FINANCIAL STATEMENT FOR 2021

Volksbank

www.volksbank.it

Banca Popolare dell’Alto Adige
Company limited by shares

Registered Office and General Management: Via del Macello, 55 – I-39100 Bolzano
Share capital as at 31st December 2021 EUR 201,993,752 fully paid up
Tax code, VAT number and no. of registration in the Bolzano Companies’ Register 00129730214
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
ABI 05856.0
www.bancapopolare.it – www.volksbank.it

VORWORT DES PRÄSIDENTEN LUKAS LADURNER

Sehr geehrte Aktionärinnen und Aktionäre,

unsere Volksbank hat mit den Ergebnissen des Geschäftsjahres 2021 endlich wieder zu alter Stärke zurückgefunden. Trotz der Einschränkungen zur Eindämmung der Covid-19-Pandemie konnten sich unsere Mitarbeiterinnen und Mitarbeiter wieder zunehmend auf die Erbringung der Dienstleistungen für unsere Kunden konzentrieren. Wir bedanken uns bei allen Kundinnen und Kunden für das entgegengebrachte Vertrauen und für die gute Zusammenarbeit. Unser Bemühen ist es, den Strategieplan „Sustainable 2023“ effizient und konsequent umzusetzen, damit unsere Volksbank für die Zukunft gut gerüstet ist.

Der buchhalterische Wert der Aktie ist auf mittlerweile 16,9 Euro gestiegen. Dank der guten Arbeit aller Mitarbeiterinnen und Mitarbeiter kann der Hauptversammlung am 31. März 2022 wieder die Auszahlung einer Dividende vorgeschlagen werden.

Lukas Ladurner
Präsident des Verwaltungsrates
Südtiroler Volksbank AG

Lukas Ladurner

VORWORT DES GENERALDIREKTORS ALBERTO NAEF

Die Volksbank hat 2021 sehr gute Ergebnisse verzeichnet, die ihr zu einer Spitzenposition unter den italienischen Geschäftsbanken verholfen haben. Die gute Rentabilität mit einer Eigenkapitalrendite von 9,4 % hat zusammen mit der verbesserten Kreditqualität und -effizienz die Fähigkeit zur Wertschöpfung und die Solidität der Bank weiter gestärkt. In der Phase des wirtschaftlichen Aufschwungs Italiens hat die Bank ihre Rolle als Motor für die Wirtschaft entschlossen wahrgenommen, war mit ihrer großen Unterstützung den Kunden im Einzugsgebiet immer nahe und hat diese stets unterstützt. Die Volksbank hat die Liquidität im Triveneto gefördert, indem sie mehr als 1 Milliarde Euro an Krediten für Familien und KMU in der Region ausbezahlt hat.

Die Bank hat das Produkt- und Dienstleistungsangebot für ihre Kundinnen und Kunden durch erweiterte Lösungen im Bereich der Transaktionen, Anlagen, Finanzierungen und Versicherungen weiter verbessert. Vor allem hat sie die Digitalisierung der Prozesse und den Einsatz der digitalen Unterschrift bei Produkten und Dienstleistungen vorangetrieben.

Wir werden unsere Ziele weiterhin mit der Ernsthaftigkeit, dem Weitblick und der Geradlinigkeit verfolgen, die uns auszeichnen und die unsere Stakeholder anerkennen und schätzen. Auch in Zukunft werden wir die Kunden begleiten, die unsere Werte teilen. Wir werden uns um das Territorium kümmern, in dem wir leben und arbeiten, und dabei immer an der Seite der Menschen stehen. Schließlich werden wir weiterhin aktiv dazu beitragen, die Gemeinschaft im Nordosten Italiens nachhaltiger zu gestalten.

Alberto Naef
Generaldirektor
Südtiroler Volksbank AG

FOREWORD BY THE CHAIRMAN LUKAS LADURNER

Dear Shareholders,

the 2021 annual results show that Volksbank has finally regained its former strength. Despite the constraints due to the Covid-19 pandemic, our staff have always ensured that customers receive an excellent quality of service. We would like to thank all our customers for the trust they have placed in the Bank and for their cooperation. Our commitment is to consistently and effectively implement the "Sustainable 2023" Business Plan so that Volksbank can meet future challenges.

In the meantime, the book value of shares rose to EUR 16.9. Thanks to the efforts of all our employees, we were once again able to propose a dividend during the Shareholders' Meeting on 31 March 2022.

Lukas Ladurner
Chairman of the Board of Directors
Banca Popolare dell'Alto Adige Spa

INTRODUCTION BY THE GENERAL MANAGER ALBERTO NAEF

In 2021, Volksbank achieved very satisfactory results that made it rank among the best Commercial Banks in Italy. Good profitability at 9.4 per cent, combined with improved efficiency and credit quality, further enhanced the Bank's income-generating capacity and solidity. Volksbank successfully fulfilled its role as a driver of economic transformation. During the country's economic recovery, it remained at hand and close to its customers, providing tangible support to the community. Volksbank supported liquidity by disbursing over EUR 1 billion in loans to households and SMEs in the Triveneto region.

The Bank improved the range of products and services it offers to its customers by extending the range of transactional, investment, financing and insurance solutions, and above all by improving the digitalisation of processes and product/service subscription with customers.

We will continue to pursue our goals with the seriousness, foresight and dynamism that distinguishes us and that our stakeholders recognise and appreciate. We will continue to assist customers who share our values and care for the community in which we live and operate, always standing by the people. We will remain committed to actively contributing to a more sustainable society in the North East.

Alberto Naef
General Manager
Banca Popolaredell'Alto Adige Spa

ANNUAL FINANCIAL REPORT
FINANCIAL YEAR 2021

Summary

VOLKSBANK THE TERRITORIAL NETWORK

BANCA POPOLARE DELL'ALTO ADIGE
Company limited by shares
Registered in the Bolzano Companies' Register under no. 00129730214
Member of the Italian Interbank Deposit Protection Fund
ABI 05856.0

GENERAL MANAGEMENT AND HEAD OFFICE

Via del Macello, 55 – Bolzano - Bozen
Schlachthofstraße 55
Tel. + 39 0471 – 996111 – Telefax 0471 – 979188

