposure towards each reinsurer in terms of amounts insured;
- Rating or Solvency Ratio by Reinsurer: this indicator corresponds to the rating of the individual reinsurer or, in the event of non-network counterparties, to the Solvency Ratio of the same;
- Age of net receivables by Reinsurer: this indicator identifies the age of net receivables from each reinsurance counterparty;

- Amount of net receivables by Reinsurer: this indicator identifies the amount of net receivables from each reinsurance counterparty.

Operational, compliance, reputational, conduct and belonging to a Group risk

Operational risk is defined as the risk of incurring losses resulting from the inadequacy or the malfunctioning (shortcomings or errors) of internal procedures, human resources or systems, or from external events (see Art. 1, paragraph 1, letter vv-bis 5 of the CAP).

For the Company, this definition also includes legal and compliance risk.

Operational risks can in turn be divided into the following sub-categories:

- Operational risk;
- IT Risk & Cyber Risk;
- Regulatory Operational Risk.

The main risk factors that characterise operational risk are:

- People Risk: human resources may be a source of risk for an enterprise, if the organisational structure is not efficient, or if there are shortcomings in the professionalism of employees or, for example, if the pay structure or the career prospects are not adequate and if the company environment is not suitable. There are numerous examples of losses due to incompetent or negligent resources, of particular note are cases of erroneous data entry in systems, errors when transposing data or infringements of regulations.
- Process Risk: business processes are a source of operational risk in the event that there are inefficiencies in the design, formalisation and definition of the structure of the same and therefore in the definition of the individuals that are part of the same and of the relative level of responsibility and authorisation. All business processes, including valuation and calculation models and risk management processes themselves, may be inadequate and therefore a source of operational risk. They are a source of operational risk:
 - o outsourcing of business activities in the event of deficiencies/inadequacies in the processes of managing the relations with outsourcers such as to cause losses to the company;
 - o failure to update or inadequate filing of the procedures and regulations that formalise internal processes;
 - o failure to/inadequate/untimely issue of internal implementation rules in relation to the applicable external legislation.
- IT Security Risk and IT Risk: information systems may cause losses to the enterprise if adequate IT Security measures are not adopted, or in the management of hardware and software. The growing dependence on information systems and technological resources in general has made this risk factor increasingly important. There are numerous examples of loss relating to this factor, such as the assumption of excessive risks due to errors in computer programmes, the failure to fulfil contractual requirements due to IT system errors and the loss of important data resulting from system failures.
- External Events: events linked to external factors may cause losses to the company because of natural disasters, in the prevention and security against events of an accidental nature, infrastructure obsolescence, prevention and security against acts of a criminal nature, authorisation steps for the execution of operational activities, in the control measures against unauthorised activities and fraud by employees, preventive measures against fraud by external parties, inadequate and/or untimely updating of internal regulations in relation to changes in the external regulations from which they derive.

A bottom-up approach is adopted for the identification of operational risk, based on a Risk Self-Assessment method, with the aim of assessing the level of risk and the quality of the measures set in place to mitigate the risk relating to operating activities and all business processes.

The purpose of this approach, based on an analysis by Functional Area, is to identify loss events that could occur, assess the possible impact and possible frequency of

occurrence of these events, assess the effectiveness of the controls monitoring the possible organisational tools that can be activated for risk mitigation.

The Company also conducts an annual assessment of the effective losses incurred from operational risk (known as LDC - Loss Data Collection). This analysis also enables back-testing to be conducted on the assessment ex ante through Risk Self-Assessment.

The Company also continued with work to complete the Business Continuity Plan. As regards the assessment of the capital requirement (SCR), operational risks are assessed through the application of the Standard Formula. With regard to the distribution of Credemvita operational risk according to Solvency II regulations, the table below shows the best estimate of the representation of the risk in the fourth quarter of 2021 (it should be noted that the total weight of operational risk is equal to 7.2%).

Operational risk - risk/sum of risk components - relative and total

	Relative	Total
Operational risk	7.2%	7.2%

Legislative compliance risk (namely non compliance with regulations), regards the risk of incurring judicial or administrative sanctions, and suffering reputational loss or damage due to the failure to comply with the law, regulations or provisions of Supervisory Authorities or of self-regulations, such as articles of association, codes of conduct or self-disciplinary codes; the risk resulting from unfavourable changes to the legislative framework or decisions of the courts. Legislative risk of money laundering or of financing terrorism: the risk of the Company failing to prevent actions whose purpose is to launder the profits of criminal activities and fund terrorism; the risk of incurring judicial or administrative sanctions, and suffering reputational loss or damage due to the failure to comply with the law, regulations or provisions of Supervisory Authorities regarding money laundering and anti-terrorism.

The legal risk factors and non-compliance with regulations are attributable to:

- Legal environment: risk related in general to non-compliance with laws, whether of a fiscal nature or personal data processing. Risk of dispute caused by a legal vacuum or by an incomplete or inadequate classification of the obligations and responsibilities assigned to the parties. Absence of contracts, poor conditions of conservation of legal documentation. Risk linked to non-compliance with the tax laws applied to the Company. Risk linked to anti-money laundering. Risk related to safety at work. Risk linked to non-compliance with the privacy legislation;
- Compliance with regulations: non-compliance with applicable regulations and provisions (insurance, company or labour laws). Lack of follow-up of regulatory issues.
- In particular, the Compliance with Regulations risk factor (hereinafter also the "Regulatory" risk) can expose the company to specific loss events, linked precisely to its evolution. Unfavourable changes in the regulatory framework or jurisprudential guidelines may, in fact, concern:
 - o relations with the Supervisory Authority;
 - o customer relations;
 - o relations with employees;
 - o safety in the workplace;
 - o relations with other bodies.

In particular, this risk factor relates to incurring judicial or administrative sanctions, suffering reputational losses or damage as a result of failure to comply with laws, regulations or provisions of the Supervisory Authorities or self-regulatory rules, with particular attention to rules relating to transparency and correct behaviour towards insured and damaged parties, pre-contractual and contractual information, the correct performance of contracts, especially as regards the management of claims and, more generally, consumer protection.

According to the model adopted by Credemvita, moreover, there are other risks/loss events that are not strictly related to specific risk factors, but that may originate from risk factors relating to the risk categories previously illustrated. In particular this regards the risk category related to belonging to a group and to the reputational and conduct risks and ESG, as identified by the laws and regulations of this industry.

The risk related to belonging to a group (risk of “contagion”) means the risk that, following relations between the enterprise and other group entities, difficult situations that arise in one company of the same group may spread and have negative effects on the solvency of the enterprise itself.

In accordance with its strategy and with the investment policies adopted by the Management Body, a policy for intragroup relations has been defined, which sets appropriate operational limits.

The risk is therefore identified and analysed consistent with the categories and counterparties of the transactions in question, with particular regard to any guarantees issued within the Group and consistent with the characteristics of the following types of transaction:

- Significant transactions (between 1% and 5% inclusive of the Solvency Capital Requirement for the period)
- Very significant transactions (>5% of the Solvency Capital Requirement for the period).

Reputational risk means the risk of the company’s image deteriorating, and of increased conflict with both insured parties (also due to the poor quality of the services offered, to the placement of inadequate policies or behaviour during the sales, after sales or settlement phases) and with the Supervisory Authorities and shareholders.

Reputational risk is generally broken down into:

- direct reputational risk: focused on sensitive businesses, on the basis of ESG (Environment, Social and Governance) criteria;
- indirect reputational risk: based on the management of the reputational impact of other types of risk (e.g. operational risk, cyber risk, legal risk etc.).

It should be noted that the assessment of reputational risk takes place as part of the Risk Self Assessment campaign relating to operational risk management. The risk is identified, on a management level and qualitatively by analysing:

- placement procedures that entail the prior assessment of the adequacy of the contract with a view to initially identifying the insurance requirements and the customer’s protection needs, as well as providing adequate information on the product;
- the assistance services provided by the distribution network;
- the claims management service;
- the claims settlement process.

Conduct risk - as a sub-category of operational, compliance and reputational risk – can be defined as the current or prospective risk of losses resulting from inappropriate offerings of products and/or services, including instances of inappropriate conduct (malfeasance/negligence) by the company.

ESG (Environmental, Social and Governance) risk: the risk aims to assess an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential negative impact on the value of the investment or on the value of the liability. With regard to the obligations set out by the Delegated Regulation 2021/256 which amends the Delegated Regulation (EU) 2015/35 on the integration of sustainability risks in the governance of insurance and reinsurance companies, Credemvita has initiated a gradual process of adaptation of the system of governance and management of these emerging risk factors that will expire on 2 August 2022.

Strategic risk

Strategic risk means the current or future risk of a fall in profits or of share capital and of the sustainability of the business model, including the risk of not being able

to generate adequate return on capital on the basis of the risk appetite defined by the enterprise, resulting from changes in the operating scenario or from erroneous business decisions, from the inadequate implementation of decisions, improper management of the risk associated with belonging to a group, and from poor reactivity to changes in the competitive scenario.

Strategic risks are analysed by means of specific sensitivity analyses at the time of the ORSA or whenever there are significant changes in the market, of the production mix and of the assumptions underlying the assessments (by way of example, best estimate redemption rates, assumption of minimum guaranteed rate, etc.).

The assessments made by the Company during the fourth quarter of 2021 have made it possible to outline the risk map – Solvency II Framework – to which the Company is exposed (shown below).

Risk Module	Risk Sub-module	Exposure
Underwriting risk	Mortality risk	X
	Longevity risk	X
	Disability morbidity risk	---
	Life Lapse risk	X
	Expense risk	X
	Revisionary risk	---
	CAT risk	X
Market risk	Interest rate risk	X
	Equity risk	X
	Property risk	X
	Spread risk	X
	Currency risk	X
	Concentration risk	---
Counterparty default risk	Type 1 counterparties	X
	Type 2 counterparties	---
Operational Risk	Operational risk	X

Prospective risk assessments have not identified any emerging risks from a regulatory (Solvency II) perspective in relation to the actions envisaged by the new investment and business strategies. However, their composition is different, despite their substantial consistency in terms of relevance with respect to the past.

In addition, in relation to Regulation (EU) 2019/2088 of the European Parliament on disclosure in the financial services sector, the following emerging risks are identified: ESG (Environmental, Social and Government) risk.

With regard to prospective and monitored data in the first half of 2021, the assessment enabled the sub-modules of risk that are the most significant and have the greatest impact on the Company to be identified, namely the Interest Rate Down, Equity, Spread, Currency, Property, Operational and Lapse risk sub-modules.

In addition, the Company is exposed to the Spread risk on ITA government securities (a risk not contemplated in the Standard Formula). In its assessments, the Company takes this risk factor into consideration through specific sensitivity analyses carried out periodically (at least quarterly) and in the ORSA Report YE 31.12.2021.

The results of qualitative/quantitative analyses of the adequacy of the Company's risk profile with respect to the requirements underlying the application of the Standard Formula were positive.

The results of risk assessment activities combined with market trends regarding, in particular, Italian Government bonds and with stress testing, highlighted a substantial volatility in the risk trend and in the Company's solvency due to fluctuations of the BTP/Bund spread. Nevertheless, this volatility of the solvency ratio is managed by the Company by means of specific organisational and monitoring controls in place.

In addition to calculating the impacts due to quantifiable risks, the Company also manages and monitors the risks outside the scope of the Standard Formula and the so-called non-quantifiable risks from a regulatory perspective, such as:

- spread risk on Government bonds;
- liquidity risk;
- strategic risk;
- compliance risk;
- reputational risk;
- conduct risks
- risk associated with belonging to a group;
- emerging and sustainability risks.

The assessment of these risks is based on the expert judgement of the risk takers and on an analysis of specific indicators identified for several risk categories (such as for example, for liquidity risk: liquidity gap, contingency capacity, liquidity ratio, etc.). At present, these types of risks have a level of management consistent with the relevance of the risk factors that characterise them, are periodically monitored and do not entail an add-on in terms of regulatory capital.

At present, there are not results that indicate critical situations in terms of solvency resulting from strategic risks. Nevertheless, the impact of possible changes of the macro-economic scenario that may have a significant impact on the Company's Own Funds must continue to be considered.

CREDEMASSICURAZIONI S.P.A.

Credemassicurazioni's approach to risk management

Risk management strategies

Credemassicurazioni's strategy for undertaking and managing risk is based on prudential criteria coherent with the Company's level of capital. This strategy is based on risk assessment principles that consider aspects relating to the significance (impact on profit or loss) and probability of events. The risk management approach adopted is based on proportionality criteria and is conveyed through a specific internal policy document, Risk Management Policy, which outlines the general principles, while specific documentation has been drawn up containing all of the relevant details (framework, risk analysis procedure, investment policies, etc.). The key elements on which the Company's risk strategy and management policy are based, from a current and future perspective, are as follows:

- definition of the risk categories;
- internal analysis to identify the risk profile;
- definition of the Risk Appetite Framework (RAF);
- risk management organisational model - operating limits and controls;
- risk management policies;
- risk measurement tools and methods;
- emergency plans.

The methods adopted for risk management must also allow:

- consistency checks between the level of risk assumed and the level of available capital;
- risk measurability/assessment to enable management to assess the impact of risk on business performance;
- continuous monitoring of the risk profile and comparison with the Risk Appetite Target.

As part of the Company's strategic policy, the Board of Directors identifies and approves the proper size of the overall capital endowment and the profitability targets adjusted for risk. The formulation of preliminary strategic guidelines by the Board of Directors guides the calibration of the risk targets (Risk Appetite Target and, where relevant, Risk Tolerance) and the development of the strategic plan.

These activities are significantly interrelated and are developed considering the starting situation of the Company, the prospective view of the external context, the

risk profiles and the guidelines in terms of risk/return. The strategic policies approved by the Board of Directors affect the production and organisational structure in order to determine the desired impact – in the time horizon of planning. The Risk Management department continuously supports the corporate bodies in the choices deriving from the implementation of the plan by facilitating the understanding and awareness of the risks assumed / to be assumed and their monitoring.

Definition of risk categories

In order to promote a risk management culture and to gain full understanding of the strategic importance of the integrated management of the same, pursuant to regulatory legislation, which requires risks to be categorised according to the nature, the size and the complexity of the inherent risks, Credemassicurazioni has designed a risk classification which represents an adequate combination of the definitions used by national and European legislation and more generally by the market.

Risks are classified into the following main classes:

- Subscription risk (or technical insurance risk);
- Market risks (including liquidity risk);
- Credit risk;
- Operational risks (including IT risk);
- Compliance risk;
- Second-level risks;
 - Risk associated with belonging to a group;
 - Reputational risk;
 - Conduct risks;
- Strategic risks;
- Emerging risks.

Internal analysis to identify the risk profile

In line with the requirements of the regulatory legislation regarding the need for each insurance company to adopt a risk analysis procedure that makes it possible to collect on an ongoing basis internal and external risk information - existing and future - to which it is exposed, and which may affect all the operating processes and company areas, Credemassicurazioni has prepared a risk analysis procedure.

This risk analysis procedure consists of a tool to assist in the identification and assessment of risks (including the relative aggregations and correlations) and, due to its nature, is continually updated in line with the improvements made to the Company's risk management system and with changes in the relative legislative framework.

Credemassicurazioni's risk analysis procedure is divided into four phases:

- Analysis of the strategic business plan;
- Identification of external risk factors;
- Identification of operational, compliance and second-level risk factors;
- Identification of strategic risk factors.

Risk Appetite Framework

The Company adopted a Risk Appetite Framework (RAF) that represents the framework that defines the risk appetite, the risk indicators, the tolerance thresholds and the limits, the guidelines, the principles and therefore the structure within which the risk limits, the risk governance policies as well as the reference processes and procedures needed to define and implement the risks are defined.

The RAF is defined taking into account the following aspects:

- the Company's strategy, including the organisational and governance objectives, the business plan, financial and regulatory constraints and the expectations of the stakeholders;
- the key aspects of the Company's business;
- the willingness and capability of assuming risks;
- the skills, resources and technology available to the Company to manage and monitor risk exposures.

In defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years of development of the plan, with the target risk levels defined in the Risk Appetite Framework (RAF), in order to ensure consistency between the medium to long term objectives and the Company's capability and willingness to assume risks.

The concepts relevant for the purposes of defining the RAF are broken down below:

- Risk Appetite represents the real propensity to risk of the Company and consists, therefore, of the risk level that it is willing to assume to attain its strategic objectives.
- Risk Tolerance, defined as the maximum change in Risk Appetite that the Company is willing to accept both during the normal course of business and in particularly stressed market conditions.
- Risk Profile represents the actual risk of the Company assessed at a given time.
- However, Risk Capacity represents the maximum risk that can be assumed by the Company; therefore, it consists of the level of risk that can be assumed without violating regulatory requirements or other constraints imposed by the Supervisory Authority.

The risk appetite is mainly translated by means of appropriate limits (so-called Risk Limits), which support the operations of the business units and which are represented by quantitative indicators/metrics.

When defining the Risk Appetite Framework, the Company makes a distinction between the risks as follows:

1. quantifiable risks which have a capital impact, in relation to which the Company determines the capital requirement;
2. quantifiable risks in relation to which the Company does not determine the capital requirement (e.g., liquidity, cash flow matching) which are measured using specific limitations and metrics;
3. risks difficult to quantify, measured on a qualitative basis, which due to their nature and characteristics are difficult to quantify and are not covered by the capital requirements required by legislation, even if the occurrence of the event associated with the same would lead to significant consequences for the activities carried out by the Company.

The indicators defined for each risk category are further divided into:

- first-level indicators: these are indicators aimed at observing the solvency restrictions. They are indicators of possible negative impacts and provide warnings aimed at identifying potential damaging events which threaten the achievement of the objectives and the continuity of the business. These are associated with a Target Appetite, a Tolerance and a Capacity and the related Risk Appetite Statement system.
- second-level indicators: these are operational/management indicators useful for strengthening the risk monitoring activities and possibly providing preventive signs of a potential deterioration of the first-level metrics.