www.bancapopolare.it
www.volksbank.it
gsinfo@volksbank.it

BRANCHES

PROVINCE OF BOLZANO	
Appiano – Eppan Via J. G. Plazer 56 - J.-G.-Plazer-Straße 56	tel. 0471-944270
Bolzano – Bozen Galleria Telser 1 - Telsergalerie 1	tel. 0471-944190
Bolzano – Bozen Piazza Mazzini 2 - Mazziniplatz 2	tel. 0471-944020
Bolzano – Bozen Via C. Augusta 5 - C.-Augusta-Straße 5	tel. 0471-944250
Bolzano – Bozen Via del Ronco 15 Neubruchweg 15	tel. 0471-944260
Bolzano – Bozen Via Galvani 3/f - Galvanistraße 3/f	tel. 0471-944320
Bolzano – Bozen Via Leonardo da Vinci 2 Leonardo-da-Vinci-Straße 2	tel. 0471-996151
Bolzano – Bozen Via Resia 132/b Reschenstraße 132/b	tel. 0471-944290
Bolzano – Bozen Via Roma 45 - Romstraße 45	tel. 0471-944200
Bolzano – Bozen Vicolo Gumer 7 (financial help desk) Gumergasse 7 (Schatzamtsschalter)	tel. 0471 996123
Bressanone – Brixen Portici Maggiori 2 Große Lauben 2	tel. 0472-811213
Bressanone – Brixen Via J. Durst 28 J.-Durst-Straße 28	tel. 0472-811600
Bressanone – Brixen Via Plose 38/b Plosestraße 38/b	tel. 0472-811560
Brunico – Bruneck Bastioni 24 - Graben 24	tel. 0474-544700
Brunico – Bruneck Via Valle Aurina 30 – Ahrntalerstraße 30	tel. 0474-544760
Cadipietra – Steinhaus Cadipietra 105 Steinhaus 105	tel. 0474-544800
Caldaro – Kaltern Piazza Principale 13 Marktplatz 13	tel. 0471-944220
Campo Tures - Sand in Taufers Via Municipio 4 Rathausstraße 4	tel. 0474-544740
Chienes – Kiens Via Chienes 1 - Kiener Dorfweg 1	tel. 0474-544730
Chiusa – Klausen Piazza Tinne 5 - Tinneplatz 5	tel. 0472-811540
Dobbiaco – Toblach Viale S. Giovanni 23 St.-Johannes-Straße 23	tel. 0474-544770
Egna – Neumarkt Largo Municipio 32 Rathausring 32	tel. 0471-944280
La Villa – Stern Via Colz 56 - Colz Straße 56	tel. 0471-944010
Laces – Latsch Via Stazione 1/b - Bahnhofstraße 1/b	tel. 0473-254440
Laives – Leifers Via Kennedy 123 Kennedystraße 123	tel. 0471-944240
Lana Piazza Tribus 17 - Tribusplatz 17	tel. 0473-254350
Lasa – Laas Via Venosta 44 - Vinschgaustraße 44	tel. 0473-254310
Lazfons – Latzfons San Giacomo 3 - St. Jakob 3	tel. 0472-811620
Luson – Lüsen Vicolo Dorf 19 - Dorfgasse 19	tel. 0472-811590
Malles Venosta – Mals Via Stazione 9/b Bahnhofstraße 9/b	tel. 0473-254400
Merano – Meran Piazza del Grano 3 - Kornplatz 3	tel. 0473-254111
Merano – Meran Via Goethe 74/a Goethestraße 74/a	tel. 0473-254300
Merano – Meran Via Matteotti 43 Matteottistraße 43	tel. 0473-254330
Merano – Meran Via Monte Tessa 34 Texelstraße 34	tel. 0473-254390
Merano – Meran Via Roma 278 Romstraße 278	tel. 0473-254420
Monguelfo – Welsberg Via Parrocchia 13 Pfarrgasse 13	tel. 0474-544750
Naturno – Naturns Via Principale 37/b Hauptstraße 37/b	tel. 0473-254370
Nova Levante – Welschnofen Via Roma 8 Romstraße 8	tel. 0471-944090
Ora – Auer Via Stazione 8 - Bahnhofstraße 8	tel. 0471-944040
Ortisei - St. Ulrich Piazza S. Durich 3 - S.-Durich-Platz 3	tel. 0471-944330
Racines – Ratschings Stanghe 18 Stange 18	tel. 0472-811610
Rio di Pusteria - Mühlbach Via K. Lanz 50 - K.-Lanz-Straße 50	tel. 0472-811520
S. Leonardo in Passiria - St. Leonhard in Passeier Via Passiria 14 - Passeirer Straße 14	tel. 0473-254380
S. Lorenzo di Sebato - St. Lorenzen Via Josef Renzler 17 - Josef-Renzler-Straße 17	tel. 0474-544780
Scena – Schenna Piazza Arciduca Giovanni 7 Erzh.-Johann-Platz 7	tel. 0473-254430
Selva Gardena – Wolkenstein Via Meisules 155/a Meisulesstraße 155/a	tel. 0471-944000
Silandro – Schlanders Via Covelano 10 Göflaner Straße 10	tel. 0473-254410
Siusi – Seis Via Sciliar 16 - Schlernstraße 16	tel. 0471-944300
Vandoies – Vintl Via J. A. Zoller 8 J.-A.-Zoller-Straße 8	tel. 0472-811640
Varna – Vahrn Via Brennero 101 Brennerstraße 101	tel. 0472-811650
Velturno – Feldthurns Paese 12 - Dorf 12	tel. 0472-811580
Vipiteno – Sterzing Via Città Nuova 22/a Neustadt 22/a	tel. 0472-811500

PROVINCE OF BELLUNO

Auronzo di Cadore Via Corte 33	tel. 0435-505650
Belluno Via Caffi 15	tel. 0437-356700
Cencenighe Agordino Via XX Settembre 107	tel. 0437-356640
Cortina d' Ampezzo Largo delle Poste 49	tel. 0436-863500
Domegge di Cadore Via Roma 48	tel. 0435-505620
Dosoledo Piazza Tiziano 2	tel. 0435-505670
Feltre Via Monte Grappa 28	tel. 0439-842600
Forno di Zoldo Via Roma 70/b	tel. 0437-356620
Limana Via Roma 116/118	tel. 0437-356690
Longarone Via Roma 89	tel. 0437-356720
Mel Via Tempietto 33/a	tel. 0437-356660
Padola Piazza San Luca 22	tel. 0435-505690
Ponte nelle Alpi Viale Roma 87	tel. 0437-356630
S. Stefano di Cadore Via Venezia 30	tel. 0435-505630
Santa Giustina Via Feltre 17	tel. 0437-356680
Sedico Via Cordevole 2/b	tel. 0437-356650
Tai di Cadore Via Ferdinando Coletti 15	tel. 0435-505600
Valle di Cadore Via XX Settembre 76	tel. 0435-505660

PROVINCE OF PADUA

Carmignano di Brenta Via Marconi 36	tel. 049-6950010
Cittadella Via Riva Pasubio 5	tel. 049-6950040
Padua Corso Milano 99	tel. 049-6950020
Piazzola sul Brenta Via dei Contarini 36	tel. 049-6950050
Tombolo Via Vittorio Veneto 1	tel. 049-6950000

PROVINCE OF PORDENONE

Pordenone Via Galvani 8	tel. 0434-786520
Sacile Via Martiri Sfriso 9	tel. 0434-786500

PROVINCE OF TRENTO

Ala Via della Roggia 10	tel. 0464-912520
Arco Via S. Caterina 20	tel. 0464-912510
Borgo Valsugana Via Hippoliti 11/13	tel. 0461-211060
Cavalese Viale Libertà 7	tel. 0462-248500
Cles Piazza Navarrino 16/17	tel. 0463-840510
Fondo Via Cesare Battisti 39	tel. 0463-840500
Lavis Via Rosmini 65	tel. 0461-211070
Mezzolombardo Via A. Degasperi 4	tel. 0461-211030
Moena Piaz de Ramon 24	tel. 0462-248510
Mori Via della Terra Nera 48/d	tel. 0464-912500
Pergine Viale Venezia 44	tel. 0461-211050
Riva del Garda Viale Damiano Chiesa 4/g-h	tel. 0464-912560
Rovereto Via G. M. Della Croce 2	tel. 0464-912530
Tione Via Circonvallazione 56	tel. 0465-338500
Trento Piazza Lodron 31	tel. 0461-211000
Trento Via Brennero 302/a	tel. 0461-211080
Trento Via Enrico Fermi 11	tel. 0461-211090

PROVINCE OF TREVISO

Casale Sul Sile Via G. Marconi 3	tel. 0422-508170
Castelfranco Veneto Borgo Treviso 62	tel. 0423-974610
Conegliano Via Cesare Battisti 5	tel. 0438-907740
Crocetta del Montello Via Andrea Erizzo 64	tel. 0423-974620
Loria - **Ramon di Loria** Via Poggiana 4	tel. 0423-974670
Mogliano Veneto Via degli Alpini 16/g/f/e	tel. 041-5446660

PROVINCE OF TREVISO

Montebelluna Via Montegrappa 24/c	tel. 0423-974660
Motta Di Livenza - Via P. L. Bello/Ang. Via Cigana 1	tel. 0422-508180
Oderzo Via degli Alpini 24/26	tel. 0422-508100
Paese Via Cesare Battisti 3	tel. 0422-508140
Pieve di Soligo Via Nubie 3/d	tel. 0438-907700
Preganziol Piazza Gabbin 16	tel. 0422-508120
Quinto Di Treviso Via Vittorio Emanuele 11	tel. 0422-508190
Spresiano Piazza Luciano Rigo 49	tel. 0422-508130
Treviso Viale Brigata Treviso 1	tel. 0422-508210
Treviso Via San Vito 12	tel. 0422-508150
Valdobbiadene Foro Boario 21-23-13	tel. 0423-974600
Vittorio Veneto Galleria Tintoretto 3	tel. 0438-907710

PROVINCE OF VENICE

Venezia Campo SS Apostoli Sestriere Cannaregio 4547/4552	tel. 041-5446810
Fossò Via Roncaglia 1	tel. 041-5446690
Marcon Viale della Repubblica 2	tel. 041-5446680
Martellago Via Friuli 28	tel. 041-5446780
Mira Via Venezia, 120	tel. 041-5446730
Mirano Via Cavin di Sala 39	tel. 041-5446710
Noale Via Tempesta 31	tel. 041-5446630
Portogruaro Via S. Agnese 28	tel. 0421-480810
San Donà di Piave Via Vizzotto 98/100	tel. 0421-480800
Spinea Piazza Marconi 17	tel. 041-5446670
Venice Mestre Piazza Mercato 51 - Fraz. Marghera	tel. 041-5446800
Venice Mestre Via Miranese 256/h - Fraz. Chirignago	tel. 041-5446600
Venice Mestre Via Torre Belfredo 23 - Villa Toesca	tel. 041-5446750
Venice-Jesolo Lido – Via Firenze 6	tel. 0421-480820

PROVINCE OF VICENZA

Asiago Piazza Carli 42	tel. 0424-596090
Bassano Del Grappa Piazza Garibaldi 8	tel. 0424-596105
Bassano Del Grappa Piazzale Firenze 2	tel. 0424-596060
Bassano Del Grappa Villaggio S. Eusebio 94/a	tel. 0424-596080
Belvedere di Tezze sul Brenta Via Nazionale 47	tel. 0424-596020
Breganze Piazza Mazzini 2	tel. 0445-617050
Bressanvido Via Roma 94	tel. 0444-577000
Calvene Via Roma 22	tel. 0445-617030
Camisano Vicentino Piazza Pio X 2	tel. 0444-577010
Cassola Via Martiri del Grappa 3	tel. 0424-596040
Cassola Via Pio X/Angolo G. D'Arezzo – Loc. S. Giuseppe	tel. 0424-596240
Conco Piazza San Marco 20	tel. 0424-596170
Dueville Piazza Monza 30/31	tel. 0444-577020
Malo Via Vicenza 97 – Loc. San Tomio	tel. 0445-617070
Marostica Via Mazzini 84	tel. 0424-596200
Mason Vicentino Via Marconi 85	tel. 0424-596000
Monticello Vigardolo Via Spine 3B	tel. 0444-577090
Mussolente Via Vittoria 47	tel. 0424-596100
Nove Via Molini 2	tel. 0424-596110
Romano D'Ezzelino Via Roma 62	tel. 0424-596140
Rosa' Via Dei Tigli 7	tel. 0424-596150
Sandrigo Via Roma 34	tel. 0444-577040
Sarcedo Via Schio 34	tel. 0445-617010
Schiavon Via Roma 120	tel. 0444-577050

PROVINCE OF VICENZA	
Schio Via Cementi 8	tel. 0445-617090
Tezze sul Brenta Via Risorgimento 23	tel. 0424-596180
Thiene Viale Bassani 26/28	tel. 0445-617110
Vicenza Laghetto Via dei Laghi 135	tel. 0444-577060
Vicenza Porta Castello Viale Roma 10	tel. 0444-577070
Villaverla Via S. Antonio, 43	tel. 0445-617130
Zane' Via Trieste 110	tel. 0445-617140

CORPORATE OFFICES AND AUDITING FIRMS[1]

BOARD OF DIRECTORS

Chairperson
Lukas LADURNER

Vice Chairpersons
Lorenzo SALVÀ
Giuseppe PADOVAN

Directors
David COVI
Adriano DALPIAZ
Maximilian EISENDLE
Vito JACONO
Margherita MARIN
Federico MARINI
Alessandro Giuseppe Pietro METRANGOLO
Johannes PEER
Margit TAUBER

RISKS COMMITTEE

Chairperson
Alessandro Giuseppe Pietro METRANGOLO
Adriano DALPIAZ
Margherita MARIN
Federico MARINI

COMMITTEE OF INDEPENDENT DIRECTORS

Chairperson
Marguerite MARIN
Adriano DALPIAZ
Alessandro Giuseppe Pietro METRANGOLO

CREDIT COMMITTEE

Chairperson
Lorenzo SALVÀ
David COVI
Giuseppe PADOVAN
Margit TAUBER

BOARD OF STATUTORY AUDITORS

Chairperson
Astrid KOFLER

Standing auditors
Georg HESSE
Emilio LORENZON

Alternate auditors
Nadia DAPOZ
Giorgio DEMATTÉ

GENERAL MANAGEMENT

General Manager
Alberto NAEF

Deputy General Manager
Stefan SCHMIDHAMMER
Martin SCHWEITZER

FINANCIAL REPORTING OFFICER

Alberto CALTRONI

INDEPENDENT AUDITING FIRM

KPMG S.p.A.

(1) Information updated as of the date of preparation of this document.

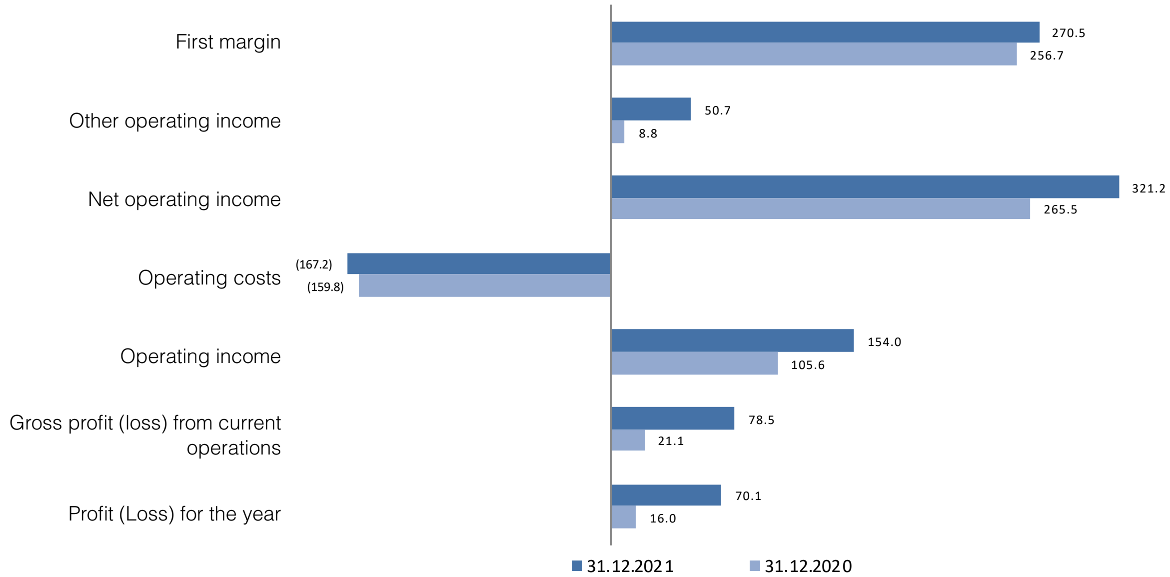
COMPANY REPORTS AND FINANCIAL STATEMENTS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

The following table shows a summary of the Bank's key figures and indicators, calculated on the basis of the financial statements.