The main first-level indicator of the Company is the Solvency II Ratio, that is, the ratio between Eligible Capital and Solvency Capital Requirement. The Company's objective is to have an Economic Capital level adequate and in line with the strategic objectives, greater than a previously established level of Solvency Ratio, as illustrated below:

- Risk Appetite: 159%;
- Risk Tolerance: 122%;
- Risk Capacity: 105%;

Moreover, when defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years over which the plan is developed, with the target risk levels defined in the Risk Appetite Framework, in order to ensure consistency between the medium- to long-term objectives and the Company's capability and willingness to assume risks.

In particular, any strategic decision, based on the risk profile of the Company at the time of preparing the business plan, takes into account the maximum risk that can be assumed without violating regulatory requirements or other constraints imposed by the Supervisory Authority, the risk appetite of the enterprise and, therefore, the level of risk that it is willing to assume in order to achieve its strategic objectives and, at the same time, the maximum threshold of deviation from the risk target, set in order to ensure the Company sufficient margins to operate in conditions deemed satisfactory.

Moreover, the Company has defined a capital management policy and a capital management plan, the purpose of which is to adopt adequate procedures to ensure the safeguarding of the regulatory requirements and of Risk Appetite target levels, as well as to guarantee that the elements of Own Funds, which the business intends to use in order to achieve the business objectives established at the time of strategic planning, meet the regulatory requirements defined by EIOPA and are correctly classified. This plan is drawn up in line with the results of the future risk assessment according to the Solvency II approach (ORSA), with the objectives established in the Capital Management Policy and with the solvency requirements established by the regulator, in order to guarantee the Company's capital solidity for its own operations and potential future development.

The risk management organisational model – Operating limits and controls

Credemassicurazioni's risk management organisational model involves all business departments, from operating units (involved in the management of risks for the relevant processes) to the Board of Directors, including therein the fundamental units.

In this context, the Risk Management department acts as coordinator of the risk monitoring activities. More specifically, it contributes to defining risk measurement methods and operating limits, defining appropriate verification procedures, and has the task of validating the information flows from risk monitoring activities, preparing reports for top management and verifying the consistency of the risk measurement models with the company's operations.

Risks are continuously monitored by the Risk Management department and by the relevant individual departments; to this end, reports on the development of risks have been created and have been fine-tuned over time and are submitted to the Board of Directors, the Managing Director, the Risk and Data Quality Committee, Top Management and the relevant operational structures, with a view to improving the communication of the results and permitting a better understanding of the topics related to risk assessment.

Risk management policies

As part of the risk management system and in line with sector regulatory requirements, the Board of Directors has drawn up a formal set of policies and attachments which, for each of the areas of risk to which Credemassicurazioni is exposed, specify the objectives, the tasks, the responsibilities, the process and define the tools and procedures, including those related to reporting, required to identify and consequently manage all risk areas. The documents also have a more general objective of encouraging a culture of risk control and management within the company. Compliance with and application of the documents are guaranteed by an Internal Control System represented by a set of rules, procedures and control techniques and organisational structures aimed to ensure the proper running and good performance of the company.

Risk analysis

Pursuant to sector regulations, the Company has defined a risk analysis process that includes both a qualitative assessment and, for those risks that are quantifiable, the adoption of methods to measure exposure to risk, including a system to establish the amount of maximum potential loss, both current and future.

Note that in order to assess capital solvency requirements according to the regulatory Solvency II system, the Company uses the Standard Formula in compliance with that defined in the Delegated Regulation (EU) 2019/981 of the Commission. Therefore, the current and future risk assessments take into account all the risks, included in the framework of the Standard Formula, to which the business is exposed.

In order to continuously assess its solvency situation, the Company calculates on a quarterly basis its Capital Requirement, determines its own eligible funds and the related quality and composition, checking at the same time the compliance with the operating limits and the risk appetite. Adequate documents are reported to the Board of Directors and sent to the Supervisory Authority through the Quantitative Reporting Templates (QRT). The compliance with the Risk Appetite Framework and SCR-based risk indicators broken down within the specific risk management policies is monitored with the same frequency.

If, in the context of the various monitoring activities carried out by the Company, continuous and/or significant deviations of the risk profile with respect to the company's Risk Appetite emerge or significant deviations with respect to the main technical/financial/market/product assumptions defined in the Strategic Plan (and therefore in the ORSA evaluations), a Non-Regular ORSA activity is carried out in order to assess the impacts of these changes also in perspective terms.

In 2021, the Company complied with the following regulatory deadlines:

- Preparation and sending to the Supervisory Authority quarterly reports (QRT) required by Pillar III and preparation of the descriptive disclosure within the regulatory deadlines;
- Preparation of the Regular Supervisory Report - RSR (Periodic Report to the Supervisory Authority) approved by the Board of Directors in March 2021 and sent within the regulatory deadline to IVASS;
- Preparation of the Solvency Financial Condition Report - SFCR approved by the Board of Directors in March 2021 and sent, by the regulatory deadline, to IVASS;
- Execution of the ORSAs (Own Risk and Solvency Assessment) processing required to assess the solvency profile of the 2021-2023 strategic plan and preparation of the ORSA Report approved by the Board of Directors in April 2021 and sent to IVASS within the regulatory deadline.

Finally, in 2021, given the situation that resulted from the Covid-19 emergency, the Company participated at the request of the Supervisory Authority in the following activities:

- monthly monitoring of the solvency position (starting from March 2020);

Subscription risk

Subscription risk is the risk of a loss or an unfavourable change in the value of insurance liabilities due to inadequate assumptions in terms of price setting and establishing technical reserves.

As part of the Company's risk framework, these risks are classified as technical insurance risks and are broken down into risk factors as indicated below;

- Assumption risk, namely the risk resulting from underwriting insurance contracts, linked to insured events, to the processes followed for the pricing and selection of the risks, to the unfavourable trend of actual claims compared to that expected.
- Reserve risk, namely the risk relating to the fact that the amount of insurance reserves is insufficient to cover the commitments made to insured parties and injured parties.
- Disaster risk, namely the risk of incurring losses or of an unfavourable change in the value of the liabilities insured, resulting from the significant uncertainty of the assumptions made to price premiums and to establish reserves relating to extreme and exceptional events linked to natural events or events caused by man.

- Lapse risk: represents the risk relating to the exercise of options by insurers that may be contained in non-life contracts, such as the option to withdraw from the contract before the agreed expiry or the option to renew the contract according to previously established conditions.

The Company has adopted guidelines for these risks which: establish the organisational and governance model, as well as the roles and responsibilities of the business departments involved in undertaking and monitoring the risk assumed and in allocating reserves; illustrate the reporting procedures applied and the communication flows between the departments involved in the underwriting and reserve processes; illustrate the manner in which the business takes reinsurance or other risk mitigation techniques into account in the process to design a new insurance product and to calculate the relative premium. The Company measures and monitors its exposure to underwriting risk based on the overall portfolio, in addition to verifying compliance with the limits and policies established. Risk monitoring is conducted from a number of different perspectives and involves different business departments. Monitoring is conducted on a monthly basis by means of the Claims/Premiums ratio. On a periodic basis, the following aspects are monitored: the trend of premiums, the trend of claims, technical profitability of claims by product - segment.

With reference to the management of reserve risk, as part of Solvency II, Best Estimate reserves are calculated by discounting expected claims, determined based on best estimate operating assumptions, with the reference curve. The operating assumptions (e.g. claims and costs) used to forecast future cash flows are reviewed at least once a year on the basis of real portfolio experience. The Company performs a series of sensitivity analyses on the Best Estimate reserves when economic and operating assumptions change, in order to assess the most important factors and therefore to identify the most significant aspects.

Therefore, non-life technical risks are identified both with reference to new products (in the future) and with reference to the current portfolio of the Company. The risk measures used and the volumes analysed are summarised below:

- Distribution of best estimates and of the risk margin;
- SCR - Non-life - Health NSLT underwriting risk;
- SCR Premium and Reserve Risk (Non Life and Health NSLT);
- Loss Ratio, Expense Ratio and Combined Ratio Conservato (net of reinsurance).

The indicated quantities are based on the following detailed hierarchy:

- segment;
- business line (Solvency II).

The analysis and identification of technical risks cannot be separated from the component relating to reinsurance in order to establish the full profile of the Company's exposure to risk. The process of identifying possible reinsurance solutions envisages a direct business analysis by segment, based on past experience (profitability, claims and exposure) and on the objectives set in the strategic plans, in order to define the distribution curves of expected claims for a proper representation of reality and future scenarios. The analysis entails the use of quantitative models consistent with the risk measurements adopted by the company (SCR).

Market risk

Market risks regard all those risks of loss deriving from the deterioration of financial investments due to adverse trends of important market variables such as share prices, interest rates, exchange rates and credit ratings. Market risks reflect the performance of the economic cycle, which may amplify or possibly reduce its significance, especially if the securities portfolio of the company is particularly concentrated in specific sectors, currencies or geographic areas.

As regards said risks, the Company adopts guidelines that establish the general principles for the activities of the Finance department, the frequency of controls and the measures for recovery if the limits are exceeded.

In the overall composition of the investment portfolio, exposure to risk, constraints related to covering insurance reserves and the impact on the Solvency Ratio are also taken into account.

The limits relating to investments are verified and controlled on a continuous basis by the relevant business departments and, periodically, the results of the same are brought to the attention of the Board of Directors.

The process also envisages a review stage of the above-mentioned limits conducted by means of a sensitivity analysis of asset and liability portfolios. The risk valuation and measurement methods used in the investment process are consistent with the principles of the new Solvency II system.

Market risks are identified with reference to the portfolio of investments in movable assets already acquired and the future investment scenarios. Market risks are identified with ALM - asset-liability management - approaches in order to understand the interrelations between the trends of liabilities and of hedging assets, and by following the Solvency II principles in order to seize any capital requirement absorbed by each individual risk factor.

The risk measures used and the volumes analysed are summarised below:

- SCR Market Risk;
- SCR Market Risk / MV Assets;

The indicated quantities are available in the following level of detail:

- assets portfolio of the Company.

Liquidity risk

The Company quantifies its solvency position with Standard Formula metrics, which do not require liquidity risk to be quantified in terms of capital absorption. In order to control this type of risk, a set of indicators can be monitored. Three possible situations can be identified from the results of this monitoring:

- ordinary liquidity: situation in which cash and cash equivalents of the Company are in line with the normal course of business;
- liquidity tension: situation generated from events related to the Company or having a systemic nature (that affect the market or part of it), different from the normal course of business, but the immediate severity of which in terms of impact on liquidity is not considered such as to activate the emergency measures expected for the state of crisis;
- liquidity crisis: situation where adverse business and market conditions undermine the ability of making profit from corporate assets and/or the possibility that unexpected cash disbursements affect the state of solvency against limited cash equivalents.

The monitoring is carried out through a tool used not only for the monitoring of the liquidity risk but also for its reporting. The tool includes an annual future time horizon with monthly step.

The indicators used by the Company to monitor the liquidity risk are set below:

- liquidity gap;
- cumulative liquidity gap;
- contingency capacity;
- liquidity buffer;
- current ratio.

Credit risk

Risk of default is related to the insolvency of issuers of financial instruments, of reinsurers that guarantee reinsurance cover, of brokers and of other counterparties. The policies relating to risk of default of issuers of financial instruments refer to that illustrated above for market risk in terms of the general principles for the control of financial investments. With regard to reinsurers, Credemassicurazioni has drawn up policies to manage and control this risk in terms of guidelines and limits for counterparties.

The counterparty default risk is identified with reference to the counterparties for which there are credit positions. Risks are identified, for the only existing portfolio, on the basis of the technical data of the portfolio and of the risk measures determined by means of the reference tool for calculating the SCR (standard formula).

The risk measures used are summarised below:

- SCR Counterparty Default Risk.

Operational, compliance, reputational risks and risk of belonging to a Group

Operational risk is defined as the risk of incurring losses resulting from the inadequacy or the malfunctioning (shortcomings or errors) of internal procedures, human resources or systems, or from external events (see Art. 1, paragraph 1, letter vv-bis 5 of the CAP).

The main risk factors that characterise operational risk are:

- People Risk: human resources may be a source of risk for an enterprise, if the organisational structure is not efficient, or if there are shortcomings in the professionalism of employees or, for example, if the pay structure or the career prospects are not adequate and if the company environment is not suitable;
- Business Process Risk: business processes are a source of operational risk in the event that there are inefficiencies in the design, formalisation and definition of the structure of the same and therefore in the definition of the individuals that are part of the same and of the relative level of responsibility and authorisation;
- IT Security Risk and IT Risk: information systems may cause losses to the enterprise if adequate IT Security measures are not adopted, or in the management of hardware and software. The growing dependence on information systems and technological resources in general has made this risk factor increasingly important.

The following risk factors are also analysed by the Company:

- Outsourcing Risk: outsourcing business activities is a source of operational risk if shortcomings / inadequacies emerge in the management of relations with outsourcers, which cause losses to the enterprise;
- Physical Asset Risk: physical assets may be a cause of losses to the enterprise in the event of inadequacies: faced with natural disasters, in prevention and safety towards accidental events, faced with the obsolescence of infrastructure, prevention and security towards criminal acts, in the authorisation processes for the performance of operating activities, in the control measures of unauthorised activities and fraud by employees, in preventive measures towards fraud by external parties;
- Compliance Risk: non-compliance with legislation may cause a loss to the enterprise or harm its reputation following infringements of laws, regulations or provisions of the Supervisory Authorities or of self-regulation provisions.

A bottom-up approach is adopted for the identification of operational risk, based on a Risk Self-Assessment method, with the aim of assessing the level of risk and the quality of the measures set in place to mitigate the risk relating to operating activities and all business processes.

The purpose of this approach, based on an analysis by Functional Area, is to identify loss events that could occur, assess the possible impact and possible frequency of occurrence of these events, assess the effectiveness of the controls monitoring the possible organisational tools that can be activated for risk mitigation.

The Company also conducts an annual assessment of the effective losses incurred from operational risk (known as LDC - Loss Data Collection). This analysis also enables back-testing to be conducted on the assessment ex ante through Risk Self-Assessment.

As regards the assessment of the capital requirement (SCR), operational risks are assessed through the application of the Standard Formula.

The Company also continued with work to complete the Business Continuity Plan. In the management of compliance risk, the company identified achieving compliance in terms of transparency and correctness of settlements with policyholders or injured parties, pre-contractual and contractual information, correct execution of contracts, with particular reference to claims management and, more generally, consumer protection, as key success factors.

In brief, by formalising the compliance risk matrix, the process of assessing compliance with legislation seeks to achieve the following:

- to improve the level of sensitivity of first-level controls towards regulatory provisions;
- to assess the existing controls on processes;
- to stimulate thought on potential risks;
- to evaluate the ability to recognise or prevent said risks;
- to identify organisational measures needed to fill any gaps that may have been found.

The Compliance department operates according to a methodological approach based on techniques of identification, assessment, management and monitoring of non-compliance risk, in line with the best market practice and coherent with those used in Risk Management and Internal Audit processes.

According to the model adopted by the Company, moreover, there are other risks/loss events that are not strictly related to specific risk factors, but that may originate from the risk categories previously illustrated. In particular this regards the risk related to belonging to a group, to the reputational risk, and the conduct risk as identified by the laws and regulations of this industry.

The risk related to belonging to a group (risk of “contagion”) means the risk that, following relations between the enterprise and other group entities, difficult situations that arise in one company of the same group may spread and have negative effects on the solvency of the enterprise itself.

With regard to the risk associated to belonging to the Group, although Credemassicurazioni is not part of any group as it is owned in equal parts, corresponding to 50% of the share capital, by Reale Mutua Assicurazioni and Credito Emiliano S.p.A., it is in any event subject to IVASS Regulation no. 30 of 26 October 2016 and therefore the Company defines its own policy for intragroup transactions, in accordance with its own strategy and with policies relating to investments, adopted by the management body and reviewed at least one a year.

The policy establishes specific guidelines for each type of intragroup transaction identified and sets the relative operating thresholds in line with the characteristics of the various types of transaction and of the counterparties to the same, as well as on the basis of all transactions conducted for each type of intragroup operation.

Reputational risk means the risk of the company’s image deteriorating, and of increased conflict with both insured parties (also due to the poor quality of the services offered, to the placement of inadequate policies or behaviour during the sales, after sales or settlement phases) and with the Supervisory Authorities and shareholders.

Reputational risk is generally broken down into:

- direct reputational risk: focused on sensitive businesses, on the basis of ESG (Environment, Social and Governance) criteria;
- indirect reputational risk: based on the management of the reputational impact of other types of risk (e.g. operational risk, cyber risk, legal risk etc.).

It should be noted that the assessment of reputational risk takes place as part of the Risk Self Assessment campaign relating to operational risk management. The risk is identified, on a management level and qualitatively by analysing:

- placement procedures that entail the prior assessment of the adequacy of the contract with a view to initially identifying the insurance requirements and the customer's protection needs, as well as providing adequate information on the product;
- the assistance services provided by the distribution network;
- the claims management service;
- the claims settlement process.

Conduct risk - as a sub-category of operational, compliance and reputational risk – can be defined as the current or prospective risk of losses resulting from inappropriate offerings of products and/or services, including instances of inappropriate conduct (malfeasance/negligence) by the company.

Strategic risk means the current or future risk of a fall in profits or of share capital and of the sustainability of the business model, including the risk of not being able to generate adequate return on capital on the basis of the risk appetite defined by the enterprise, resulting from changes in the operating scenario or from erroneous business decisions, from the inadequate implementation of decisions, improper management of the risk associated with belonging to a group, and from poor reactivity to changes in the competitive scenario.

Finally, emerging risk is the risk originating from new sources of risk that become material due to changes in the internal or external environment.

The assessment made by the Company in 2021 allowed the risk map to be outlined – Framework Solvency II – to which the Company is exposed (shown below).

Risk Module	Risk Sub-module	Exposure
Non-Life underwriting risk	Non-Life premium and reserve risk	X
	Non-Life lapse risk	X
	Non-life CAT risk	X
Health underwriting risk	Health premium and reserve risk	X
	Health Lapse risk	X
	Health CAT	X
	Health SLT Mortality risk	---
	Health SLT Longevity risk	---
	Health SLT Disability morbidity risk	---
	Health SLT Lapse risk	---
	Health SLT Expense risk	---
	Health SLT Revision risk	---
Market risk	Interest rate risk	X
	Equity risk	X
	Property risk	X
	Spread risk	X
	Currency risk	X
	Concentration risk	---
Counterparty default risk	Type 1 counterparties	X
	Type 2 counterparties	X
Operational Risk	Operational risk	X

Prospective risk assessments have not identified any emerging risks from a regulatory (Solvency II) perspective in relation to the actions envisaged by the new investment and business strategies. However, the identification of ESG risk is also highlighted in relation to sector regulation.

The ESG issue provides for a long series of regulatory requirements making it necessary to activate interventions in multiple company areas. Specifically, in this document to be noted is the Delegated Regulation (EU) 2021/1256 of the Commission that contains amendments to the SII Delegated Acts which, although concentrated in a few articles, have a pervasive impact on the Risk Management System of the Company and, consequently, on the overall Internal Control System (ICS).

With reference to the future and monitored data in 2021, the analysis made it possible to identify the risk sub-modules that are most significant and have most impact on the Company, namely the risk sub-modules Non-Life premium and reserve risk, Health premium and reserve risk, followed by the Non-Life lapse risk sub-module.

Compared to the table above, the Spread risk on ITA government securities (a risk not contemplated in the Standard Formula) should be noted. In its assessments, the Company takes this risk factor into consideration through specific sensitivity analyses carried out periodically (at least quarterly) and in the ORSA Report YE 31.12.2020.

The results of qualitative/quantitative analyses of the adequacy of the Company's risk profile with respect to the requirements underlying the application of the Standard Formula were positive.

In addition to calculating the impacts due to quantifiable risks, the Company also manages and monitors the risks outside the scope of the Standard Formula and the so-called non-quantifiable risks from a regulatory perspective, such as:

- compliance risk;
- reputational risk;
- risk associated with belonging to a group;

- spread risk on Government bonds;
- liquidity risk.

The assessment of these risks is based on the *expert judgement* of the *risk takers* and on the analysis of specific indicators identified for some risk categories (such as, for liquidity risk: *liquidity gap*, *contingency capacity*, *availability index*, etc.). With regard to liquidity risk, as already indicated above, the identification is carried out with reference to the securities investment portfolio and cash flows (In and Out) and on the analysis of specific indicators defined according to the time horizon with which the risk itself is analysed and studied. In the current situation, these types of risk are properly managed, monitored on a regular basis and do not involve an add-on in terms of regulatory capital.

At present, there are not results that indicate critical situations in terms of solvency resulting from strategic risks. Nevertheless, the impact of possible changes of the macro-economic scenario that may have a significant impact on the Company's Own Funds must continue to be considered.

PART F

INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 – Consolidated shareholders' equity

A. Qualitative information

Effective 1 January 2014, Regulation (EU) no. 575/2013 ("CRR") came into force, through which the rules defined by the Basel Committee for banking supervision were introduced into the European Union, together with a detailed series of documents called "Basel III" regarding capital adequacy (First Pillar) and disclosures to the public (Third Pillar).

Regulation (EU) no. 575/2013 and EU Directive 2013/36/EU ("CRD IV") establish the new reference regulatory framework in the European Union for banks and investment companies. From 1 January 2014, CRR and CRD IV are accompanied by technical regulating or implementing standards approved by the European Commission on the proposal of the European Supervisory Authority ("ESA"), which implement the primary legislation.

With the adoption of the Implementing Regulation (EU) no. 680/2014, the Implementing Technical Standards were established, which are binding with regard to the harmonised prudential reporting of banks and of investment companies relating to: own funds, credit and counterparty risk, market risk, operational risk, large risks, recognition of mortgage losses, overall equity position, liquidity monitoring and financial leverage.

Furthermore, Banca d'Italia issued Circulars 286 and 154, which transpose the mentioned ITS, according to the matrix currently adopted for supervisory reporting. The Group considers assessing its capital structure a priority and these analyses are conducted within specific Group Governance Committees. On these occasions, the main impacts relating to legislation in progress are also highlighted (e.g. potential impacts relating to the finalisation of the reform of Basel III as per the recent agreement of the Basel Committee dated 14 January 2019) and those already approved by not currently applicable (e.g. (EU) Regulation no. 876/2019 and (EU) Directive no. 787/2019 which amend (EU) Regulation no. 575/2013 and Directive 2013/36/EU/876 respectively, just as (EU) Regulation no. 877/2019 and EU Directive no. 879/2019).

The Group Governance Committees always include members appointed from the Parent Company's Board of Directors, chosen from the members of the Board, and the respective analyses are then presented to the Parent Company's Board of Directors.

From a supervisory profile, absorption is determined taking into account the current reporting "rules".

From a management perspective, absorption is calculated using internal models for credit and market risk and using a standard "management" model".

The risks are examined both at overall level and in detail within the Group companies (analysis of specific portfolios).

At 31 December 2021, Own Funds were determined based on the provisions contained in Regulation (EU) no. 575/2013 (CRR).

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by business areas

Items of shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total
1. Shareholders' equity	341,324	121,600	39	(121,565)	341,398
2. Share premium	321,801	-	-	-	321,801
3. Reserves	2,140,488	216,569	1,977	16,327	2,375,361
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(4,025)	-	-	-	(4,025)
6. Valuation reserves:	87,261	(14,191)	(86)	-	72,984
- Equity securities measured at fair value through other comprehensive income	1,312	-	-	-	1,312
- Coverage of equity securities measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets measured at fair value through other comprehensive income	23,140	(14,221)	-	-	8,919
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedge of foreign investments	-	-	-	-	-
- Cash flow hedges	22,997	-	-	-	22,997
- Hedging instruments [elements not designated]	-	-	-	-	-
- Exchange differences	-	-	-	-	-
- Non-current assets and groups of assets held for sale and discontinued operations	-	-	-	-	-
- Financial liabilities measured at fair value through profit or loss (changes in own credit rating)	-	-	-	-	-
- Actuarial gains (losses) on defined-benefit pension plans	(13,268)	30	(86)	-	(13,324)
- Share of valuation reserves of equity investments valued at equity	-	-	-	-	-
- Special revaluation laws	53,080	-	-	-	53,080
7. Profit (Loss) for the year (+/-) pertaining to the group and non-controlling interests	314,441	34,413	666	3,073	352,593
Shareholders' equity	3,201,290	358,391	2,596	(102,165)	3,460,112

The table above shows the components of shareholders' equity, summing those of the Group with those of third parties, broken down by type of company included in the scope of consolidation. More specifically, in the column regarding the prudential consolidation, the amount indicated is the result of the consolidation of the companies belonging to the banking group, before the economic effects of transactions made with other companies included in the scope of consolidation; subsidiaries, other than those belonging to the banking group and consolidated on a line-by-line basis have been measured under the equity method. In the column regarding insurance companies, the amount shown is the result of consolidation, before the economic effects of transactions made with companies belonging to the banking group. The "Consolidation adjustments and eliminations" column, on the other hand, shows the adjustments needed to obtain the figure indicated in the financial statements.

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/amounts	Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	28,073	4,934	-	-	-	-	-	-	28,073	4,934
2. Equity securities	1,313	-	-	-	-	-	-	-	1,313	-
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	29,386	4,934	-	-	-	-	-	-	29,386	4,934
Total 31/12/2020	45,595	1,415	-	-	-	-	-	-	45,595	1,415

Asset/amounts	Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	23,467	52,792	-	-	-	-	23,467	52,792
2. Equity securities	-	-	-	-	-	-	-	-
3. Units of UCITS	-	18,893	3,789	-	-	-	-	18,893
4. Loans	-	-	-	-	-	-	-	-
Total 31.12.2021	42,360	56,581	-	-	-	-	42,360	56,581
Total 31/12/2020	19,508	34,017	-	-	-	-	19,508	34,017

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balances	31,245	12,935	-
2. Positive changes	42,681	28,270	-
2.1 Fair value increases	41,360	27,785	-
2.2 Value adjustments for credit risk	458	X	-
2.3 Reversal to income statement of negative reserves from disposals	207	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	656	485	-
3. Negative changes	50,787	39,892	-
3.1 Fair value reductions	5,856	3,638	-
3.2 Recoveries for credit risk	808	-	-
3.3 Reversal to income statement of positive reserves: realised	43,947	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	36,254	-
3.5 Other changes	176	-	-
4. Closing balance	23,139	1,313	-

Item 3.4 "Transfers to other components of shareholders' equity (equity securities)" includes the gain on the sale of Cedacri's shares; on 5 March 2021 an agreement was signed by all shareholders for the sale of 100% of the share capital of Cedacri to ION Investment Group Limited, including the share held by Credem equal to 3.9%; this sale was carried out in June 2021 and resulted in a capital gain, net of the related tax effect, of € 36.3 million, recorded under item "Other reserves" as the equity instruments for which the choice has been made to classify them in the category "Financial assets measured through other comprehensive income" are measured at fair value and the amounts recognised as a balancing entry in equity (Statement of Comprehensive Income) must not subsequently be transferred to the income statement, even in the event of disposal.

With regard to the performance of the financial markets, the following should be noted:

- In the first quarter of 2021, the improvement of the global framework and the approval of the fiscal stimulus led to a sharp rise in long-term yields in the United States, which partly extended to the other advanced countries. In the eurozone, this increase was contained, thanks to the expansionary stance of monetary policy reaffirmed by the ECB Governing Council. Share prices have risen since January in all the main advanced economies.
- In the second quarter of 2021, the confirmation of the expansive monetary policy of the *Federal Reserve* and the ECB contributed to interrupting the increase in long-term yields under way since the beginning of the year. The improvement in growth prospects affected the performance of share prices which rose in the second quarter, in the United States, the Eurozone and the United Kingdom. The Japanese stock market index decreased. In the government bond market, implied volatility declined slightly.
- Long-term government bond yields increased in the major advanced economies in the third quarter. The fears related to the *Evergrande* case did not significantly affect the volatility of the markets; in the major advanced economies, share prices rose.
- In the fourth quarter, news on the spread of the Omicron variant impacted the performance of the financial markets, affecting stock prices and helping to widen the sovereign *spreads* in eurozone countries. The negative impact on the stock markets of the initial news about the spread of the Omicron variant was at first significant, although temporary.

The net reserves in securities issued by Central Administrations of countries belonging to the European Union recorded a positive balance of around € 12.9 million at 31 December 2021.

Valuation reserves for financial assets available for sale: annual changes

	Debt securities	Equity securities	Units of UCITS	Loans
1. Opening balances	(8,224)	-	(6,285)	-
2. Positive changes	22,256	-	25,665	-
2.1 Fair value increases	22,102	-	22,917	-
2.2 Reversal to income statement of negative reserves	154	-	2,748	-
- due to impairment	-	-	-	-
- following disposal	154	-	2,748	-
2.3 Other changes	-	-	-	-
3. Negative changes	43,357	-	4,276	-
3.1 Fair value reductions	41,623	-	3,650	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to income statement of positive reserves: realised	1,734	-	626	-
3.4 Other changes	-	-	-	-
4. Closing balance	(29,325)	-	15,104	-

Insurance companies' net reserves for securities issued by Central Administrations showed a negative balance of approximately € 23.4 million at 31 December 2021, of which € 4.7 million related to the Italian Government. The aforementioned net reserves were included fully in the calculation of the CET1 at 31 December 2021.

B.4 Valuation reserves for defined benefit plans: annual changes

Net changes during the year show a negative balance of € 1.4 million, after the relative taxes.

Section 2 – Own funds and capital ratios

This section can be found in the disclosure on own funds and capital adequacy contained in the disclosure to the public ("Third Pillar"), "Own Funds" chapter.



PART G – BUSINESS COMBINATIONS INVOLVING COMPANIES OR BUSINESS DIVISIONS

Section 1 – Operations performed during the year

Operations performed during the year

1.1 Business combinations

In the first quarter of 2021, continuing its strategy of investment in technology and innovation, Credemtel increased its stake in Blue Eye Srl, a company specialising in advanced workflow solutions and Rpa - Robotic Process Automation platforms to automate repetitive activities (recording invoices, reconciling payments, accounting checks in general, analysing emails, performing calculations, opening and moving files, extracting unstructured data). An additional 55% of the share capital was purchased, which, combined with the 20% already owned, brought the shareholding to 75%.

In December 2021, said equity investment was consolidated using the line-by-line method.

At the same time, and in accordance with IFRS 3, in the event of a business combination carried out in several phases, the shareholding previously owned in the acquired company was recalculated at the respective fair value on the acquisition date and, at the same time, the difference in the profit for the year was recognised, for a total of € 0.3 million.

Merger by incorporation of Cassa di Risparmio di Cento

The Extraordinary Shareholders' Meeting of Credem, on 21 June 2021, has approved the plan for the merger by incorporation of Cassa di Risparmio di Cento into Credito Emiliano and the related amendment to art. 5 of the Articles of Association (number of shares and relative nominal value) functional to the merger swap, which was resolved at 0.64 shares of Credito Emiliano for each share of Cassa di Risparmio di Cento; therefore, following the merger, the former shareholders of the merged company have received shares in Credito Emiliano S.p.A. equal to 2.6% of the capital.

The merger plan was approved on 7 May 2021 by the Boards of Directors of Credito Emiliano and Cassa di Risparmio di Cento, subject to authorization received from the European Central Bank on 3 February 2021 pursuant to Art. 57 of the Consolidated Banking Act.

The merger allows both companies to benefit from significant synergies, thanks to the strong local roots of Cassa di Risparmio di Cento and the wide and competitive range of specialized services provided by the Credem Group.

The Ferrara-based banking group was a leading banking entity, controlled by Fondazione Cassa di Risparmio di Cento, with a history of over 160 years in support of the territory: at 30 June 2021, it served over 71 thousand customers through 392 people, a network of 42 branches and 5 Private and Wealth Management Centres, mainly located in the provinces of Ferrara, Modena, Bologna and Ravenna, with total customer deposits of € 3.8 billion and customer loans of € 1.6 billion.

The transaction allows:

- Credem Group to accelerate its development in a limited area, thanks to the significant market shares of Cassa di Risparmio di Cento in the province of Ferrara, and to its presence in the provinces of Bologna, Modena and Ravenna;
- Cassa di Risparmio di Cento to benefit from the wide and competitive range of specialised services offered by the Group to support local growth, further improving the satisfaction of its customers, both companies and households;

- the shareholders of both banks to obtain higher returns from their investment thanks to the synergies that will be created, both in terms of higher revenues, related to the broader offer of customer services, and lower costs, favoured by the adoption of a single IT platform owned by Credito Emiliano.

On 24 July 2021, the merger by incorporation was finalised with the related migration to the information systems of Credito Emiliano. This operation entailed the IT migration of Cassa di Risparmio di Cento, which resulted in the transfer of information to Credito Emiliano, which were stored in the previous IT systems, without distinguishing between the elements subject to migration, which at 31 December 2021 represent a unicum with the data previously stored in the Credito Emiliano's IT systems. Therefore, at the reporting date, the revenue and profit and loss components of the acquired business are not available due to their indistinguishability from those referring to the previous scope of Credito Emiliano. The consolidated intermediation margin of Cassa di Risparmio di Cento achieved at 30 June 2021, prior to the merger, is equal to € 27.8 million.

Identification of the acquirer and acquisition date

The purchaser of the transaction is Credito Emiliano and a fundamental aspect for the accounting of a business combination is the determination of the acquisition date, i.e. the date on which Credito Emiliano actually obtained control of Cassa di Risparmio di Cento. The determination of the acquisition date is necessary because it is from the moment control is obtained that the results of the acquired companies are included on a line-by-line basis in the economic-financial position of the purchaser. It is also the date on which the fair value of the assets and liabilities subject to acquisition are measured, which will be referred to later.

As for the transaction in question, the acquisition date was 24 July 2021, i.e. the date of merger of Cassa di Risparmio di Cento into Credito Emiliano, with the simultaneous issue of 8,927,958 shares of Credito Emiliano for the capital increase dedicated to the former shareholders of Cassa di Risparmio di Cento. The shares were issued and accounted for at a price of € 5.34, of which € 4.34 as a premium, the closing price of Credem shares on 23 July 2021.

Since it was not possible for Cassa di Risparmio di Cento to prepare a consolidated balance sheet at the closing date of 23 July 2021, the day before the acquisition date in accordance with IFRS 3, it was decided to refer, for the purposes of the PPA process and the first consolidation of Cassa di Risparmio di Cento Group into the Credem Group, to the consolidated balance sheet prepared by Cassa di Risparmio di Cento Group at 30 June 2021, taking into account the short period of time between that date and 24 July 2021. The economic result of the Cassa di Risparmio di Cento Group is, therefore, included in Credem's accounts as from 1 July 2021.

Determination of the acquisition cost (or transferred consideration)

Pursuant to IFRS 3, par. 37, the consideration transferred in a business combination must be determined on the basis of the fair value, at the acquisition date, of the assets transferred by the acquirer to the previous shareholders of the acquiree, the liabilities incurred by the acquirer for these parties and the interests issued by the buyer.

In addition to the aforementioned share capital increase of € 47.7 million, shares of Cassa di Risparmio di Cento owned by the Foundation and the Holding Cassa di Risparmio di Cento were also purchased and cancelled in the exchange process for a value of € 7 million, with a total cost of the acquisition of around € 55 million.

At 30 June 2021, the consolidated shareholders' equity of the Cassa di Risparmio di Cento Group amounted to approximately € 154 million, with a loss for the period (1 January 2021 - 30 June 2021) of approximately € 23.9 million.

The costs associated with the acquisition amounted to € 22.5 million recognised as operating expenses.