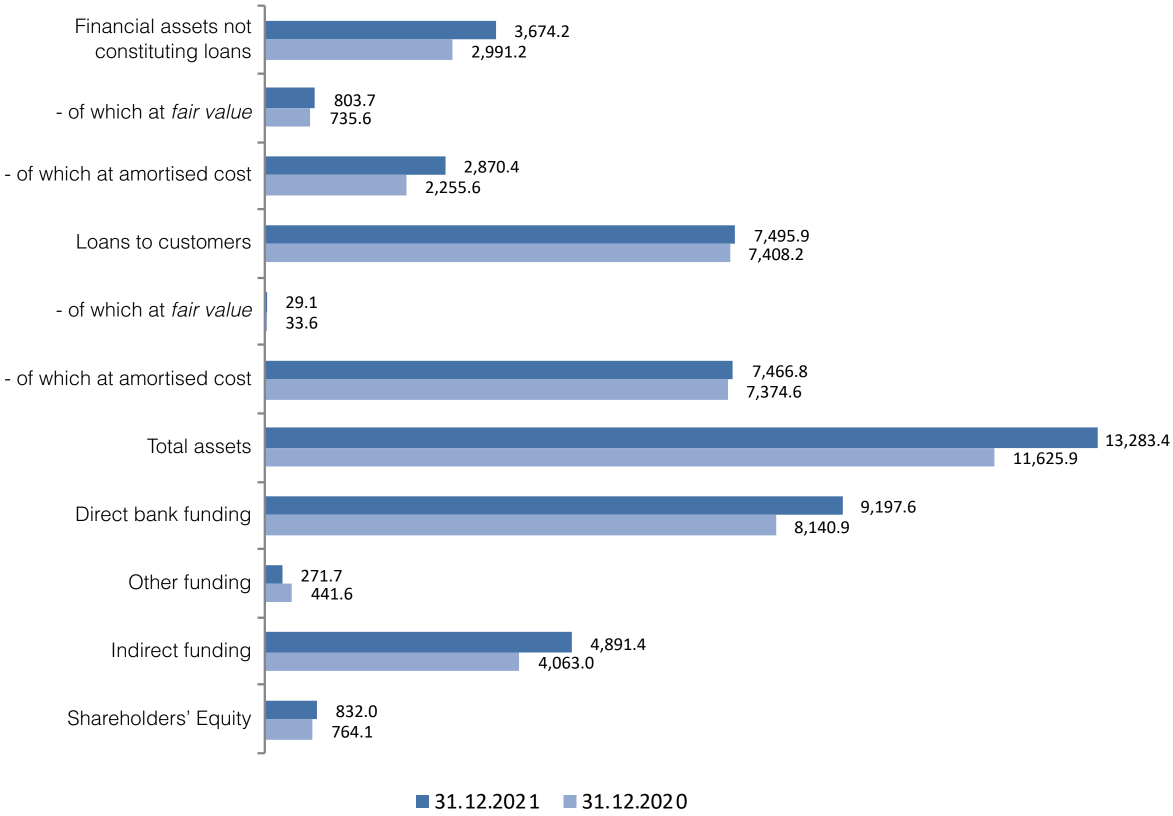
Main economic data



Economic data	31.12.2021	31.12.2020	Changes	
(€million)			**Ass.**	**%**
First margin	270.5	256.7	13.8	5.4%
Other operating income	50.7	8.8	41.9	n.a.
Net operating income	321.2	265.5	55.8	21.0%
Operating costs	(167.2)	(159.8)	(7.4)	4.6%
Operating income	154.0	105.6	48.4	45.8%
Gross profit (loss) from current operations	78.5	21.1	57.4	271.8%
Profit (Loss) for the year	70.1	16.0	54.1	337.6%

Please refer to paragraph 1.4.1 for a description of the reconstruction of the reclassified data.

Key balance sheet data



Balance sheet data	**31.12.2021**	**31.12.2020**	**Changes**	
(€million)			**Ass.**	**%**
Financial assets not constituting loans	3,674.2	2,991.2	683.0	22.83%
- of which at *fair value*	803.7	735.6	68.2	9.27%
- of which at amortised cost	2,870.4	2,255.6	614.8	27.26%
Loans to customers	7,495.9	7,408.2	87.7	1.18%
- of which at *fair value*	29.1	33.6	(4.5)	-13.42%
- of which at amortised cost	7,466.8	7,374.6	92.2	1.25%
Total assets	13,283.4	11,625.9	1.657.5	14.26%
Direct bank funding	9,197.6	8,140.9	1,056.7	12.98%
Other funding	271.7	441.6	(170.0)	-38.48%
Indirect funding	4.891.4	4,063.0	828.4	20.39%
Shareholders' Equity	832.0	764.1	68.0	8.89%

Main indicators

Economic, financial indicators and other information	31.12.2021	31.12.2020
Financial indicators		
Structural indicators		
Financial assets / Total assets	95.9%	95.1%
Gross loans to customers / Direct funding from customers (retail)	85.4%	95.6%
Fixed assets / Total assets	1.1%	1.4%
Total risk-weighted assets (RWA) / Total assets	39.1%	45.6%
Number of employees	1,335	1,296
Number of branches	166	165
Profitability indicators		
ROE (Net profit / Shareholders' equity)	9.2%	2.1%
ROTE (Net profit / Tangible equity)	9.4%	2.2%
ROA (Net profit / Total assets)	0.6%	0.2%
Cost to income ratio (Operating costs/Operating net income) (1)	52.1%	59.4%
Basic EPS (earnings per share)	1.45	0.33
Diluted EPS (earnings per share)	1.45	0.33
Risk ratios		
Net non-performing loans / Net loans to customers	2.7%	2.9%
Gross non-performing loans / Gross loans to customers	5.8%	6.4%
Texas ratio (Net non-performing loans / Tangible equity)	42.3%	48.1%
% coverage of bad debts	67.8%	65.8%
% coverage of non-performing loans	54.0%	55.7%
% coverage of performing loans	1.2%	1.0%
Supervisory capital (thousands of €) and capital ratios		
Class 1 Primary Capital (CET 1)	815,725	771,042
Total treasury stock	945,725	901,042
Total risk-weighted assets (RWA)	5,199,485	5,302,880
CET 1 Ratio - Primary Tier 1 capital (transitional)	15.7%	14.5%
Total Capital Ratio - Total treasury stock (transitional)	18.2%	17.0%
CET 1 Ratio - Primary Tier 1 capital (fully phased)	14.6%	13.6%
Total Capital Ratio - Total treasury stock (fully phased)	17.2%	16.0%
Non-Financial indicators		
Productivity Indices (in EUR)		
Direct funding per employee	6,889,581	6,281,555
Loans to customers per employee	5,614,903	5,716,193
Assets under custody - third-party products, per employee	2,388,812	2,180,657
Assets under custody - third party securities and own shares issued, per employee	1,275,164	954,356
Intermediation margin per employee	239,055	203,344

([1]) for the amount of operating Costs and net operating Income please refer to the reclassified Profit and Loss account in paragraph 1.4.1 of the Report on Operations

REPORT ON OPERATIONS

REPORT ON OPERATIONS

1.1 ECONOMIC ENVIRONMENT AND MARKETS [2]

1.1.1 THE MACROECONOMIC SCENARIO

Russia's invasion of Ukraine

Russia's invasion of Ukraine is a matter of grave concern, firstly for the human toll and the suffering of the people. The UN reports that, as of 3 March, one million refugees have already left Ukraine. On 28 February, the Prosecutor of the International Criminal Court, Karim Khan, announced the opening of an investigation into the events in Ukraine because "there is a reasonable basis to believe that both alleged war crimes and crimes against humanity have been committed". As is often the case in war zones, reports on the number of dead diverge and independent estimates are not available.

Russia's invasion of Ukraine could become the largest military action in Europe since 1945. It also marks the start of a new era of economic warfare with potentially very high risks, which could further damage the world economy. The sanctions that the West has imposed on Russia are so powerful that they have wreaked havoc on its $1.6 trillion economy and prompted the president, Vladimir Putin, to issue nuclear threats. The instant impoverishment of a major economy like Russia is unprecedented and is causing alarm throughout the world, not least in China, which will necessarily have to reassess the risks of a war over Taiwan. The West's priority of winning the economic confrontation with Russia ultimately is aiming to govern this new order in order to prevent a wider shift towards autarchy.

On 26 February, sanctions imposed on the world's 11th largest economy made it illegal for Western companies to deal with large Russian banks, except in energy trading, and expelled them from the global payments system. The flow of money across borders is coming to a halt. The action against the Russian central bank means that it can no longer access much of its vast $630 billion pile of foreign reserves. Trust has disappeared. The rouble has fallen 28% this year as capital flees, threatening a surge in inflation. Russian shares are down over 90% in offshore trading, and multinationals are leaving. All over the country, Russians are queuing outside the banks.

The rating agencies Moody's and Fitch downgraded Russia's rating to 'junk' in response to sanctions imposed by the West. In the meantime, the White House has said it will impose controls on exports of certain oil refining technologies to Russia. The West has not yet blocked energy imports from Russia for fear of disrupting supply, although "nothing is off the table," according to President Joe Biden. The price of a barrel of Brent crude oil reached $118 per barrel, 24% higher than before the invasion.

However, the effectiveness of sanctions is still very uncertain. In recent years, there have been many of them, but in many cases they are ineffective in achieving the set objectives.

The war prompted multinational companies to carefully assess their position towards Russia. Companies are progressively severing relations with Russia in order to strengthen the scope of official measures, including through the implementation of explicit or implicit measures requested by their national governments and, in some cases, by domestic consumers. Maintaining business relations with Russia presents significant reputational, logistical and sanction violation risks. The effects that the gradual severing of relations with Russia will have on companies depends very much on specific characteristics.

This humanitarian and economic crisis comes at a time when the economy was gradually recovering from the effects of the COVID-19 pandemic and threatens to reverse some of this progress.

([2]) Processed by Volksbank on data from ABI, International Monetary Fund, World Economic Forum, European Central Bank, Bank of Italy, Istat, chambers of commerce, news and daily financial newspapers.

The ongoing economic war, consisting of very heavy sanctions against Russia--the repercussions of which are almost immediate and the effects of which, as widely predicted, also hit the West--have sped up the already ongoing run-up in energy and raw material prices.

The following paragraphs provide a retrospective analysis of the events of 2021, which obviously cannot in any way take into account the events of the last two weeks.

International economy

The latest data available for October 2021 indicate that international trade rose by + 6.1% on an annual basis. Also in October, the average 12-month rate of change in world trade was +9.5%. Industrial production, again in October 2021, showed a positive annual change of + 4.0% compared to the same month of 2020.

In December 2021 the world stock market reported was up by + 21.6% on an annual basis.

In December 2021, the price of oil reached 74.7 dollars per barrel, up by + 48.2% on an annual basis.

In the third quarter of 2021, euro area GDP increased by +3.9% compared to the same quarter a year earlier.

The OECD's leading indicator for the euro area stood at 101 in November 2021, up from 98.3 twelve months earlier.

The euro area and Italy

In November 2021, industrial production in the euro area rose by +3.7% compared to twelve months earlier. By contrast, data for the main euro area countries showed a decline in production in November 2021 in cyclical terms: compared to twelve months earlier, France recorded a drop of -0.5% and Germany -2.3%.

In December 2021, the business confidence index in the euro area was +14.9, in Germany it was +25.3 and in France it rose from +7.3 to +7.5. The consumer confidence index, in the same month, in the euro area was equal to -8.3, at -5,8 in Germany and at -6.8 in France.

In November 2021, the unemployment rate in the euro area decreased compared to the previous month to 7.2%. The employment rate in the second quarter of 2021 increased to 67.6%, compared to 66.2% one year earlier.

Inflation in the euro area stood at +4.9% in November 2021, compared to -0.3% twelve months earlier. The growth rate of the "core" component, net of the more volatile components, was + 2.6%, higher than the + 0.4% of a year earlier.

In the third quarter of 2021, Italy's gross domestic product rose by +4% compared to the same quarter of the previous year and was also positive in cyclical terms (+2.6%).

In November 2021, the seasonally adjusted industrial production index increased by + 6.2% in trend terms; there was also an increase in economic terms equal to + 1.9%. The indices of the individual sectors recorded the following trend variations: energy goods -12%; consumer goods -9.8%; intermediate goods +4.4%; and capital goods -3.7%. Retail sales in November 2021 increased by +12.1% on a trend basis.

Confidence indices showed the opposite signs: the consumer index was negative while the business index was positive in December. The consumer confidence index decreased to -5.4 from -15.9 twelve months earlier, while business confidence increased to +10 from -10.2 a year earlier.

The unemployment rate stood at 9.2% in November 2021 from 9.6% twelve months earlier. Youth unemployment (15-24 years old) fell to 28% in the same month from 30.7% a year earlier. The employment rate increased slightly compared to the previous month to 58.9% from 57.3% a year earlier.

The national consumer price index for the entire community, gross of tobacco, increased in December 2021 and reached + 3.9%, while the "core" component (net of unprocessed food and energy goods) stood at + 1.5%.

According to the latest assessments presented by Istat, in the third quarter of 2021 the net debt of the Public Administrations (PA) in relation to GDP was equal to -6.2%, compared to -9.8% in the same quarter of 2020 .

1.1.2 MONETARY POLICY AND FINANCIAL MARKETS

Monetary Policy

At its meeting of 16 December 2021, the Governing Council of the European Central Bank decided to leave interest rates unchanged: the reference rate remains at zero while the deposit rate is negative at -0.5%. The Governing Council indicated that in the first quarter of 2022 the amount of the pandemic emergency purchase programme (PEPP) will be reduced towards its end - as planned - by the end of March 2022; the proceeds will be reinvested at least until the end of 2024. In any case, the future reduction of the PEPP portfolio will be managed in such a way as to avoid interference with the appropriate monetary policy stance. Flexibility will therefore remain an element of monetary policy where risks to its transmission jeopardise the achievement of price stability. In line with a gradual reduction in asset purchases, in order for the monetary policy stance to remain consistent with the stabilisation of inflation over the medium term, the Governing Council of the ECB has determined that net purchases within the asset purchase program (APP) will reach a monthly rate of 40 billion euros in the second quarter of 2022 and will decrease to 30 billion in the following quarter. From October 2022, purchases will continue at a monthly pace of € 20 billion, until it is necessary to reinforce the accommodative impact of its key rates, and will end shortly before the ECB's key rates begin to hike. Finally, the Governing Council will continue to provide ample liquidity through its refinancing operations. In particular, the third series of targeted longer-term refinancing operations (TLTRO-III) remains an attractive source of financing for banks, supporting bank lending to businesses and households. Finally, the ECB remains ready to adjust all its instruments, where appropriate, to ensure that inflation stabilises at the 2% target over the medium term.