**Measurement at fair value of the assets, liabilities and contingent liabilities
acquired, and allocation of the acquisition cost.**

Activities acquired

Assets	Book value at the acquisition date	reclassificati on at the time of acquisition	Fair Value Differences	Fair Value at the acquisition date
10. Cash and cash equivalents	12,601			12,601
20. Financial assets measured at fair value through income statement	6,352		-1,934	4,418
a) Financial assets held for trading	2,527			2,527
c) Other financial assets measured at fair value, as per mandatory requirements	3,825		-1,934	1,891
30. Financial assets measured at fair value through other comprehensive income	35,464		-866	34,598
40. Financial assets measured at amortised cost	2,657,379	3,305	-18,526	2,642,158
a) Receivables due from banks	1,022,048			1,022,048
b) Receivables due from customers	1,635,331	3,305	-18,526	1,620,110
90. Property, plant and equipment	44,687		-6,575	38,112
100. Intangible assets	621		11,726	12,347
of which:				
- Goodwill				
110. Tax assets	42,511		19,215	61,726
a) Current	11,077		7,622	18,699
b) Prepaid	31,434		11,593	43,027
120. Non-current assets and groups of assets held for sale and discontinued operations	145,257			145,257
130. Other assets	56,659		-3,269	53,390
Total Assets	3,001,531	3,305	-229	3,004,607

Liabilities acquired

Liabilities and shareholders' equity	Book value at the acquisition date	reclassification at the time of acquisition	Fair Value Differences	Fair Value at the acquisition date
10. Financial liabilities measured at amortised cost	2,719,303		2,588	2,721,891
a) Payables to banks	453,295			453,295
b) Payables to customers	2,264,151		2,588	2,266,739
c) Debt securities issued	1,857			1,857
20. Financial liabilities held for trading	92			92
60. Tax liabilities	1,118		3,903	5,021
a) current	88			88
b) deferred	1,030		3,903	4,933
70. Liabilities included in disposal group classified as HFS	1,873			1,873
80. Other liabilities	121,182			121,182
90. Provision for staff termination indemnity	2,614			2,614
100. Provisions for risks and charges:	1,109		336	1,445
a) Assets pledged and received as collateral	620			620
c) Other provisions for risks and charges	489		336	825
120. Valuation reserves	-608		7	-601
190. Minority interests (+/-)	829			829
accounting difference in assets and liabilities (NE)	154,019	3,305	-7,062	150,262
Total liabilities and shareholders' equity	3,001,531	3,305	-229	3,004,607

Allocation of the acquisition cost (so-called Purchase Price Allocation - PPA)

The acquirer, at the acquisition date, must allocate the cost of the business combination by recognising the assets, liabilities and contingent liabilities deemed identifiable by the acquiree at their fair values at that date, with the exception of non-current assets (i.e. or disposal groups) classified as held for sale in accordance with IFRS 5. In fact, the latter are accounted for at fair value net of costs to sell. The acquirer must separately recognise the assets, liabilities and contingent liabilities identifiable in the acquiree at the acquisition date only if, at that date, they meet the following criteria:

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

The IFRS 3 accounting standard envisages a time period of 12 months for the completion of the Purchase Price Allocation (PPA) process.

The recognition of these assets and liabilities at their fair value, following the allocation of the acquisition cost, is reflected in the income statements subsequent to the acquisition date, which must consider the revenues and costs of the business acquired on the basis of the cost of the combination incurred by the purchaser. The excess between the cost incurred for the business combination and the fair value of the identifiable assets, liabilities and contingent liabilities must be recognised as goodwill; if, on the other hand, the fair value of the net identifiable assets of the

acquired party is higher than the acquisition cost, a negative goodwill must be recognised in the income statement of the acquirer.

For the purpose of preparing these financial statements, a Purchase Price Allocation (PPA) was carried out with the support of a leading consulting firm and independent experts (which, in accordance with IFRS 3, provides for a time period of 12 months for the completion of the allocation process), resulting in the recognition in the income statement, under the item "Other operating income/charges", of negative goodwill, or badwill, of approximately € 95.6 million.

This result derives from an average profitability of the banking sector still adversely impacted by low interest rates and which does not allow the market to express valuations in line with or above the "book value", or the equity of the bank.

Allocation of the cost for the acquisition of Cassa di Risparmio di Cento	
Accounting difference in assets and liabilities (NE) (A)	154,019
Reversal of reclassification to equity of the receivable from Holding Cassa di Risparmio di Cento (B)	3,305
Consideration paid (C)	54,675
Purchase of shares from the Fondazione and Holding Cassa di Risparmio di Cento	7,000
Credit Emiliano capital increase	47,675
Negative difference to be allocated (A + B + C)	102,649
Fair value measurement of real estate funds classified as financial assets mandatorily measured at fair value	-1,934
Fair value measurement of debt securities classified as financial assets measured at amortised cost	-866
Fair value measurement of loans to performing customers	24,984
Fair value measurement of loans to non-performing customers	-43,510
Fair value measurement of tangible assets	-6,575
Fair value measurement of intangible assets	11,726
Fair value measurement of tax assets	19,215
Fair value measurement of exposures classified among other assets	-3,269
Fair value measurement of payables to customers	-2,588
Fair value measurement of tax liabilities	-3,903
Fair value measurement of the actuarial reserve for staff termination indemnity	-7
Fair value measurement of contingent liabilities	-336
Total Negative goodwill	95,586

Cassa di Risparmio di Cento has reclassified the receivable from Holding Cr Cento (equal to € 3.3 million) as a reduction of shareholders' equity, to the item profit reserves, in order to cancel the effect of ownership, by the Holding itself, of its shareholding in Cassa di Risparmio di Cento.

Specifically, the main balance sheet items involved are reported (the amounts indicated are gross of the related tax effect):

- Performing loans:** the estimate of the fair value of the item in question was carried out with the support of PricewaterhouseCoopers Business Services Srl (hereinafter, also "PwC"), as of 30 June 2021. The portion of the portfolio that was assessed analytically consists of performing medium and long-term loans, while for short-term loans and transactions on demand or with a residual duration of less than 12 months, the book value at 30 June 2021 was deemed to be a reasonable approximation of the fair value, in accordance with the provisions of IFRS 13.
On the basis of the above, the compulsory reserve and all current accounts, all on-demand or short-term items were excluded, while mortgage loans and unsecured instalment loans were fully included in the valuation scope.

Overall, performing loans subject to assessment as part of the PPA process amounted to approximately € 1.6 billion.

The method used to estimate the fair value of performing loans replicates the method currently prevailing on the market, which consists in using a Discounted Cash Flow (DCF) type model, in which the cash flows are discounted at an appropriate discount rate. In particular, the method in question provided, firstly, for the identification of the gross financial cash flows attributable to the individual positions from the reference date of the valuation until natural maturity and, subsequently, adjustments to take into account, by way of example, credit risk and operating expenses and those related to the absorption of regulatory capital.

The net cash flows were subsequently discounted at a discount rate consisting of a market rate expressing a risk-free investment and an illiquidity discount.

The difference applied to the acquired balances in order to express them at fair value at 30 June 2021 was positive by approximately € 25.0 million, gross of the tax effect, of which € 7.3 million came from the elimination of the impairment provision in the financial statements of Cassa di Risparmio di Cento, as required by IFRS 3, paragraph B41. It should be noted, however, that with recognition in the 2021 income statement (and therefore outside of the PPA process), an impairment provision of approximately €7 million was reconstituted, determined by taking into account the macroeconomic context, the risk indicators already present and by applying the Credem Group's estimation models.

- **Non-performing loans:** since they are acquired positions that are already impaired, Cassa di Risparmio di Cento's non-performing loans were considered Purchased or Originated Credit Impaired (hereinafter "POCI") pursuant to IFRS 9 and the provisions of Bank of Italy Circular 262, which defines them as *"exposures that meet the definition of purchased or originated credit impaired assets in Appendix A of IFRS 9. This includes, inter alia, purchased impaired credit exposures as part of sales transactions (individual or portfolio) and business combinations"*. IFRS 9 requires a credit-adjusted effective interest rate to be calculated on impaired purchased or originated loans at their initial recognition, for which it is necessary to include initial expected credit losses in cash flow estimates.

The valuation of the non-performing loans acquired by Credem was carried out with the support of PwC. In particular, the estimate of the fair value of the non-performing loan portfolio of Cassa di Risparmio di Cento at 30 June 2021 was carried out line by line, using the Discounted Cash Flow (DCF) method, or by applying transfer prices arising from transactions of a similar nature, both in terms of the purpose of the transaction and in terms of the parties involved.

Overall, the book value of non-performing loans subject to valuation as part of the PPA process was equal to € 72 million, divided between bad loans for € 29.5 million, unlikely to pay for € 41.7 million and past due for € 0.8 million. The valuation process returned a fair value of non-performing loans that was lower than the relative net book value of Cassa di Risparmio di Cento drawn from the relevant balance sheet by € 43.5 million, gross of the related tax effect (divided between non-performing loans for € 19.0 million, probable defaults for € 24.1 million and past due for € 0.4 million). The fair value of non-performing loans therefore amounts to € 28.5 million (bad loans € 10.5 million, unlikely to pay € 17.6 million and past due € 0.4 million.)

- **Intangible assets not previously recognised by the acquired party:** pursuant to IFRS 3 and IAS 38, intangible assets are identifiable non-monetary assets, without physical consistency, that can be recognised separately from goodwill only if identifiable. IAS 38 specifies that an intangible asset satisfies the identifiability criterion only if:

- it is separable, that is, it can be separated or spun off from the entity and sold, transferred, licensed, leased or exchanged, individually or together with the related contract, asset or liability, or;
- derives from contractual or other legal rights, regardless of whether those rights are transferable or separable from the company or from other rights and obligations;
- the *fair value* of the asset can be reliably determined.

Furthermore, with reference to the separability criterion, IFRS 3 provides that an acquired intangible asset satisfies the separability criterion if there is evidence of exchange transactions for this type of asset or for a similar asset, even if such transactions are not frequent and regardless of whether the buyer is involved in them. If an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, there is sufficient information to reliably measure the *fair value* of the asset. Taking into account the above, as part of the PPA related to the acquisition of Cassa di Risparmio di Cento, an intangible asset with a defined useful life related with the *Customer Relationship* was identified and valued with the support of PwC. In particular, three different categories of products attributable to Assets Under Management ("AuM") and a category of Assets under Administration ("AuA") have been identified. The AuM products of Cassa di Risparmio di Cento include relationships with banking customers as regards (i) the brokerage of asset management products, or portfolio management, (ii) mutual funds and SICAVs, as well as (iii) pension and insurance products. The AuA products, on the other hand, include customer relationships regarding administration and custody relationships without management delegations to the intermediary.

The estimate of the *fair value* of the aforementioned *Customer Relationship* categories was based on the net economic flows expected over a defined time horizon discounted at the cost of equity. The net economic flows of intangible assets have been identified on the basis of volumes and taking into account net margins, operating costs, capital absorption related to the operating risk associated with the intangible and taxation.

In estimating the net economic flows, account was also taken of the notional cost associated with the use of some assets, such as assets and labour, which contribute to obtain the so-called "Contributory Asset Charges". As anticipated, the net economic flows were discounted at the cost of equity, equal to the rate of return on equity required by shareholders for investments with similar risk characteristics. This rate was estimated using the CAPM (Capital Asset Pricing Model) method.

With regard to the residual life of the *Customer Relationship*, the decline curve ("decalage rate") was estimated for each category, taking into account the market effect.

Based on the above, an intangible with a finite useful life, represented by *Customer Relationship*, was recognised, as a balancing entry for an increase in *negative goodwill*, for a total of €11.7 million, gross of the related tax effect.

- **Tangible assets:** valuations were made at fair value of the properties acquired and of the artistic heritage, through on-site appraisals carried out by independent experts used by the Credem Group. The results of these activities led to a write-down on the properties acquired for adjustment to the relative fair value for a total of € 6.7 million, while a revaluation of € 0.1 million was made for an important work of art.
- **Asset securities:** as part of the PPA process, with the support of PwC, some minority equity securities and debt securities were restated at *fair value*. For the purpose of estimating fair value, several valuation methods were used, widely recognised by the doctrine and prevailing practice, such as Market Multiples, Direct Transaction Method and Discounted Cash Flow

(DCF), selected according to the purpose of the valuation, the overall reference context and the information available.

The analyses carried out resulted in the recognition of an overall capital loss compared to the related book value at 30 June 2021 equal to € 2.9 million, gross of the related tax effect. In particular, the fair value measurement of the instruments classified in the FVOCI portfolio shows a lower value than the book value, equal to € 0.9 million (€ 0.8 million referring to equities and € 0.1 million referring to debt securities). The fair value measurement of financial instruments classified in the FVTPL portfolio applying Credem Group's methodologies shows a lower value compared to the book value, equal to € 1.9 million.

- **Other activities:** the Group has carried out a detailed analysis aimed at defining the valuation process and the consequent determination of the criteria to be used for the fair value measurement of the diamonds in the portfolio at a presumable value consistent with the management strategy of the specific asset.

The valuation of the diamonds was carried out by an expert enrolled in the register of consultants and appraisers, given the state of the "RAPAPORT" quotations on the New York Stock Exchange, and with reference to the average prices charged for stones of similar size and quality to the stones acquired, in terms of purity, colour, cut, gloss, fluorescence and weight.

The difference in the fair value measurement, compared to the book value, shows a capital loss of € 3.3 million (gross of the related tax effect).

- **Direct deposits:** the characteristics of the acquired direct deposits acquired (substantially represented by on-demand or short-term items), make it possible to consider their fair value substantially equal to the related book value; this with the exception of "Time Deposits" transactions, stipulated with rates no longer at market value, which resulted in the recognition, at the acquisition date, of an overall loss compared to the book value of approximately € 2.6 million. Furthermore, it should be noted that from the analyses conducted it has emerged that there are no prerequisites for enhancing the component related to the so-called *Core Deposits* since the benefit linked to the lower cost of the deposits acquired compared to alternative sources of funding (so-called *mark-down*) would be zero.
- **Right of Use and lease liability:** for leases acquired (mainly on real estate assets) the Group's valuation method was applied at the date of the business combination, as required by paragraphs 28A and 28B of IFRS 3. This revaluation did not entail any impact on Property, plant and equipment (rights of use) and on Payables to customers (payables for leasing).
- **Contingent liabilities:** the recognition of any implicit risks in the acquired bank started, as well as the valuation at fair value of the potential liabilities related to them. The results of this activity led to an estimate of additional contingent liabilities of € 0.4 million, recognised in the provisions for risks and charges.
- **Tax effects:** the international standard IAS12 provides that in a business combination, since the identifiable assets acquired and the identifiable liabilities assumed are recognised at their respective fair values at the acquisition date, temporary differences are generated when the fiscally recognised value of the identifiable assets acquired and the identifiable liabilities assumed is not affected by the business combination. For example, when the book value of an asset is increased up to its fair value, but the fiscally recognised value of the asset continues to be the cost present in the balance sheet of the combined company, a taxable temporary difference is generated which translates into a deferred tax liability. As required by IAS 12, deferred tax liabilities or prepaid tax assets recognised in the PPA were recognised as a contra-entry to the negative goodwill recognised as a result of the PPA process. Furthermore, in determining the tax effects at the time of the PPA, account was taken, as required by IAS 12,

of the current and presumably prospective situation with respect to taxable income.

At the time of the combination, Cassa di Risparmio di Cento had not recognised the deferred tax assets referable to the tax losses of 2021 and previous years; therefore, given Credem's tax capabilities, deferred tax assets on tax losses that can be carried forward indefinitely were recognised for an amount of approximately €7.4 million, in addition to the recognition of net deferred tax assets not recognised in the financial statements for a total of €0.6 million.

- **Assets and liabilities held for sale:** On 23 June 2021, Cassa di Risparmio di Cento has signed an agreement for the sale of its equity investment in Ifiver to the Vivibanca Group. The sale is linked to the original presence, within the Credem Group, of a financial intermediary, fully controlled, specialised in the same business.

Ifiver is a financial intermediary specialised in salary assignment, operating through a national network of financial agents. The company, 55% owned by Cassa di Risparmio di Cento, now merged into Credito Emiliano following the merger by incorporation, had loans to customers of approximately € 140 million as at 30 June 2021.

The binding agreements executed with the Vivibanca Group, which provide for the sale, by Credito Emiliano, of the company, has led to the reclassification of the assets and liabilities pertaining to the company as assets and liabilities held for sale, as required by IFRS 5 - Non-current assets held for sale and discontinued operations. The above-mentioned standard envisages, par. 6, that “an entity must classify a non-current asset (or a disposal group) as held for sale, if its carrying amount will be recovered mainly through a sale transaction rather than through its continuing use”. From the valuation point of view, IFRS 3 provides, par. 31, that “the acquirer must measure a non-current asset acquired (or disposal group), which at the acquisition date is classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and assets discontinued operations, at fair value less costs to sell, in accordance with paragraphs 15–18 of the aforementioned IFRS ”. In the case in point, having signed a binding agreement with Vivibanca, the assets and liabilities of the company were not subject to a specific valuation as part of the PPA process, having assumed the agreed sale price as the fair value at the acquisition date, in line with the provisions of IFRS 13, therefore “this IFRS defines fair value as the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators at the valuation date ”.

This transaction was authorized by the Bank of Italy on 24 November 2021.

1.2.1 Annual changes to goodwill

The line-by-line consolidation of the company Blue Eye has involved recording additional goodwill for € 1.4 million, in addition to the previously recorded goodwill of € 0.2 million, which had been recognised under then item “Equity investments” as the company was consolidated according to the equity method.

	Goodwill
A. Opening balance	289,786
A.1 Total net decreases	-
A.2 Net opening balance	289,786
B. Increases	1,557
B.1 Purchases	1,397
B.6 Other changes	160
C. Decreases	-
D. Net closing balance	291,343
D.1 Total net value adjustments	-
E. Gross closing balance	291,343
F. Valuation at cost	-

Section 2 – Business combinations completed after the period

No operations were performed.

Section 3 – Retrospective adjustments

No operations were performed.

PART H

RELATED-PARTY TRANSACTIONS

1 Information on remuneration of strategic executives

The following table provides information on the remuneration of executives with strategic responsibilities, in compliance with the provisions of IAS 24.

Executives with strategic responsibilities of Credito Emiliano are those with the power and the responsibility, directly or indirectly, to plan, supervise and control the business activities of Credito Emiliano.

In this context, executives with strategic responsibilities include: the Members of the Board of Directors, the Statutory Auditors, the General Manager, the Joint General Manager, the Deputy General Managers, the other members of Central Management, the Manager responsible for preparing the company's financial reports, and the Heads of Internal Control Functions (Head of the Audit Service, Head of the Anti-Money Laundering department, Compliance Officer, Risk Officer and the Head of Remuneration Policies).

Remuneration summary	Total 31/12/2021	Total 31/12/2020
Directors	1,566	1,455
Statutory Auditors	433	383
Executives	7,370	7,438
Total	9,369	9,276

The remuneration of executives includes short-term benefits, benefits after the end of the contract of employment, other long-term benefits, benefits due to termination of the employment contract and share-based payments.

2. Information on transactions with related parties

In compliance with legislation regarding related party transactions, the Credito Emiliano Group adopted specific procedures in order to regulate these transactions and to guarantee adequate information flows.

In accordance with Consob resolution no. 17221 of 12 March 2010 and the issue by Banca d'Italia of the 9th amendment of Circular no. 263/2006, Credito Emiliano adopted specific procedures to manage related party transactions and associated party transactions.

The regulation is available for consultation on Credito Emiliano's website www.credem.it.

Without prejudice to the principle set forth in Art. 2391 of the Italian Civil Code regarding the interests of Board Directors, this topic is also regulated by the provisions of Art. 53, paragraph 4 and 136 of TULB (Italian Legislative Decree 385/93 - Comprehensive Regulation on banking and credit laws), as well as by Art. 6, paragraph 2 novies of the TUF (Italian Legislative Decree 58/98 - Comprehensive Regulation on financial brokerage), under which cases of conflicts of interest or in any event cases in which company representatives may undertake obligations vis-à-vis the company that they manage, supervise or control, only with the abstention from voting of the interested party and, according to Art. 136 of the TULB, following the unanimous approval of the remaining voters, and the favourable vote of all members of the Board of Statutory Auditors.

The relationships and transactions performed with related and associated parties do not raise any critical aspects and are part of ordinary service and credit activities. The conditions applied to individual relationships and to transactions with related and associated parties do not differ from the current market practice.

In 2021, there were no transactions of major significance within the scope of the aforementioned procedures.

In the same period, the Board of Directors adopted a “framework resolution”.

In particular, the decision regarded:

- the granting of loans to related and associated parties attributable to the Deputy Chairman Luigi Maramotti and the Board member, Edoardo Prezioso, for a maximum overall amount not exceeding € 100 million and in any event under the legislative limit of 5% of consolidated regulatory capital, disbursed by the Credito Emiliano Group in more tranches, also as part of revolving transactions.

In 2021 intragroup transactions and/or transactions with Italian and foreign related and associated parties were set in place, considered part of ordinary operations and related financial activities, concluded at conditions similar to those applied to transactions concluded with independent third parties.

The intra-group transactions were carried out on the basis of reciprocal assessments of economic convenience, and the conditions to be applied were established according to criteria of substantial correctness, with a view to the common objective of creating value for the Credem Group as a whole.

The same principle was also applied to the provision of intra-group services, as well as that which regulates said services on a minimum basis adapted to recover the relative production costs.

2. Information on transactions with related parties

	Loans	Payables	Guarantees	Assets under custody	Assets under management
Directors, statutory auditors and executives	1,003	5,278	475	13,612	12,374
Family members	3,077	9,453	624	182,266	9,568
Subsidiaries and associated companies	40,671	223,556	91,460	13,768	145,471
Other related parties	-	-	-	-	-
Total	44,751	238,287	92,559	209,646	167,413

2. Information on transactions with related parties

	Interest income	Interest expense	Fee and commission income and other revenues	Fee and commission expenses and other charges
Directors, statutory auditors and executives	3	1	208	42
Family members	3	2	192	55
Subsidiaries and associated companies	1,124	1	1,478	403
Other related parties	-	-	-	-
Total	1,130	4	1,878	500

The percentage of related party transactions over total Group transactions is as follows (%):

Balance sheet figures	Loans	Payables	Guarantees and commitments	Assets under custody	Assets under management
Total	0.1	0.4	0.9	0.9	0.5

Income Statement figures	Interest income	Interest expense	Fee and commission income and other revenues	Fee and commission expenses and other charges
Total	0.2	-	0.2	0.1

Details of transactions with associated companies are provided below (€/thousand):

Balance sheet figures	Loans	Payables	Guarantees and commitments	Assets under custody	Assets under management
Total	4,960	11,559	1,019	135,867	-

Income Statement figures	Interest income	Interest expense	Fee and commission income and other revenues	Fee and commission expenses and other charges
Total	178	-	17,151	138

The percentage of transactions with associated companies over total Group transactions is as follows (%):

Balance sheet figures	Loans	Payables	Guarantees and commitments	Assets under custody	Assets under management
Total	-	-	-	0.6	-

Income Statement figures	Interest income	Interest expense	Fee and commission income and other revenues	Fee and commission expenses and other charges
Total	-	-	1.7	-

PART I

SHARE-BASED PAYMENTS

Qualitative information

1. Description of share-based payments

In line with the compensation policies approved by the Shareholders' Meeting and in accordance with Banca d'Italia provisions regarding remuneration and incentives, a variable pay system has been drawn up based on partial payment in cash and partial payment through the free allocation of shares. The incentive system is based on the achievement of performance objectives, measured net of risks, and depends on the adequate level of capitalisation and liquidity of the Company.

The aim of the system is to enhance the loyalty of those in key business positions and is addressed to top managers that are in the category of the most important staff. The percentage of the overall bonus awarded to recipients in shares was greater than 50% in 2021, conditional to the achievement of the objectives set by the Board of Directors, and with the approval of the Appointments and Remuneration Committee. More specifically, the remuneration plans reserved for the Group's most important staff, which envisage the payment of a part of the bonus through the free assignment of shares are as follows:

- 2021 bonus system;
- Bonus systems and other forms of short and medium-term variable remuneration relating to previous years.

The number of shares is calculated on the basis of the share price at the time the bonus is awarded.

Correction mechanisms are envisaged during the deferment period, by effect of which bonuses accrued may decrease or become zero.

In particular, individual deferred amounts that have already been allocated may not be paid or may be reduced in the event of certain conditions relating to profit, profitability adjusted for risk, inadequate capital and liquidity levels. The bonus may also not be disbursed if the employment contract is terminated or because of professional conduct contrary to good faith and correctness obligations.

For recognition in the financial statements, the Monte Carlo Method is used to take into account the allocation conditions of the various bonus percentages. On the basis of the appropriate assumptions, this method envisages a consistent number of alternative scenarios over the time period considered. More specifically, in each scenario, a forecast of the parameters that define performance objectives is made each year, starting from the last financial statement value, according to Geometric Brownian Motion.

This calculation method can be broken down into the following phases:

- projection of financial statement parameters and of the share price in the chosen time horizon;
- verification of performance parameters;
- calculation of the bonus for each member of the plan and projection of individual trajectories, verifying the achievement of individual objectives and for each year the continuity of work and survival;
- calculation of individual amounts according to the individual bonus payment system;
- calculation, based on the estimated share price, of the number of shares necessary to pay the part of the bonus in shares (where not already established);
- proportional allocation on the basis of the vesting period of the shares assigned;
- repetition of the procedure for the number of times established.

Quantitative information

	Plan	share pertinent to the period	impact on equity
Group	- 2021 Bonus system - Bonus systems and other forms of short and medium-term variable remuneration relating to previous years	3,047.0	19,766.9

PART L – SEGMENT REPORTING

SEGMENT REPORTING – breakdown by operating segments

The operating segments identified at Group level are:

Commercial Banking, which encompasses the corresponding segment of Credito Emiliano and, wholly, the financial statements of Credemleasing, Credemfactor, Banca Euromobiliare and Avvera;

Asset Management, which encompasses the financial statements of Euromobiliare Asset Management SGR, Credem Private Equity SGR, Euromobiliare Fiduciaria and Euromobiliare Advisory Sim

Bancassurance, entirely represented by Credemvita and the relevant shareholding in Credemassicurazioni;

Trading, which encompasses the corresponding segment of Credito Emiliano, which includes trading activities;

ALM Treasury, which encompasses the corresponding segment of Credito Emiliano, which includes the management of interest rate risk on the banking book and on the investment portfolio;

Corporate Centre and Other, which includes, in addition to consolidation adjustments, Magazzini Generali delle Tagliate, Credemtel, Sata, Blue Eye Solutions, Gestimlux and as regards Credito Emiliano all departments supporting the Commercial Banking and Finance segments.

As regards Credito Emiliano, for segments related to Commercial Banking, Trading, ALM Treasury and Corporate Centres, management accounting data was used.

To ensure reported margins are consistent with actual profit realised, management accounting figures are periodically reconciled with book values.

Accounting policies determining the calculation of income and expenses by operating segments for Credito Emiliano

The financial results of operating segments are calculated using the following main criteria:

- the net interest income is obtained by applying internal transfer rates appropriate to the financial nature of the product;
- net fee and commission income is charged on a regular basis to the customers responsible for generating it and hence, to the relevant operating segment;
- operating segments cover the cost of the resources they use to perform their relative operations based on prices that reflect the actual expenses incurred;
- the costs directly attributable to the sales outlet are attributed to the same, such as, for example, the personnel and the costs relating to the use and the running of the premises; the other costs, including those relating to the central structure and the services centre, are usually attributed to the “Corporate Centre and other” segment;
- overhead costs relating to individual companies are fully attributed to the “operating segments” to which the respective companies belong.

SEGMENT REPORTING – comments

We invite you to refer to the extensive content contained in the Report on Operations with regard to Commercial Banking, to individual group companies and to the various business segments; to supplement the same, please find some brief comments here below.

Commercial Banking recorded a fall of its interest margin due to the transfer rate model, whose counterparty was the ALM & Treasury segment.

The performance of commissions was positive, as was that of the trading component; the contribution of the other revenue components linked to services was also positive.

Operating costs increased slightly, although their breakdown shows different trends: on the one hand, there was a significant increase in IT expenses, while personnel

expenses increased more moderately, mainly due to the incorporation of Cr Cento; real estate and other expenses decreased due to the phenomena described in the Report on Operations.

Credit adjustments to stage 1, stage 2 and stage 3 loans fell sharply.

The volume trend was particularly positive, recording increases in all components, bringing the Total Business from € 121.4 billion to € 138.1 billion (+13.8%).

Asset Management showed a particularly positive trend in operating revenues driven by the performance commissions compared to the previous year, while costs are largely unchanged; volumes are growing (+11%).

The performance of Bancassurance is positive with operating revenues growing by 19.4% and operating costs that show limited growth.

The contribution of the Trading segment was stable. The increase in the margin on the ALM&Treasury segment is mainly attributable to the increase in interest on TLTRO as well as interest rate hedging policies.

SEGMENT REPORTING - DECEMBER 2020

	Commercial Banking	Asset Management	Bancassurance	ALM Treasury	Corporate Centre & other	Intercompany Intrasegment	Total
LOANS TO CUSTOMERS	33,260					-3,961	29,299
INSURANCE RESERVES			7,807				7,807
BANKING DIRECT DEPOSITS	31,355			2,606		-537	33,424
TOTAL DIRECT DEPOSITS	31,355	-	7,807	2,606	-	-537	41,231
ASSETS UNDER MANAGEMENT	37,362	13,534				-20,953	29,943
ASSETS UNDER CUSTODY	10,480				10,424	-17	20,887
TOTAL INDIRECT DEPOSITS	47,842	13,534	-	-	10,424	-20,970	50,830
TOTAL DEPOSITS	79,197	13,534	7,807	2,606	10,424	-21,507	92,061
TOTAL BUSINESS	112,457	13,534	7,807	2,606	10,424	-25,468	121,360

SEGMENT REPORTING - DECEMBER 2021

	Commercial Banking	Asset Management	Bancassurance	ALM Treasury	Corporate Centre & other	Intercompany Intrasegment	Total
LOANS TO CUSTOMERS	37,951					-4,795	33,156
INSURANCE RESERVES			8,665				8,665
BANKING DIRECT DEPOSITS	35,165			2,534		-589	37,110
TOTAL DIRECT DEPOSITS	35,165	-	8,665	2,534	-	-589	45,775
ASSETS UNDER MANAGEMENT	43,574	15,023				-23,260	35,337
ASSETS UNDER CUSTODY	11,780				12,036	-17	23,799
TOTAL INDIRECT DEPOSITS	55,354	15,023	-	-	12,036	-23,277	59,136
TOTAL DEPOSITS	90,519	15,023	8,665	2,534	12,036	-23,866	104,911
TOTAL BUSINESS	128,470	15,023	8,665	2,534	12,036	-28,661	138,067

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Commercial Banking	Asset Management	Bancassurance	ALM Treasury	Corporate Centre & other	Intercompany Intrasegment	Total
LOANS TO CUSTOMERS	14.1					21.1	13.2
INSURANCE RESERVES			11.0				11.0
BANKING DIRECT DEPOSITS	12.2			-2.8		9.8	11.0
TOTAL DIRECT DEPOSITS	12.2	-	11.0	-2.8	-	9.8	11.0
ASSETS UNDER MANAGEMENT	16.6	11.0				11.0	18.0
ASSETS UNDER CUSTODY	12.4				15.5	0.0	13.9
TOTAL INDIRECT DEPOSITS	15.7	11.0	-	-	15.5	11.0	16.3
TOTAL DEPOSITS	14.3	11.0	11.0	-2.8	15.5	11.0	14.0
TOTAL BUSINESS	14.2	11.0	11.0	-2.8	15.5	12.5	13.8

SEGMENT REPORTING - DECEMBER 2020

	Commercial Banking	Asset Management	Bancassurance	Trading	ALM Treasury	Corporate Centre & other	Total
Net interest	331,603	147	-	-486	150,584	4,215	486,062
Net fee and commission income	519,631	77,293	-49,863	10,504	-1,989	-38,231	517,345
Trading and other net revenues	8,358	1,558	104,510	10,758	34,369	136,194	295,747
Operating revenues	859,592	78,998	54,647	20,776	182,963	102,178	1,299,154
Net margin relating to service agreements with other segments	-5,540	6,829	-1,289	-	-	-	-
Net margin relating to service agreements with the service centre	-205,756	0	-	-4,580	-8,373	218,710	-
Revenues and internal costs	-211,296	6,829	-1,289	-4,580	-8,373	218,710	-
Write-down of financial assets	-61,990	-	-	-	111	-42,092	-103,971
Other provisions for risks	-2,382	-	-	-	-	-11,094	-13,476
Personnel expenses	-362,439	-16,201	-5,326	-1,634	-2,570	-124,947	-513,117
IT costs	-10,580	-4,120	-2,849	-	-	-93,672	-111,221
Real estate costs	-43,144	-730	-153	-51	-58	-4,804	-48,940
Other expenses	-105,022	-8,754	-6,190	-2,167	-3,607	-132,250	-257,990
Operating expenses	-585,558	-29,805	-14,518	-3,851	-6,124	-408,859	-1,048,715
Other costs and non-recurring revenues	-14,629	-	-	127	-1,169	17,758	2,087
Profit before tax	48,109	56,022	38,840	12,472	167,296	-70,213	252,526

The disaggregation of fee and commission income by operating segment is shown below

	Commercial Banking	Asset Management	Bancassurance	Trading	ALM Treasury	Corporate Centre & other	Total
Securities placement and order collection	354,929	12,179		11,067	11,215	-162,913	226,477
Corporate Finance	2,189						2,189
Investment advisory activities		8,433				-8,303	130
Management of collective portfolios		263,600				-337	263,263
Custody and administration	3,700					-6	3,694
Payment services	101,319					-208	101,111
Distribution of third party products	136,841		14,959			-97,844	53,956
Guarantees given	4,484					-13	4,471
Financing operations	13,721						13,721
Currency trading	3,190					-3	3,187
Other commissions	150,699	1,317				-267	151,749
TOTAL FEE AND COMMISSION INCOME	771,072	285,529	14,959	11,067	11,215	-269,894	823,948

SEGMENT REPORTING - DECEMBER 2021

	Commercial Banking	Asset Management	Bancassurance	Trading	ALM Treasury	Corporate Centre & other	Total
Net interest	293,496	69	-	244	194,343	1,477	489,630
Net fee and commission income	586,561	122,805	-52,580	9,948	8,759	-40,551	634,941
Trading and other net revenues	10,360	1,736	117,844	9,341	35,966	241,529	416,776
Operating revenues	890,417	124,610	65,264	19,533	239,068	202,455	1,541,347
Net margin relating to service agreements with other segments	-3,261	3,934	-673	-	-	-	-
Net margin relating to service agreements with the service centre	-221,732	-	-	-4,061	-10,055	235,848	-
Revenues and internal costs	-224,993	3,934	-673	-4,061	-10,055	235,848	-
Write-down of financial assets	-55,008	-308	28	-	-417	26,656	-29,049
Other provisions for risks	-3,630	-	-	-	-	-9,391	-13,021
Personnel expenses	-384,271	-15,108	-5,778	-1	-3	-145,521	-550,682
IT costs	-13,453	-4,267	-3,165	-	-	-115,570	-136,455
Real estate costs	-40,656	-749	-177	-	-	-8,686	-50,268
Other expenses	-91,634	-9,429	-6,496	-3,110	-7,024	-188,012	-305,705
Operating expenses	-588,651	-29,861	-15,588	-3,112	-7,444	-440,524	-1,085,180
Other costs and non-recurring revenues	-16,427	-	-	-	-1,508	27,949	10,014
Profit before tax	60,346	98,683	49,003	12,360	220,061	25,728	466,181

SEGMENT REPORTING – changes

Type of business	Commercial Banking	Asset Management	Bancassurance	Trading	ALM Treasury	Corporate Centre & other	Total
Net interest	-11.5	-53.1		-150.2	29.1	-65.0	0.7
Net fee and commission income	12.9	58.9	5.4	-5.3	-540.3	6.1	22.7
Trading and other net revenues	23.9	11.4	12.8	-13.2	4.6	77.3	40.9
Operating revenues	3.6	57.7	19.4	-6.0	30.7	98.1	18.6
Net margin relating to service agreements with other segments							
Net margin relating to service agreements with the service centre							
Revenues and internal costs	6.5	-42.4	-47.8	-11.3	20.1	7.8	-
Write-down of financial assets	-11.3				-475.9	-163.3	-72.1
Other provisions for risks	52.4					-15.4	-3.4
Personnel expenses	6.0	-6.7	8.5	-99.9	-99.9	16.5	7.3
IT costs	27.2	3.6	11.1			23.4	22.7
Real estate costs	-5.8	2.6	15.7	-99.9	-99.9	80.8	2.7
Other expenses	-12.7	7.7	4.9	43.6	94.7	42.2	18.5
Operating expenses	0.5	0.2	7.4	-19.2	21.6	7.7	3.5
Other costs and non-recurring revenues							
Profit before tax	25.4	76.2	26.2	-0.9	31.5	136.6%	84.6

KEY:**Interest margin**

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

Non-interest margin

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

Operating profit

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

Profit before tax

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

PART M – LEASES

SECTION 1 - LESSEE

Qualitative information

On 13 January 2016, the IASB published the new standard “IFRS 16 Leases”, which replaces standard IAS 17 - Leases, as well as interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases—Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard was approved by the European Commission by means of Regulation no. 2017/1986 and applies as from 1 January 2019.