In its statement of 3 February, the Governing Council confirmed that net asset purchases under the PEPP are proceeding at a slower pace in the first quarter of 2022 than in the previous quarter, with the intention of discontinuing net asset purchases under the PEPP at the end of March 2022.

The Governing Council intends to reinvest the principal payments on maturing securities purchased under the PEPP at least until the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed in such a way as to avoid interference with the appropriate monetary policy stance.

The pandemic demonstrated that, under stressed conditions, flexibility in the design and conduct of asset purchases helped to counteract the impaired transmission of monetary policy and made the Governing Council's efforts to achieve its objective more effective. Within the Governing Council's mandate, under stressed conditions, flexibility will remain an element of monetary policy whenever threats to the transmission of monetary policy jeopardise the achievement of price stability. In particular, in the event of renewed market fragmentation linked to the pandemic, the reinvestments of the PEPP can be flexibly regulated over time across asset classes and jurisdictions at any time. This could include the purchase of bonds issued by the Greek Republic beyond redemption rollovers, in order to avoid a disruption of purchases in that jurisdiction, which could jeopardise the transmission of monetary policy to the Greek economy while it is still recovering from the consequences of the pandemic. Net purchases under the PEPP could also be resumed, if necessary, to counteract negative shocks related to the pandemic.

The Federal Reserve, at its November 2021 meeting, confirmed the reference interest rate, set in a range between 0% and 0.25%, but decided to make some minor changes to its monetary policy. The board members decided to start reducing the pace of government bond purchases by $10 billion per month to $70 billion; the pace of ABS purchases will be reduced by $5 billion per month to $35 billion.

The Financial Markets

The three-month Euribor rate averaged -0.58% in December 2021. On average in the first week of January 2022 it fell to -0.57%. The rate on 10-year interest rate swaps was +0.17% in December 2021. The average for the first week of January 2022 was 0.35%. In December 2021, the spread between the 10-year swap rate and the 3-month Euribor rate averaged 75 basis points, compared with 28 basis points a year earlier.

The benchmark rate on the 10-year maturity averaged 1.45% in the US, -0.31% in Germany and 0.97% in Italy in December, compared to 0.54% twelve months earlier. The spread between the yield on ten-year Italian and German government bonds was therefore 128 basis points.

Financial bonds, based on the indications provided by the Merrill Lynch index, showed an average return of 0.55% in the euro area in December (0.53% in the previous month) and 2.12% in the United States (2.04% in the previous month).

Bonds by issuer category showed the following dynamics in Italy in October 2021:

- for government bonds, gross issues amounted to €34.9 billion (€45.0 billion in the same month of the previous year), while net issues amounted to 6.6 billion (-5.6 billion in the same month of the previous year);
- with reference to corporate bonds, gross issues totalled €8.3 billion (€12,2 billion in the same month of the previous year), while net issues totalled 1.4 billion (+4.6 billion in the same month of the previous year).
- finally, with regard to bank bonds, gross issues amounted to EUR 3.9 billion (EUR 1.8 billion in the same month last year), while net issues were EUR -5.2 billion (EUR -9.2 billion in the same month last year).

In December 2021, the Dow Jones Euro Stoxx (index of the 100 largest eurozone stocks by capitalisation) rose by +21.8% year-on-year, the Nikkei 225 (benchmark index for Japan) rose by +6.4% and the Standard & Poor's 500 (benchmark index for the US) rose by +26.6%.

In December, the main European stock exchange indices showed the following average changes: the Cac40 (the French index) rose by 26.2% on an annual basis; the Ftse100 of the London stock exchange rose by 11.8%, the Dax30 (the German index) rose by 16% and the Ftse Mib (the Milan stock exchange index) rose by 21.6%.

In the same month in the major New Economy markets, the TecDax (German technology index) rose +22.2%, the CAC Tech (French technology index) was up +47.6% and the Nasdaq was up +22.6%.

With reference to the main international banking indices, the following changes were recorded: the S&P 500 Banks (US banking index) rose by +36.9%, the Dow Jones Euro Stoxx Banks (euro area banking index) rose by +29.7% and the FTSE Banks (Italy banking index) rose by +29.7%.

In December 2021, the euro area stock market capitalisation rose by +23.3% compared to twelve months earlier. In absolute terms, total capitalisation stood at €8,777 billion. Within the Eurozone, Italy's market capitalisation was 8.4% of the total, France's 33.9% and Germany's 25.3%.

In December, with specific reference to Italy, the total capitalisation of the stock market was €737 billion, up €183 billion from a year earlier. The capitalisation of the Italian banking sector in December rose to €101.9bn (+ EUR 25.6bn year-on-year). Given these dynamics, in December 2021, the banking sector's share of total capitalisation was 13.5%.

1.2 THE BANKING SYSTEM [3]

1.2.1 BANK FUNDING

According to SI-ABI's initial estimates, in December 2021 customer deposits of total banks operating in Italy - represented by deposits to resident customers - amounted to €2,063.4 billion, up 5.4% from a year earlier.

Specifically, deposits from resident customers (current account deposits, deposits with a predetermined duration net of those connected with loan assignments, deposits repayable with advance notice, repurchase agreements net of operations with central counterparties) recorded, at December 2021, a tendential variation of +6.6%, with an increase in absolute value on an annual basis of over €114 billion, bringing the amount of deposits to 1,854.4 billion.

(3) Source: ABI Monthly Outlook

The annual change in bonds was negative at -4.4%. The bonds amounted to approximately €209.0 billion.

The strong rise in bank deposits recorded during 2020 and the first 3 months of 2021, mainly as a result of the health crisis, has started to lose momentum since April 2021. According to the ECB's official data, although still strongly positive,in November 2021 the trend in deposits showed lower rates of change in the main European countries: compared to January 2021, in France they went from a year-on-year change of 14.6% to increases of 6.8%, in Germany from +6.8% to +2.8%, in Spain from 9.5% to 3.9% and in Italy from +10.5% to +4.0%; in the euro area as a whole from +9.6 to +5.1%.

An analysis of the dynamics of deposits by holding sector (households and businesses) shows that, in November 2021 in France, corporate deposits grew by 5.9% year-on-year (it was +28.3% in January 2021; +6.3% for households); in Germany by 8.1% (+13.9% in January 2021; +3.9% for households); in Spain by 4.1% (+18.2% in early 2021; +4.8% for households); in Italy by 8.7% (+32% in early 2021; +5.2% for households). Finally, for the euro area as a whole, corporate deposits grew by 7.7% (+20.3% in January 2021) and household deposits by 5.2%.

Deposits from abroad were down in November 2021 compared to a year earlier: specifically, deposits from banks operating in Italy amounted to approximately €304.4 billion, down 4.9% from a year earlier. The share of foreign deposits in total funding was 11.5% (12.4% a year earlier). The net flow of funding from abroad in the period between November 2020 and November 2021 was negative for approximately €-16.6 billion.

In November 2021, net inflows from abroad (foreign deposits minus foreign loans) amounted to approximately €51.2 billion (a tendential variation of -29.8%). Out of total domestic lending it was 2.9% (4.1% a year earlier), while foreign loans - again on the same date - amounted to about €253.2 billion. The ratio of foreign loans/deposits from abroad was equal to 83.2% (77.3% a year earlier).