The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish lease contracts from service contracts, identifying the following as discriminants: the identification of the asset, the right to replace the same, the right to substantially obtain all of the economic benefits resulting from the use of the asset and the right to direct the use of the asset underlying the contract.

The main change introduced by the standard is represented by a change in how operating lease transactions are recognised in the financial statements of the lessee/user, through the introduction of a single accounting model for the recognition of lease contracts by the lessee, regardless of whether they are classified as operating or finance leases.

According to the new accounting method, the lessee recognises a right of use for the leased asset in balance sheet assets and a lease liability in balance sheet liabilities, corresponding to the present value of the instalments envisaged for the contract, and not yet paid. The amortisation of the right of use and the interest expense deriving from the discounting of the lease liability are recorded in the income statement.

The disclosure required has also been extended for both the lessee and the lessor, with new qualitative and quantitative information required.

Methodological approach and transition decisions

With regard to the types of transition permitted by IFRS 16, the Group decided to make the transition adopting the Modified Retrospective Approach, by recognising the cumulative impact of the initial application of the standard to operating leases in place, calculating the impact on opening balances at 1 January 2019, without restating the comparative data. As at the date of initial application, the balance of the right of use assets is therefore equal to that of the lease liabilities adjusted to take into consideration any prepaid or accrued payments. Lease liabilities were determined by discounting the remaining lease payments at the date of initial application using the Incremental Borrowing Rate.

Among the operational decisions taken by the Group during the transition, it is worth highlighting:

- the choice not to redefine the scope of first-time application, namely to apply the new standard to all lease contracts already identified on the basis of the definition contained in IAS 17;
- the exclusion from the scope of application of short-term leases, i.e. with a residual life at the date of initial application of less than 12 months;
- the exclusion from the scope of application of “low value” leases, i.e. with an estimated asset value less than € 5,000;
- the use of the IAS 37 assessment at the year-end date as an alternative to the impairment test.

With regard to the decisions taken by the Group in terms of the application of the standard, it should also be noted that:

- with regard to operating leases, the scope of application refers to property and vehicle rental lease contracts;

- the Group has set the incremental borrowing rate on the basis of the interest rate curve for issues of senior unsecured bonds of the Group. The rate established, which encompasses the Group credit risk component, also considers the different contractual terms;
- with regard to the term of property leases, in general, the Group has considered only the first period of contractual renewal as reasonably certain.

Other information

Commercial lease contracts are regulated by law, therefore the lessor is permitted to cancel the lease at each expiry (usually every six years) with notice of at least twelve months.

The lessee has the same right. This means that, at any month of any year, cancellation of lease contracts could potentially be sent (or received from the lessor), and would therefore expire after twelve months. In recent years, however, given the situation of the property market, very few annual cancellations by lessors are being made.

Withdrawal is regulated between the parties in almost all of our contracts, and may be exercised only by the lessor at any time with six months' notice. In recent years, the bank has often exercised this right to manage the planned closures of branches better.

Furthermore, in parts B and C of these Explanatory notes to the consolidated financial statements, the equity and economic information required by standard IFRS 16 is reported.

Quantitative information

Property, plant and equipment used in the business	Total 31/12/2021			Total 31/12/2020		
	Buildings	Other	Total	Buildings	Other	Total
Right of use opening balance	132,936	3,508	136,444	147,618	3,781	151,399
- Depreciation	-21,369	-1,792	-23,161	-20,286	-1,683	-21,969
+/- Other changes	15,465	1,352	16,817	-5,604	-1,410	-7,014
Book value final balance	127,032	3,068	130,100	132,936	3,508	136,444

Lease liabilities	Total 31/12/2021	Total 31/12/2020
Lease liability opening balance	139,650	152,826
- payments for leases	-25,522	-25,459
+ Interest expense accrued during the year	3,324	3,844
+/- Other changes	16,814	8,439
Lease liability closing balance	134,266	139,650

Other information	Total 31/12/2021	Total 31/12/2020
Income relating to finance subleases	-	-
Costs relating to variable payments	-	-
Costs for low-value leases	50	37
Costs for short-term leases	168	227
Other lease expenses	2,068	2,353

Other lease expenses related to non-deductible VAT and other services.

SECTION 2 - LESSOR

Qualitative information

In 2021, the long-term leasing and rental market finalised investments worth around € 28.8 billion; on a year-on-year basis, the size of the sector grew by a quarter compared to 2020, to volumes 3.1% higher than pre-pandemic figures. The recovery of the sector, which is also evident in the number of new transactions concluded, up 13.6% compared to the previous year, is driven by a renewed climate of confidence on the part of businesses, which is reflected in the positive dynamics of the main macroeconomic variables.

The market continues to be characterised by the prevalence of investments in the "securities" segment (89.7% of the total value of new contracts in the period). In particular, in this domain, investments in the vehicles segment contributed 54% to the total new contracts and showed an increase in volumes financed of 18.6% (+14.2% in the number of new contracts signed). The performance of the car market was particularly positive, especially rental cars (+26% in financed volumes) and leased industrial vehicles (+34.7% in financed volumes). The capital goods segment also continued to record growth both in terms of volumes (+47.9%) and in the number of new contracts (+ 12.5%), driven in particular by the trend of financial leases (+59.9% in financed volumes), which accounts for 90% of the segment. The performance benefits from the subsidised measures set forth in the new Sabatini Law.

The real estate sector recorded an increase of 9% in the value of new contracts (+9.7% in the number of contracts signed), with a strong recovery for properties built (+ 19.8%) which account for -4.3% of the sector.

Lastly, the "air, sea and rail" segment, which in 2020 had seen a boom in new contracts in the yachting segment, recorded a 53.9% decrease in the value of financed volumes.

The Company recorded a commercial performance that was in line with the sector, showing, compared to the same period of the previous year, an increase of +26.8% in the overall value of the financed investments and of 40.6% in the number of new contracts stipulated. The securities sector accounts for 73% of new contracts and continues to be composed predominantly of capital goods, which represent 79% of the volumes of the sector, marking an increase of 99.1% compared to December 2020. Vehicles recorded a 31.2% increase in the value financed, characterised by investments in industrial and commercial vehicles (68% the impact on the automotive sector). Similarly to the market, nautical products recorded a decrease compared to the same period of the previous year (-78.4%).

The real estate sector reported overall volumes up 6.6% compared to the same period last year. The "to be built" segment contributed 50% of financed volumes to the segment and was characterised by financing in the higher-value bracket. The segment of "built" properties recorded an increase of -0.4% in volumes, with transactions concentrated in the 'up to € 2.5 million' amount bracket.

Overall, the market share relating solely to financial leasing was 5.11%.

The overall economic result recorded an increase compared to the same period of the previous year.

The main trends in the core business show an increase in net interest and other banking income, positively impacted by net interest income thanks to the increase in average capital generated (+7.9% compared to 31 December 2020), the trend in market interest rates and by the positive trend in commission income from the management of lease agreements.

Adjustments to loans show significant write-backs mainly attributable to performing loans, the valuation of which incorporates the effects of the updates made to the IFRS 9 models used for the calculation of the impairment impacted by the improvement of the macroeconomic scenarios.

Administrative costs increased overall due in particular to the component related to the management and disbursement of leasing contracts; the cost income (including

amortisation) stood at 28.8% and confirmed a good level of operating efficiency.

In the Group, finance lease transactions are made by Credemleasing.

Quantitative information

1. Information on the balance sheet and income statement

2. Finance leases

Information relating to receivables for finance leases is shown below (broken down by the residual life of future receivables including the share of redemption, relating to active contracts only) and the breakdown of the same information by performing and non-performing exposure:

2.1 Classification by time period of payments to be received and reconciliation with loans for leases recognised under assets

Time Period	Total 31/12/2021 Payments to be received for leases	Total 31/12/2020 Payments to be received for leases
Up to 1 year	694,108	579,865
1 to 2 years	553,240	494,575
2 to 3 years	431,037	403,095
3 to 4 years	349,479	314,310
4 to 5 years	246,415	224,869
Over 5 years	772,907	827,701
Total payments to be received for leases	3,047,186	2,844,415
Reconciliation with loans	(229,717)	(242,137)
Financial profits not accrued (-)	(229,717)	(242,137)
Residual amount not guaranteed (-)	-	-
Loans for leases	2,817,469	2,602,278

	Total 2021			Total 2020		
	Payments to be received for leases		Total payments to be received for leases	Payments to be received for leases		Total payments to be received for leases
Time Period	Non-performing exposures	Performing exposures		Non-performing exposures	Performing exposures	
Up to 1 year	32,360	661,748	694,108	45,267	534,597	579,865
1 to 2 years	5,535	547,704	553,239	4,698	489,877	494,575
2 to 3 years	4,322	426,715	431,037	3,873	399,222	403,095
3 to 4 years	5,275	344,204	349,479	4,327	309,983	314,310
4 to 5 years	3,518	242,897	246,415	2,734	222,135	224,869
Over 5 years	9,336	763,571	772,907	11,408	816,293	827,701
Total payments to be received for leases	60,346	2,986,839	3,047,185	72,307	2,772,108	2,844,415
RECONCILIATION						
Financial profits not accrued (-)	(4,287)	(225,430)	(229,717)	(4,478)	(237,659)	(242,137)
Residual amount not guaranteed	-	-	-	-	-	-
Loans for leases	56,059	2,761,409	2,817,468	67,829	2,534,449	2,602,278

2.2 Other information

Finance lease contracts grant the lessee the right, at the end of the contract duration indicated, and provided that said lessee has completely fulfilled all obligations undertaken, to choose between:

- acquiring ownership of the asset by paying a set amount;
- returning the leased asset.

The contracts' duration, in relation to the useful life of the assets, and the pre-set repurchase value of the assets are such as to lead lessees, in most cases, to purchase the assets upon lease maturity.

The assets leased vary depending on the requesting party and/or type of activity carried out. In general, leased goods fall into 4 categories: vehicles (automobiles, commercial vehicles, industrial vehicles), air, sea and railway (aircraft, motorboats and sports craft, railway cars), capital goods and real estate (buildings for commercial, industrial and residential use, both built and to be built).

3. Operating leases

A classification of the payments to be received by time periods is provided.

3.1 Classification of the payments to be received by time periods

Time Period	Total 31/12/2021 Payments to be received for leases	Total 31/12/2020 Payments to be received for leases
Up to 1 year	1,424	1,506
1 to 2 years	1,420	1,506
2 to 3 years	1,495	1,484
3 to 4 years	1,525	1,475
4 to 5 years	1,581	1,471
Over 5 years	6,499	2,265
Total	13,944	9,707

3.2 Other information

There are lease contracts in place, in the capacity of lessor, for owned properties, while for several third-party properties rented, sublease contracts have been entered into.



ATTACHMENTS TO THE FINANCIAL STATEMENTS

Country-by-country reporting

Reclassified Balance Sheet

Reclassified Income Statement

List of equity investments

Fees for auditing and for services other than auditing

Annual statement of the Euromobiliare Alternative SGR funds

COUNTRY-BY-COUNTRY REPORTING

In order to increase the confidence of European Union citizens in the financial sector, the so-called “CRD IV” directive introduces obligation to publish information regarding the bank’s activities, and specifically, the profits made, the taxes paid and any state contributions received, broken down by country in which the bank operates. Circular no. 285/2013 of Banca d’Italia, in Title III, Chapter 2, implements the rules of country by country reporting in the Italian legislative system. In line with this, the Group publishes the information requested as an attachment to the annual consolidated financial statements.

NAME OF COMPANIES ESTABLISHED AND NATURE OF THEIR BUSINESS

Name of company	Country	Type of relationship	% voting rights	Business
Credito Emiliano spa	Italy	0		commercial banking
Banca Euromobiliare spa	Italy	1	100.00%	commercial banking
Credemleasing spa	Italy	1	100.00%	commercial banking
Credemfactor spa	Italy	1	100.00%	commercial banking
Avvera spa	Italy	1	100.00%	commercial banking
Euromobiliare Advisory Sim spa	Italy	1	100.00%	wealth management
Euromobiliare Asset Management SGR spa	Italy	1	100.00%	wealth management
Credem Private Equity SGR spa	Italy	1	100.00%	wealth management
Credemvita spa	Italy	1	100.00%	wealth management
Credemassicurazioni S.p.A.	Italy	2	50.00%	wealth management
Credemtel spa	Italy	1	100.00%	remote banking
Magazzini Generali delle Tagliate spa	Italy	1	100.00%	cheese warehousing
Gestimlux sarl	Luxembourg	1	100.00%	real estate management
Euromobiliare Fiduciaria spa	Italy	1	100.00%	fiduciary services
Reeval spa	Italy	1	100.00%	real estate management
Sata srl	Italy	1	75.00%	software house
Blue Eye srl	Italy	1	75.00%	software house
Credem CB srl	Italy	1	70.00%	special purpose vehicle

Key: Type of relationship

0 = Parent Company

1 = subsidiary

2 = jointly controlled

Parent Company

Credito Emiliano S.p.A. is a company established in Italy in the form of a joint-stock company, called CREDITO EMILIANO S.p.A. The company name can be abbreviated to CREDEMBANCA or CREDEM.

Credito Emiliano S.p.A. is the Parent Company of the “Credito Emiliano - CREDEM” Group.

Credem is a member of the Interbank Deposit Protection Fund.

Credito Emiliano S.p.A. is enrolled on the Company Register of Reggio Emilia under no. 01806740153 and on the Economic and Administrative Register REA under no. 219769, as well as on the Register of Banks under no. 5350 and on the Register of Banking Groups held by Banca d’Italia under no. 3032.

Credito Emiliano S.p.A. (Credem) is established in Italy in the form of a joint-stock company in accordance with Italian law. Article 4 of Credem’s Articles of Association establishes a duration of the company up to 31 December 2050.

Credem's business activities envisage the collection of deposits, the disbursement of loans of various types and the offer of financial services standard to banking activity. Credem and the companies controlled by the same form a medium-large sized group, now present throughout Italy, although maintaining its traditional roots in Emilia Romagna (Northern Italy). As it initially operated as a retail customer bank, the Group today offers a complete range of financial services including those specific to the activities of a commercial bank, savings management and brokerage. At present, the Group comprises 15 companies, in addition to the Parent Company, operating in sectors related to the offer of financial services (the common law company group also includes two insurance companies which operate respectively in the life and non-life segments: Credemvita S.p.A., fully consolidated and 100% held by Credem; Credemassicurazioni S.p.A., 50% held by Credem). The Group also includes Credem CB S.r.l., special purpose vehicle - SPV, 70% of which is held by Credem.

Background

Credem was originally founded in 1910 as Banca Agricola Commerciale di Reggio Emilia, a private local bank situated in the north of Emilia Romagna. The present day name of Credito Emiliano S.p.A. was established in 1983, when the control of Banca Belinzaghi - Milan was acquired, the Issuer's first step towards expansion out of its region.

On 1st January 1993, following the reorganisation of the regulation of the credit sector (Italian Legislative Decree no. 385/93), the "Credito Emiliano - CREDEM" banking group was formally established, on the basis of the previous organisation, the holding company of which was Credito Emiliano Holding S.p.A. (hereinafter also Credito Emiliano Holding or Credemholding), placed at the top of the shareholding structure and acting as Parent Company. From June 2009, the Parent Company of the banking group became Credem, and Credemholding left the scope of the banking group.

Group organisational structure

All companies established within the Group structure (hierarchically) report to the Parent Company Credem, which is also responsible for the governance of the same, as banking parent company.

The various Group companies break down into "captive" companies (whose activities relate directly to the distribution networks for retail and corporate customers) and "non captive" companies (which, by contrast, operate in the market regardless of the Group's distribution structure). The first category includes: Credemleasing, Credemfactor, Euromobiliare Asset Management SGR and Avvera spa. The second category includes: MGT and Credemtel S.p.A.

At 31 December 2021, the Group's distribution structure included 625 branches, business centres and financial outlets, operating in 20 regions and 93 Italian provinces, with 6,608 employees, 834 external financial advisors with mandates, 239 Avvera agents and 444 agents for salary-backed loans.

Main business activities

The Group's core business sectors are commercial banking and wealth management.