According to the first estimates of the SI-ABI, the average rate of bank deposits from customers (which includes the return on the stock of deposits, bonds and repurchase agreements in euro applied to the sector of households and non-financial companies) was in December 2021 at 0.45% (like in the previous month). In particular, the rate on deposits in euro applied to households and non-financial companies was 0.31% (the same as in the previous month), the rate on bonds was 1.75% (1.76% in the previous month) and the rate on repurchase agreements was 0.70% (1.23% in the previous month).

1.2.2 LOANS

Based on initial estimates by the SI-ABI, total loans to residents in Italy (private sector plus public administrations net of repurchase agreements with central counterparties) in December 2021 stood at € 1,716.3 billion, with an annual change equal to + 1.2%.

Loans to Italian residents in the private sector amounted to €1,463 billion in the same month, up 1.6% from a year earlier.

Loans to households and non-financial corporations amounted to €1,331 billion. Based on estimates in turn based on data published by the Bank of Italy, the annual change in loans to households and businesses, calculated by including loans not recognised in bank balance sheets as they are securitised and net of changes in stocks not related to transactions (for example, changes due to exchange rate fluctuations, value adjustments or reclassifications), was equal to +2.5%.

According to official Bank of Italy data, lending to non-financial companies grew by 0.4% in November 2021.

Total loans to households rose by 3.8%. The dynamics of loans to households for the mortgages for house purchases increased by + 4.8% on an annual basis.

In third quarter 2021, the share of home purchases financed with a mortgage rose to 71.3%. The ratio of the size of the loan to the value of the property stands at 77.8%.

Analysis of the distribution of bank lending by sector of economic activity shows that, in November 2021, manufacturing, mineral extraction and services accounted for approximately 58.2% of the total (manufacturing activity alone accounted for 27.8%). Financing for trade and for the hotel and catering business accounted for about 22.3% of the total, the construction sector for 9.5% and agriculture represented 5.5%. The residual assets represent approximately 4.5%.

According to the latest quarterly Bank Lending Survey - October 2021, "bidding criteria on corporate loans showed a slight easing in third quarter 2021, which can be attributed to increased competition between banks and lower risk perception. The supply conditions applied to household housing finance remained unchanged. Competitive pressures have contributed to more favourable terms and conditions for loans in all segments. In the current quarter, lending standards for corporations could be moderately tightened; those for households could be slightly loosened. Demand for loans from businesses showed no change. Household demand for mortgages increased again, mainly reflecting higher consumer confidence and low interest rates.

Demand for loans from businesses and for mortgages from households would strengthen in the current quarter.”

According to the latest business survey on industrial and service companies (November 2021), "in the first half of the year, demand for bank loans remained stable for about 60 per cent of companies and grew for 23 per cent, which was driven mainly by companies with more than 500 employees; it was influenced by a sharp increase in the need for funds for fixed investments, after the need to finance current activities had mainly supported the dynamic during 2020. Nearly all companies believe that their current liquid assets will meet their operational needs until at least the end of the year; 78% even consider them to be more than sufficient or abundant in relation to those needs, with most companies expecting to have at least recovered their pre-pandemic turnover levels by the end of the year."

The SI-ABI reports that in December 2021 the rate on loans in euros to households for the purchase of homes - which summarises the performance of fixed and variable rates and is also influenced by the change in the loan composition according to the type of loan - was 1.40%. Of all new mortgage disbursements, 83.8% were fixed-rate mortgages. The average rate on new euro loans to non-financial corporations rose to 1.29%. The weighted average rate on total loans to households and non-financial corporations was 2.16%.

1.2.3 INTEREST RATE EVOLUTION

The spread between the average lending rate and the average borrowing rate to households and non-financial companies was 171 basis points in December 2021. Before the onset of the financial crisis it was above 300 points. The margin on loans granted to businesses by banks in the main European countries (calculated as the difference between the interest rates on new loans and a weighted average rate of new deposits of households and non-financial companies) was equal, in December 2021, to 44 basis points in Italy, less than the 165 bps in Germany, 127 bps in France and 139 bps in Spain. For the household sector, a margin of 79 bps was recorded in Italy, less than the 178 bps in Germany, 113 bps in France and 141 bps in Spain.

The difference between the average rate on interest-bearing assets denominated in Euro vis-a-vis households and non-financial companies and the average rate in Euro on customer deposits (represented by households and non-financial companies) stood at 1.23 percentage points in December 2021 in Italy. This difference is the result of the average interest-bearing asset rate of 1.68% and the average cost of customer deposits of 0.45%.

The latest available data relating to interest rates applied in the euro area indicate that the rate on new bank loans of up to one million euros granted to non-financial corporations was 1.71% in December 2021, against 1.79% in December 2020, a value that compares with the 1.67% recorded in Italy (1.86% a year earlier).

The rates applied on new loan transactions of an amount exceeding one million euros disbursed to non-financial companies were, in December, equal to 1.11% on the average of the euro area (1.25% a year earlier), while in Italy they were 0.70% (0.86% a year earlier).

Lastly, in the same month,, the rate on current accounts and revolving loans to households stood at 4.81% in the euro area (5.11% a year earlier) and 3.10% in Italy (3.58% a year earlier).

1.2.4 ASSETS UNDER ADMINISTRATION AND MANAGEMENT

The latest data on the consistency of the total securities held in custody by Italian banks (both managed and held directly by customers) equal to approximately EUR 1,083,8 billion in December 2021 (18.3 billion less and -1.7% compared to a year earlier) show that it is attributable for about 18.5% to consumer households (annual variation of -11.0%), for 20.6% to financial institutions (-5.7% on an annual basis), for 51.3% to insurance companies (annual variation of +3.0%), for 4.5% to non-financial companies (-7.8% on an annual basis), for about 2.6% to the public administration and 0.7% to producer families. The securities of non-residents, about 2.1% of the total, recorded a year-on-year change of +14.1%.

Overall, the individual portfolio asset management of banks, investment firms and UCITS management companies in Italy amounted to approximately €1006.6 billion in September 2021, an annual trend increase of +3.8%.

In particular, bank asset management in the same period amounted to €113.1 billion, recording an annual trend of +2.7%. Assets administered by 'SIM' investment firms, amounting to approximately €16.7 billion, rose by 30.5% year-on-year, while those of 'SGR' asset management companies, amounting to €876.8 billion, recorded an annual increase of 3.5%.

As of November 2021, the assets of Italian and foreign open-ended funds stand at around €1,250 billion. Of these assets, 20.4% were funds under Italian law and the remaining 79.6% were funds under foreign law. Compared to November 2020, assets grew by 13.0% due to an increase of €11 billion in bond funds, €95.6 billion in equity funds, €31.5 billion in balanced funds and €7.1 billion in flexible funds, offset by a decrease of €1.1 billion in money market funds and €336 million in hedge funds.

With regard to the composition of assets by type of fund, it should be noted that, over the last year, the share of equity funds rose from 24.3% to 29.2%, that of balanced funds from 12.0% to 13.2%, while the share of bond funds fell to 35.1% from 38.7%, that of flexible funds from 21.2% to 19.3%, that of monetary funds from 3.6% to 3.1% and the share of hedge funds remained unchanged at 0.2%.