Commercial banking regards the distribution of financial products and services to the Group's *retail* and *corporate* customers. Credito Emiliano S.p.A. and several other Group affiliates, such as Credemleasing S.p.A., Credemfactor S.p.A., Avvera spa and Banca Euromobiliare S.p.A. manage the *commercial banking* business. At 31 December 2021, the Issuer's contribution to the Group's net profits was € 194.3 million (namely 55.2%), against € 97.3 million in the same period of the previous year.

The Group's *wealth management* activities include the management of mutual investment funds, SICAV, portfolio management as well as *private equity* and *hedge funds*. At 31 December 2021, the Group's *total business* was worth around € 123.5 billion, resulting from the sum of volumes relating to direct bank deposits, insurance reserves and indirect deposits (assets under management and custody), and loans

to customers. The Group's *asset management* activities are split between Euromobiliare Asset Management SGR S.p.A. (a company which carries out administrative and management support services for Euromobiliare International Fund SICAV), Credem Private Equity SGR S.p.A. and Credemvita S.p.A.

Main markets

The Group's core business is focused on retail services, *wealth management* and on small and medium enterprises. In terms of loans to customers, the Group's activities are addressed to the domestic market only, with special *focus* on the north and centre of the country, which, at 31 December 2021, represented almost 79.3% of total net cash credit exposures to customers. There are no significant concentrations with regard to the disbursement of loans to specific trade sectors. With regard to asset management, at 31 December 2021, asset management activities were addressed to domestic customers only, while a part of direct bank deposits is performed by means of issues in Italian and/or foreign markets, although addressed to institutional investors. The Group operates in all *retail* and *commercial banking* sectors and, through its subsidiaries, in the management of mutual investment funds, brokerage, *leasing*, *factoring* and insurance.

TURNOVER

"Turnover" refers to the relative "Net interest and other banking income" recorded as item 120 on the consolidated income statement, which amounts, for 2021, to € 1,330,076 thousand (€ 1,182,837 thousand in 2020).

NUMBER OF FULL TIME EQUIVALENT EMPLOYEES

"Number of full time equivalent employees" refers to the ratio between the total number of hours worked by all employees, excluding overtime, and the total annual amount envisaged contractually for one full-time employee, and amounts, for 2021, to 6,196 (5,816 in 2020).

PROFIT OR LOSS BEFORE TAX

"Profit or loss before tax" refers to the sum of items 290 and 320 (the latter before tax) of the consolidated income statement, and amounts to € 466,181 thousand (€ 252,526 thousand in 2020).

TAXES ON PROFIT OR LOSS

"Taxes on profit or loss" refer to item 300 of the consolidated income statement, and amounts to (€ 113,588) thousand, (€ 50,797) thousand in 2020.

STATE CONTRIBUTIONS RECEIVED

The Group has received contributions from Public Administrations in 2021 amounting to € 856 thousand for funded training (€ 906 thousand in 2020). In this regard, note that, this category of contributions excludes operations set in place with central banks for the purpose of financial stability and operations performed with the objective of facilitating the transmission mechanism of monetary policy.

Reclassified balance sheet (€/million)

	31/12/2021	31/12/2020	changes 12/21-12/20	
			absolute	%
Cash and cash equivalents	230.9	236.8	-5.9	-2.5
Loans to customers	40,188.6	34,353.6	5,835.0	17.0
Loans to banks	8,948.9	8,218.4	730.5	8.9
Other financial assets	15,639.5	11,777.8	3,861.7	32.8
Equity investments	48.6	45.7	2.9	6.3
Property, plant and equipment and intangible assets	925.3	886.8	38.5	4.3
Other assets	1,597.4	1,131.1	466.3	41.2
Total assets	67,579.2	56,650.2	10,929.0	19.3
Deposits from customers	37,717.0	33,081.7	4,635.3	14.0
Debt securities issued (including subordinated liabilities)	6,943.0	6,307.8	635.2	10.1
Technical reserves	4,257.8	4,108.8	149.0	3.6
<i>subtotal</i>	<i>48,917.8</i>	<i>43,498.3</i>	<i>5,419.5</i>	<i>12.5</i>
Deposits from banks	12,585.6	8,009.5	4,576.1	57.1
Other financial liabilities	441.2	383.5	57.7	15.0
Specific risk provisions	244.3	225.9	18.4	8.1
Other liabilities	1,930.2	1,399.0	531.2	-38.0
Minorities (+/-)	0.6	0.4	0.2	50.0
Total liabilities	64,119.7	53,516.6	10,603.1	19.8
Share capital	341.3	332.4	8.9	2.7
Treasury shares	-4.0	-7.5	3.5	-46.7
Reserves	2,769.8	2,607.2	162.6	6.2
Profit for the period	352.4	201.6	150.8	74.8
Shareholders' equity	3,459.5	3,133.6	325.9	10.4
Total liabilities and shareholders' equity	67,579.2	56,650.2	10,929.0	19.3

This reclassification was made by considering the figures that can be directly taken from the financial statements

Reclassified quarterly income statement (€/million)

	Q1	Q2	Q3	Q4	12/21	% change	12/20
net interest income	117.4	116.7	127.6	134.6	496.3	0.7	493.0
non-interest margin (*) (****)	218.3	187.4	182.2	252.5	840.4	18.5	709.1
net interest and other banking income	335.7	304.1	309.8	387.1	1,336.7	11.2	1,202.1
personnel expenses	-137.8	-131.0	-131.8	-150.1	-550.7	7.3	-513.1
administrative costs (*)	-56.8	-59.4	-53.7	-62.0	-231.9	20.5	-192.4
operating expenses	-194.6	-190.4	-185.5	-212.1	-782.6	10.9	-705.5
gross operating profit	141.1	113.7	124.3	175.0	554.1	11.6	496.6
Amortisation/depreciation	-21.9	-22.3	-24.2	-24.8	-93.2	7.9	-86.4
operating profit	119.2	91.4	100.1	150.2	460.9	12.4	410.2
provisions for risks and charges	2.2	-1.0	-4.7	-4.0	-7.5	-13.8	-8.7
extraordinary income/charges (**) (***)	-22.6	-2.1	74.0	-5.0	44.3	n.s.	-42.7
net value adjustments to loans and financial operations (**) (****)	-6.4	18.9	-10.3	-33.7	-31.5	-70.4	-106.3
PROFIT BEFORE TAX	92.4	107.2	159.1	107.5	466.2	84.6	252.5
income tax	-30.4	-32.8	-19.4	-31.0	-113.6	123.6	-50.8
Profit (loss) pertaining to non-controlling interests	-	-0.1	-0.2	0.1	-0.2	100.0	-0.1
NET PROFIT	62.0	74.3	139.5	76.6	352.4	74.8	201.6
EARNINGS PER SHARE					1.05	72.1	0.61
DILUTED EARNINGS PER SHARE					1.05	72.1	0.61

This reclassification was performed considering management accounting data that could not be directly deduced from the financial statements' schedules and the Explanatory Notes to the financial statements.

(*) costs and non-interest margin are shown net of indirect taxes and taxes recovered from customers (€ 116.1 million at December 2021; € 101.0 million at December 2020); contributions to national funds of € 51.3 million were written off against expenses (€ 38.4 million at December 2020);

(**) the profit resulting from the sale of bad loans was reclassified under extraordinary charges (€ 0.1 million in 2021; -2.60 million in 2020);

(***) the component relating to the contribution to the Resolution Fund (€ 2.7 million in March 2021, € 2.1 million in March 2020) allocated to Provisions for Risks and Charges was reclassified to extraordinary charges;

(****) value adjustments to (recoveries on) loans included in financial assets measured at amortised cost relating to securities (€ -0.8 million; € -1.1 million in December 2020) and those included in financial assets measured at fair value through other comprehensive income (€ +0.5 million; € +1.1 million in December 2020) were recognised in the non-interest margin.

(*****) the component of negative goodwill, or badwill, amounting to € 95,6 million is reclassified under extraordinary income

KEY:**Interest margin**

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

Non-interest margin

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

Operating profit

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

Profit before tax

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

List of equity investments

	Registered Office	% of share capital	Equity ratio	Book value
Credemassicurazioni spa	Reggio Emilia	50.000	50.00	46,782
Andxor srl	Cinisello Balsamo	40.000	40.00	1,306
Gruppo Santamaria spa	Catania	10.000	10.00	507

Fees for auditing and for services other than auditing

Information pursuant to Art. 149-duodecies of the CONSOB Issuers' Regulation

The table below, drafted in accordance with Art. 149-duodecies of the CONSOB Issuers' Regulation (resolution no. 11971) outlines the fees relating to 2021 for auditing provided by the Independent Auditor and by companies belonging to the same network. These fees represent the costs incurred and recognised in the financial statements, net of reimbursement for expenses and deductible VAT (figures in €/thousand).

Type of service	Company providing the Service	Fees
Auditing services	Ernst & Young Spa	1,033
Auditing services	Ernst & Young sa (Luxembourg)	135
Release of attestations	Ernst & Young Spa	447
Other services	Ernst & Young Spa	9
Other services	Ernst & Young Advisory Spa	44
Total		1,668

Note that the fees for the auditing service do not include € 42 thousand for auditing of the Credem Venture Capital II Fund, Elite Fund and EltifPlus Fund managed by Credem Private Equity SGR, € 302 thousand for the auditing of funds managed by Euromobiliare Asset Management SGR, € 46.9 thousand for the auditing of the Open-end Pension Fund, separate management products, and of Internal Insurance Funds of Credemvita and € 113 thousand for the auditing of SICAVs managed by Euromobiliare Asset Management SGR. Said fees are not indicated in the consolidated income statement, as they are borne by the individual funds.

EUROMOBILIARE ALTERNATIVE INVESTMENTS MARKET NEUTRAL (IN LIQUIDAZIONE)

SITUAZIONE PATRIMONIALE

ATTIVITÀ	Situazione al 31/12/2021		Situazione al 31/12/2020	
	Valore complessivo	In perc. del totale attività	Valore complessivo	In perc. del totale attività
A. STRUMENTI FINANZIARI QUOTATI				
A.1 Titoli di debito				
A.1.1 Titoli di Stato				
A.1.2 Altri				
A.2 Titoli di capitale				
A.3 Parti di OICR				
B. STRUMENTI FINANZIARI NON QUOTATI				
B.1 Titoli di debito				
B.2 Titoli di capitale				
B.3 Parti di OICR				
C. STRUMENTI FINANZIARI DERIVATI				
C.1 Margini presso organismi di compensazione e garanzia				
C.2 Opzioni, premi o altri strumenti finanziari derivati quotati				
C.3 Opzioni, premi o altri strumenti finanziari derivati non quotati				
D. DEPOSITI BANCARI				
D.1 A vista				
D.2 Altri				
E. PRONTI CONTRO TERMINE ATTIVI E OPERAZIONI ASSIMILATE				
F. POSIZIONE NETTA DI LIQUIDITÀ	1.142.941	100,00%	1.218.216	100,00%
F.1 Liquidità disponibile	1.164.859	101,92%	1.222.510	100,35%
F.2 Liquidità da ricevere per operazioni da regolare			9	
F.3 Liquidità impegnata per operazioni da regolare	-21.918	-1,92%	-4.303	-0,35%
G. ALTRE ATTIVITÀ				
G.1 Ratei attivi				
G.2 Risparmio di imposta				
G.3 Altre				
TOTALE ATTIVITÀ	1.142.941	100,00%	1.218.216	100,00%

PASSIVITÀ E NETTO	Situazione al 31/12/2021		Situazione al 31/12/2020	
	Valore complessivo		Valore complessivo	
H. FINANZIAMENTI RICEVUTI				
I. PRONTI CONTRO TERMINE PASSIVI E OPERAZIONI ASSIMILATE				
L. STRUMENTI FINANZIARI DERIVATI				
L.1 Opzioni, premi o altri strumenti finanziari derivati quotati				
L.2 Opzioni, premi o altri strumenti finanziari derivati non quotati				
M. DEBITI VERSO I PARTECIPANTI				
M.1 Rimborso richiesti e non regolati				
M.2 Proventi da distribuire				
M.3 Altri				
N. ALTRE PASSIVITÀ				
N.1 Provvigioni ed oneri maturati e non liquidati				-90.706
N.2 Debiti di imposta				-12.784
N.3 Altre				77.922
TOTALE PASSIVITÀ				-90.706
VALORE COMPLESSIVO NETTO DEL FONDO	1.142.941		1.127.510	
Numero delle quote in circolazione	48,168		48,168	
Valore unitario delle quote	23.728,228		23.407,857	

MOVIMENTI DELLE QUOTE NELL'ESERCIZIO	
Quote emesse	-
Quote rimborsate	-

EUROMOBILIARE ALTERNATIVE INVESTMENTS MARKET NEUTRAL (IN LIQUIDAZIONE)

SEZIONE REDDITUALE

	Relazione al 31/12/2021	Relazione al 31/12/2020
A. STRUMENTI FINANZIARI QUOTATI		
A.1 PROVENTI DA INVESTIMENTI		
A.1.1 Interessi e altri proventi su titoli di debito		
A.1.2 Dividendi e altri proventi su titoli di capitale		
A.1.3 Proventi su parti di O.I.C.R.		
A.2 UTILE/PERDITA DA REALIZZI		
A.2.1 Titoli di debito		
A.2.2 Titoli di capitale		
A.2.3 Parti di O.I.C.R.		
A.3 PLUSVALENZE/MINUSVALENZE		
A.3.1 Titoli di debito		
A.3.2 Titoli di capitale		
A.3.3 Parti di O.I.C.R.		
A.4 RISULTATO DELLE OPERAZ. DI COPERTURA DI STRUMENTI FINANZIARI QUOTATI		
Risultato gestione strumenti finanziari quotati		
B. STRUMENTI FINANZIARI NON QUOTATI		427
B.1 PROVENTI DA INVESTIMENTI		
B.1.1 Interessi e altri proventi su titoli di debito		
B.1.2 Dividendi e altri proventi su titoli di capitale		
B.1.3 Proventi su parti di O.I.C.R.		
B.2 UTILE/PERDITA DA REALIZZI		427
B.2.1 Titoli di debito		
B.2.2 Titoli di capitale		
B.2.3 Parti di O.I.C.R.		
B.3 PLUSVALENZE/MINUSVALENZE		427
B.3.1 Titoli di debito		
B.3.2 Titoli di capitale		
B.3.3 Parti di O.I.C.R.		
B.4 RISULTATO DELLE OPERAZ. DI COPERTURA DI STRUMENTI FINANZIARI NON QUOTATI		
Risultato gestione strumenti finanziari non quotati		427
C. RISULTATO DELLE OPERAZ. IN STRUMENTI FINANZIARI DERIVATI NON DI COPERTURA		
C.1 RISULTATI REALIZZATI		
C.1.1 Su strumenti quotati		
C.1.2 Su strumenti non quotati		
C.2 RISULTATI NON REALIZZATI		
C.2.1 Su strumenti quotati		
C.2.2 Su strumenti non quotati		
D. DEPOSITI BANCARI		
D.1 INTERESSI ATTIVI E PROVENTI ASSIMILATI		
E. RISULTATO DELLA GESTIONE CAMBI	20.481	-20.064
E.1 OPERAZIONI DI COPERTURA		
E.1.1 Risultati realizzati		
E.1.2 Risultati non realizzati		
E.2 OPERAZIONI NON DI COPERTURA		
E.2.1 Risultati realizzati		
E.2.2 Risultati non realizzati		
E.3 LIQUIDITÀ	20.481	-20.064
E.3.1 Risultati realizzati	1.285	2.188
E.3.2 Risultati non realizzati	19.196	-22.252
F. ALTRE OPERAZIONI DI GESTIONE		
F.1 PROVENTI DELLE OPERAZ. DI PRONTI CONTRO TERMINE E ASSIMILATE		
F.2 PROVENTI DELLE OPERAZIONI DI PRESTITO TITOLI		
Risultato lordo della gestione di portafoglio	20.481	-19.637
G. ONERI FINANZIARI	-4.924	-5.325
G.1 INTERESSI PASSIVI SU FINANZIAMENTI RICEVUTI	-4.924	-5.325
G.2 ALTRI ONERI FINANZIARI		
Risultato netto della gestione di portafoglio	15.557	-24.962
H. ONERI DI GESTIONE	-57.309	-100.175
H.1 PROVVIGIONE DI GESTIONE SGR	-37.022	-17.786
H.2 COSTO DEL CALCOLO DEL VALORE DELLA QUOTA		
H.3 COMMISSIONI DEPOSITARIO	22.615	-22.638
H.4 SPESE PUBBLICAZIONE PROSPETTI E INFORMATIVA AL PUBBLICO	800	800
H.5 ALTRI ONERI DI GESTIONE	-36.172	-58.951
H.6 COMMISSIONI DI COLLOCAMENTO		
I. ALTRI RICAVI ED ONERI	57.184	6.666
I.1 INTERESSI ATTIVI SU DISPONIBILITÀ LIQUIDE		
I.2 ALTRI RICAVI	66.576	7.814
I.3 ALTRI ONERI	-9.392	-1.148
Risultato della gestione prima delle imposte	15.432	-118.471
L. IMPOSTE		-50
L.1 IMPOSTA SOSTITUTIVA A CARICO DELL'ESERCIZIO		
L.2 IMPOSTA SOSTITUTIVA A CREDITO DELL'ESERCIZIO		
L.3 ALTRE IMPOSTE		-50
Utile/Perdita dell'esercizio	15.432	-118.521

Relazioni di gestione annuali Fondi Comuni di investimento mobiliare aperti di tipo Speculativo Euromobiliare AM SGR 2021

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EUROMOBILIARE ALTERNATIVE INVESTMENTS MARKET NEUTRAL PLUS (IN LIQUIDAZIONE)

SITUAZIONE PATRIMONIALE

ATTIVITÀ	Situazione al 31/12/2021		Situazione al 31/12/2020	
	Valore complessivo	In perc. del totale attività	Valore complessivo	In perc. del totale attività
A. STRUMENTI FINANZIARI QUOTATI				
A.1 Titoli di debito				
A.1.1 Titoli di Stato				
A.1.2 Altri				
A.2 Titoli di capitale				
A.3 Parti di OICR				
B. STRUMENTI FINANZIARI NON QUOTATI			39.937	3,16%
B.1 Titoli di debito				
B.2 Titoli di capitale				
B.3 Parti di OICR			39.937	3,16%
C. STRUMENTI FINANZIARI DERIVATI				
C.1 Margini presso organismi di compensazione e garanzia				
C.2 Opzioni, premi o altri strumenti finanziari derivati quotati				
C.3 Opzioni, premi o altri strumenti finanziari derivati non quotati				
D. DEPOSITI BANCARI				
D.1 A vista				
D.2 Altri				
E. PRONTI CONTRO TERMINE ATTIVI E OPERAZIONI ASSIMILATE				
F. POSIZIONE NETTA DI LIQUIDITÀ	1.111.292	100,00%	1.225.677	96,84%
F.1 Liquidità disponibile	1.133.207	101,97%	1.220.723	96,45%
F.2 Liquidità da ricevere per operazioni da regolare			9.351	0,74%
F.3 Liquidità impegnata per operazioni da regolare	-21.915	-1,97%	-4.397	-0,35%
G. ALTRE ATTIVITÀ				
G.1 Ratei attivi				
G.2 Risparmio di imposta				
G.3 Altre				
TOTALE ATTIVITÀ	1.111.292	100,00%	1.265.614	100,00%

PASSIVITÀ E NETTO	Situazione al 31/12/2021		Situazione al 31/12/2020	
	Valore complessivo		Valore complessivo	
H. FINANZIAMENTI RICEVUTI				
I. PRONTI CONTRO TERMINE PASSIVI E OPERAZIONI ASSIMILATE				
L. STRUMENTI FINANZIARI DERIVATI				
L.1 Opzioni, premi o altri strumenti finanziari derivati quotati				
L.2 Opzioni, premi o altri strumenti finanziari derivati non quotati				
M. DEBITI VERSO I PARTECIPANTI				
M.1 Rimborzi richiesti e non regolati				
M.2 Proventi da distribuire				
M.3 Altri				
N. ALTRE PASSIVITÀ				
N.1 Provvigioni ed oneri maturati e non liquidati				-90.768
N.2 Debiti di imposta				-12.846
N.3 Altre				77.922
TOTALE PASSIVITÀ				-90.768
VALORE COMPLESSIVO NETTO DEL FONDO	1.111.292			1.174.846
Numero delle quote in circolazione	96.236			96.236
Valore unitario delle quote	11.547,571			12.207,969

MOVIMENTI DELLE QUOTE NELL'ESERCIZIO

Quote emesse	-
Quote rimborsate	-

EUROMOBILIARE ALTERNATIVE INVESTMENTS MARKET NEUTRAL PLUS (IN LIQUIDAZIONE)

SEZIONE REDDITUALE

	Relazione al 31/12/2021	Relazione al 31/12/2020
A. STRUMENTI FINANZIARI QUOTATI		
A.1 PROVENTI DA INVESTIMENTI		
A.1.1 Interessi e altri proventi su titoli di debito		
A.1.2 Dividendi e altri proventi su titoli di capitale		
A.1.3 Proventi su parti di O.I.C.R.		
A.2 UTILE/PERDITA DA REALIZZI		
A.2.1 Titoli di debito		
A.2.2 Titoli di capitale		
A.2.3 Parti di O.I.C.R.		
A.3 PLUSVALENZE/MINUSVALENZE		
A.3.1 Titoli di debito		
A.3.2 Titoli di capitale		
A.3.3 Parti di O.I.C.R.		
A.4 RISULTATO DELLE OPERAZ. DI COPERTURA DI STRUMENTI FINANZIARI QUOTATI		
Risultato gestione strumenti finanziari quotati		
B. STRUMENTI FINANZIARI NON QUOTATI	-39.851	-1.910
B.1 PROVENTI DA INVESTIMENTI		
B.1.1 Interessi e altri proventi su titoli di debito		
B.1.2 Dividendi e altri proventi su titoli di capitale		
B.1.3 Proventi su parti di O.I.C.R.		
B.2 UTILE/PERDITA DA REALIZZI	-39.851	941
B.2.1 Titoli di debito		
B.2.2 Titoli di capitale		
B.2.3 Parti di O.I.C.R.		
B.3 PLUSVALENZE/MINUSVALENZE	-39.851	-941
B.3.1 Titoli di debito		
B.3.2 Titoli di capitale		
B.3.3 Parti di O.I.C.R.		
B.4 RISULTATO DELLE OPERAZ. DI COPERTURA DI STRUMENTI FINANZIARI NON QUOTATI		
Risultato gestione strumenti finanziari non quotati	-39.851	-1.910
C. RISULTATO DELLE OPERAZ. IN STRUMENTI FINANZIARI DERIVATI NON DI COPERTURA		
C.1 RISULTATI REALIZZATI		
C.1.1 Su strumenti quotati		
C.1.2 Su strumenti non quotati		
C.2 RISULTATI NON REALIZZATI		
C.2.1 Su strumenti quotati		
C.2.2 Su strumenti non quotati		
D. DEPOSITI BANCARI		
D.1 INTERESSI ATTIVI E PROVENTI ASSIMILATI		
E. RISULTATO DELLA GESTIONE CAMBI	17.942	-16.745
E.1 OPERAZIONI DI COPERTURA		
E.1.1 Risultati realizzati		
E.1.2 Risultati non realizzati		
E.2 OPERAZIONI NON DI COPERTURA		
E.2.1 Risultati realizzati		
E.2.2 Risultati non realizzati		
E.3 LIQUIDITÀ	17.942	-16.745
E.3.1 Risultati realizzati	1351	1318
E.3.2 Risultati non realizzati	26.591	-18.063
F. ALTRE OPERAZIONI DI GESTIONE		
F.1 PROVENTI DELLE OPERAZ. DI PRONTI CONTRO TERMINE E ASSIMILATE		
F.2 PROVENTI DELLE OPERAZIONI DI PRESTITO TITOLI		
Risultato lordo della gestione di portafoglio	-21.909	-18.655
G. ONERI FINANZIARI	-5.082	-5.525
G.1 INTERESSI PASSIVI SU FINANZIAMENTI RICEVUTI	5.082	-5.525
G.2 ALTRI ONERI FINANZIARI		
Risultato netto della gestione di portafoglio	-26.991	-24.180
H. ONERI DI GESTIONE	-64.726	-101.311
H.1 PROVVISIONE DI GESTIONE SGR	-37.341	-18.388
H.2 COSTO DEL CALCOLO DEL VALORE DELLA QUOTA		
H.3 COMMISSIONI DEPOSITARIO	-22.625	-22.652
H.4 SPESE PUBBLICAZIONE PROSPETTI E INFORMATIVA AL PUBBLICO	-800	-800
H.5 ALTRI ONERI DI GESTIONE	-23.960	-59.476
H.6 COMMISSIONI DI COLLOCAMENTO		
I. ALTRI RICAVI ED ONERI	28.163	16.288
I.1 INTERESSI ATTIVI SU DISPONIBILITÀ LIQUIDE		
I.2 ALTRI RICAVI	56.336	17.508
I.3 ALTRI ONERI	-28.173	-1.219
Risultato della gestione prima delle imposte	-63.554	-109.203
L. IMPOSTE		-50
L.1 IMPOSTA SOSTITUTIVA A CARICO DELL'ESERCIZIO		
L.2 IMPOSTA SOSTITUTIVA A CREDITO DELL'ESERCIZIO		
L.3 ALTRE IMPOSTE		-50
Utile/Perdita dell'esercizio	-63.554	-109.253

CERTIFICATION BY THE CHAIRMAN AND THE MANAGER

Certification of consolidated financial statements pursuant to art. 81-ter of Consob regulations no. 11971 of 14 May 1999 and following update and integration

1. The undersigned, Lucio Iginio Zanon di Valgiurata, in my position of Chairman, and Paolo Tommasini, in my position of Manager responsible for preparing the financial reports of Credito Emiliano S.p.A., also taking account of the provisions set forth by art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998, hereby declare;

- the adequacy in relation to the company's features and
- the actual application of the administrative and accounting procedures employed to draw up the consolidated financial statements for 2021.

2. The administrative and accounting procedures employed to draw up the consolidated financial statements as at 31 December 2021 were defined, and the evaluation of their adequacy was performed pursuant to the regulations and methods set out by the Parent Company Credito Emiliano S.p.A. in compliance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO-ERM), which is a framework for the internal control system generally accepted at international level.

3. It is also hereby certified that:

3.1 The consolidated financial statements:

- a. have been drawn up in compliance with the applicable International Accounting Standards recognised by the European Community pursuant to (EC) Regulation no. 1606/2002 of the European Parliament and Council dated 19 July 2002;
- b. correspond to the information reported in the accounting books and records;
- c. are suitable to provide a true and accurate representation of the balance sheet, income statement and financial situation of the issuer and the companies included in the scope of consolidation.

3.2 The directors' report on operations provides a reliable analysis of performance and of the company's results, as well as the situation of the issuer and of the Group of companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed. The consolidated financial statements included also a reliable analysis of the information related to operations conducted with related parties.

Reggio Emilia, 10 March, 2022

The Chairman

Lucio Iginio Zanon di Valgiurata



The Manager responsible for preparing
the company's financial reports

Paolo Tommasini



AUDITOR'S REPORT

Credito Emiliano S.p.A.

Consolidated financial statements as at December 31, 2021

**Independent auditor's report pursuant to article 14 of
Legislative Decree n. 39, dated January 27, 2010 and
article 10 of EU Regulation n. 537/2014**

(Translation from the original Italian text)

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014 (Translation from the original Italian text)

To the Shareholders of
Credito Emiliano S.p.A.

Report on the Audit of the Consolidated Financial Statements

We have audited the consolidated financial statements of Credem Group (the "Group"), which comprise the consolidated balance sheet as at December 31, 2021, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the related explanatory notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2021, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n.136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Credito Emiliano S.p.A. (the "Company") in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
Classification and measurement of financial loans to customers Financial loans to customers, which are recorded in the line item 40 b) of the consolidated balance sheet and measured at amortized cost, amount to about Euro 33,156 million as at December 31, 2021. The process of classifying financial loans to customers in the various risk categories and their measurement is relevant for the audit, because the amount of financial loans to customers is significant to the consolidated financial statements as a whole and because the amount of the related impairment losses is determined by the directors' through the use of estimates that have a high degree of subjectivity and complexity. Amongst the latter, the following are particularly relevant: the identification of objective evidence of impairment of loans, the consequent classification of the exposures into Stage 3 (non-performing loans), the estimates of the expected cash flows that reflect the outcome, of both the standard recovery strategy based on loan collection through legal actions and the realization of collaterals, and of those deriving from loan disposal assumptions and their related timing of collection. Furthermore, as regards the statistically calculated collective impairment, carried out on financial loans to customers for which objective evidence of impairment has not been identified individually, the following are of particular importance: the determination of parameters for measuring the significant increase in credit risk compared to the date of initial recognition, the set-up of models for the calculation of expected credit losses (ECL), the identification of the exposure at default (EAD), the determination of the probability of default (PD) and the related loss given default (LGD), estimated both on the basis of historical-statistical experience and of forward looking information, including macroeconomic factors. Moreover, the classification and measurement	Our audit procedures related to this key audit matter included, amongst others: - an understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of financial loans to customers and the execution of tests of controls assessed as key, including those relating to the relevant IT applications, in order to assess their operational effectiveness; - the execution, on a sample basis, of substantive procedures aimed at verifying the correct classification and measurement of credit exposures; - an understanding, also with the support of our experts in credit risk management and IT systems, of the methodology applied in relation to impairment losses calculated on a statistical basis and an analysis of the reasonableness of the assumptions adopted, including those related to the overlay factors, as well as the performing tests of controls and substantive procedures, in order to verify the accurate determination of the EAD, PD and LGD parameters, which are relevant for the purpose of determining the impairment losses; - the analysis, also with the support of our experts in non-performing loans portfolios valuation, of the methodology applied and the reasonableness of the parameters adopted for the expected credit loss estimate of the portfolios assessed in a disposal scenario, as well as the reading of the report prepared by the independent consultant appointed by the Company; - the performance of analytical procedures on the portfolio of financial loans to customers and the related coverage levels, and an

processes of the loans to customers involve considering specific factors aimed at reflecting the current uncertainty on the evolution of the macro economic scenario determined by the persistence of the Covid-19 pandemic and effects of the Italian Government support measures including, in particular, the moratoria on loan repayments and the provision or renegotiation of loans supported by Italian state guarantees.

The disclosures on the classification and measurement of financial loans to customers are provided in Part A, Part B, Part C and Part E of the explanatory notes.

analysis of the most significant changes also through the comparison with prior year amounts.

Finally, we examined the adequacy of the disclosures provided in the explanatory notes.

Key Audit Matter	Audit Response
Goodwill impairment test Goodwill is recorded for approximately Euro 291 million in line item 100 of the consolidated balance sheet and is mainly allocated to the “Commercial Banking” cash generating unit (CGU). As required by the International Accounting Standard IAS 36 “Impairment of assets”, the Company performs at least annually an impairment test. Goodwill is relevant for the audit, both because it is significant to the consolidated financial statements as a whole, and because the aforementioned test requires the application of the Directors’ judgment to make estimates with a high level of subjectivity with regard to the selection of assumptions and parameters, as part of the methodology selected, since these variables may be sensitive, also due to the effects of the Covid-19 pandemic, to the future performance of markets and to the macroeconomic scenarios. The disclosures on goodwill are provided in Part A and Section 10 “Intangible Assets” of Part B of the explanatory notes, which also describes the results of the sensitivity analysis performed by Management.	Our audit procedures related to this key audit matter included, amongst others: - an understanding of the methods for determining the recoverable amount adopted for the impairment test process approved by the Board of Directors of the Company and the related key controls; - an analysis of the reasonableness of the assumptions and parameters used by the Directors for the execution of the impairment test and the forecast information considered in the same, also due to the effects of the Covid-19 pandemic as well as the related sensitivity analysis; - a discussion of the evidence emerging from the comparison made by management between the actual results for the 2021 financial year and the corresponding budget. During our audit we also made use of business valuation techniques experts, particularly with reference to the matters related to the mathematical accuracy of the calculations, the reasonableness of the assumptions adopted by management, including the projections, as well as the sensitivity analyses on key assumptions. Finally, we examined the adequacy of the disclosures provided in the explanatory notes.

Key Audit Matter	Audit Response
Accounting for the business combination of Cassa di Risparmio di Cento S.p.A. Following the approval of the merger plan by the extraordinary Shareholders' Meeting, on 24 July 2021, Credito Emiliano S.p.A. executed the merger by incorporation of Cassa di Risparmio di Cento S.p.A., with effective date for accounting and tax purposes of 1 July 2021 (thereafter the "Transaction"). The Transaction is accounted for in the consolidated financial statements in accordance with the provisions of the international accounting standard IFRS 3 "Business combinations", which requires the determination and allocation of the purchase price to the assets and liabilities acquired, for which management was supported by external consultants. We considered the accounting for the Transaction as a key audit matter, due to its significance to the consolidated financial statements as a whole, as well as due to the subjectivity of the assumptions made by the management, with particular reference to: • the estimate of the fair value of the assets and liabilities acquired; • the recognition and measurement of the intangible assets with a finite useful life attributable to the customer relationships; • the recognition of deferred tax assets on the temporary differences between the carrying values determined through the purchase price allocation and the related tax values. Furthermore, during the financial year, the IT migration of the Cassa di Risparmio di Cento S.p.A.'s accounting records to the Bank's IT system was carried out. The disclosures regarding the Transaction are provided in Part A – Accounting policies and in Part G – Business combinations of notes to the financial statements. This last section also includes the disclosure concerning the IT migration.	Our audit procedures related to this key audit matter included, amongst others: • the examination of the contracts relating to the Transaction and the minutes of meetings of the Company during which the same was discussed and approved, as well as the report prepared by the external consultants engaged by management; • an analysis of the conformity of the accounting method applied with international financial reporting standards; • with the support of our business, financial instruments, real estate and tax valuations experts, the assessment of the appropriateness of the methodology applied as well as of the reasonableness of the assumptions made by the Directors in relation to the purchase price allocation, as well as the verification of the mathematical accuracy of the related calculations; • verification, on a sample basis, of the accuracy of the accounting entries; • an understanding of the process and controls put in place by Management in relation to the IT migration of the Cassa di Risparmio di Cento's accounting records on the Bank's IT systems and the verification on a sample basis of the related accounting entries. Finally, we examined the adequacy of the disclosures provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38 dated February 28, 2005 and article 43 of Legislative Decree n.136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Credito Emiliano S.p.A. or to cease operations or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by international standards on auditing (ISA Italia), regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Credito Emiliano S.p.A., in the general meeting held on April 30, 2014, engaged us to perform the audits of the separate and consolidated financial statements of the Company for each of the years ending December 31, 2014 to December 31, 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, paragraph 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion on the compliance with Delegated Regulation (EU) 2019/815

The Directors of Credito Emiliano S.p.A. are responsible for applying the provisions of the European Commission Delegated Regulations (EU) 2019/815 for the regulatory technical standards on the specification of a single electronic reporting format (ESEF – European Single Electronic Format) (the “Delegated Regulation”) to the consolidated financial statements, to be included in the annual financial report.

We performed the procedures under the auditing standard SA Italia n. 700B, in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in the XHTML format and have been marked-up, in all material aspects, in compliance with the provisions of the Delegated Regulation.

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The Directors of Credito Emiliano S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Credem Group as at December 31, 2021, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of Credem Group as at December 31, 2021 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above-mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Credem Group as at December 31, 2021 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The Directors of Credito Emiliano S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We verified the approval by the Directors of the non-financial information.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information is subject to a separate compliance report signed by us.

Milan, April 6, 2022

EY S.p.A.

Signed by: Massimiliano Bonfiglio, Auditor

As disclosed by the Directors on page 102, the accompanying consolidated financial statements of Credem Group constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.