1.3 SIGNIFICANT EVENTS DURING THE YEAR

The industrial plan 2021 - 2023

The strategic lines of the plan, approved by the Board of Directors in December 2020, and updated for the three-year period 2022 - 2024 in the session of 16 July 2022, envisage a new approach based on the sustainable development of loans, an increase in the commission margin and the careful management of credit risk. The fundamental elements of the strategy are, in particular:

- stand-alone perspective, supported by excellent capitalisation and liquidity;
- a renewed focus on the development of the margin from services, an area in which Volksbank shows room for improvement both when compared to banks that are similar in size and positioning and when compared to significant banks;
- a prudent and focused lending development strategy, proposing the Bank as a reference point for businesses and households in the area;
- careful risk management, in particular by intervening on the entire credit process, as well as through careful and active management of NPLs, guided by enhanced workouts and targeted transfers aimed at containing stocks and such as not to generate sacrifices for the shareholders;
- a streamlined operating structure, characterised by a focus on cost control and an orientation towards customer service and the creation of value for shareholders.

The development guidelines of the strategic plan recall, among other things, the need to ensure “a careful assessment of the effective sustainability of the objectives and the need to ensure robust growth and governance of risks and costs”. The strategic choices developed in the plan are therefore consistent with this approach, and in particular guide the bank towards:

- a strategic positioning that confirms, from an evolutionary perspective, the role as a territorial Bank, focused on supporting the real economy, with the development of revenues (brokerage margin) at the end of the plan, 89% of which originate from commercial activities and 11% from the management of the proprietary portfolio;

- a commercial banking business model supported by the progressive simplification of processes, placing the customer first and a greater balance between service margin and interest margin;
- a careful balance between operational management, risk profile, liquidity and capital strength.

Consistent with this orientation, the bank has developed objectives aimed at ensuring a solid generation of value, through well-defined managerial actions, divided into 7 pillars:

1) A virtuous **growth** in terms of customers and volumes, driven by an expanded product range and specific skills in the world of private mortgage loans and in the tourism, manufacturing, agri-food and real estate sectors;
2) A native digital **multi-channel** strategy, capable of making a reality of the concept of "Everywhere Banking", offering Volksbank customers the ability to fully manage their banking relationship also through access to best-in-class digital channels;
3) A specific focus on full **sustainability**, which involves the daily work of the Bank (real estate, trade union relations, utilities, etc.), the ability to develop and finance sustainable projects, and the offer of common ESG investment funds;
4) The proactive management of risks affecting **balance sheet assets**, thanks to the allocation of capital in favour of government measures to support the resilience of businesses and households, to the impact of the timing of the introduction of regulatory measures (Basel IV, SME supporting factor, etc.) and the management and monitoring of credit risk resulting from the COVID-19 pandemic;
5) **Process** efficiency, to be able to support commercial development, the specialisation of branch resources and faster and more precise responses to customers;
6) The **control** system in its entirety, to anticipate market changes and reorient the Bank's business;
7) **Human capital**, to increasingly qualify the professionalism of consultancy and guide customers in new processes under the multi-channel strategy.

Inspection assessment

As of 15 November 2021, the Bank of Italy conducted an inspection of the Bank which was completed on 25 February 2022. At the date of approval of the draft financial statements, the Bank has not yet received the audit report.

Voluntary realignment of the tax values of real estate under Art. 110 of Legislative Decree 14 August 2020, no. 104

During the month of June, the Bank decided to take advantage of the voluntary realignment of the tax values of real estate pursuant to Art. 110 of Legislative Decree 14 August 2020, no. 104 (cd. "August Decree"), which extended the possibility of adjusting the tax values of real estate to the higher values recorded in the financial statements for the year ending 31 December 2018 (and still present in the 2020 financial statements), against the payment of a 3% substitute tax.

Property, plant and equipment were identified with a total realignable value of 56 million, entirely attributable to properties and land. The exercise of the realignment option took place in the 2020 tax return, i.e. relating to the tax period in which the realignment took place, which was submitted by 30 November 2021, subject to the payment of the substitute tax totalling €1.7 million, paid in a lump sum on 30 June 2021.

The tax recognition of the higher values will take place as of the financial year 2021, from which the new tax values will be deductible.

The Bank's Board of Directors has authorised the creation of a tax-suspension restriction on the share premium reserve, for an amount equal to the difference between the higher realigned values and the substitute tax due (54 million), which will be submitted for ratification at the first ordinary shareholders' meeting.

From an accounting point of view, the income statement recorded a net positive impact of €14.5 million, as a result of the cancellation of deferred tax liabilities of €16.2 million and the recognition of the full substitute tax of €1.7 million

Management of the shareholders’ meeting during the Covid-19 health emergency - Shareholders’ meeting of 30 March 2021

In order to minimise the risks associated with the Covid-19 health emergency, the Bank once again availed itself of the option, introduced by Art. 106 of (It.) Legislative Decree no. 18 of 17 March 2020 (‘Cura Italia’ decree), to call the Shareholders’ Meeting to approve the financial statements as at 31.12.2020 with the procedures set out in articles 135-undecies and 135-novies of (It.) Legislative Decree no. 58/1998 (Consolidated Law on Finance “TUF”):

For the above reasons, the shareholders took part only by conferring a proxy, complete with voting instructions, to the Designated Representative, without being able to attend the Shareholders' Meeting in person. The intervention by proxy to the Designated Representative, the only person admitted to the Shareholders’ Meeting, was announced in the Notice of call, disseminated to the market on the storage system emarketstorage.com and published on the page dedicated to the Shareholders’ Meeting on the Bank’s website in the section relating to the 2021 assembly.

On its website, in the section relating to the 2021 Shareholders 'Meeting, the Bank has published the procedures for attending the Shareholders' Meeting and, for each item on the agenda, a summary of the topic, the proposed resolution and the documents submitted for resolution, in the compliance with the legal terms and deadlines indicated in the Notice of call. Furthermore, so that, in giving the voting instructions to the Designated Representative, the shareholders could take into account the feedback provided by the Bank to any questions asked by the shareholders before the Shareholders’ Meeting, the answers to the questions on the items on the Agenda received by the shareholders by the deadline indicated in the Notice and on the website were published on the bank’s site in the section related to the 2021 Shareholders meeting.

The Bank has appointed the lawyer Edoardo Degl'Incerti Tocci, registered office in Via Vittorio Veneto 5 - 42121 Reggio Emilia (RE), as the Designated Representative to whom shareholders, in order to attend and vote at the Shareholders' Meeting, must confer proxy with voting instructions using the online procedure activated by the company XDataNet Srl, Mirandola (MO) and made available on the Bank's website in the section relating to the 2021 Shareholders' Meeting.

The information to participate by proxy with voting instructions to the Designated Representative has been made available on the Bank's website in the section relating to the 2021 Shareholders' Meeting in the Proxy Voting section.

To ask questions on the items on the Agenda by March 19, 2021 and obtain a response from the Bank by March 22, 2021, shareholders could join the Bank's website in the section relating to the 2021 Shareholders' Meeting in the Questions and Answers section.

Judicial and arbitration proceedings

As of the Date of this Financial Report, no judicial or arbitration proceedings are pending of such amount or nature as to have significant repercussions on the financial, equity or economic situation of Volksbank, even in the event of a negative outcome.
The main disputes relate to procedures pertaining to compound interest and usury, to actions relating to investment services provided, to property law disputes and to bankruptcy clawback actions.

Assignment of non-performing loans

During the year, Volksbank completed the transfer without recourse of several non-performing positions denominated in EUR.

Assignment of non-performing loan portfolio	**2021**
No. Non-performing positions transferred	6
Gross value (EUR)	6,409,748
Int. Default (in euro)	521,982
Total (EUR)	**6,931,730**

The transfer provides no transferor guarantee of the solvency of the transferred debtors, or of any guarantors thereof, on any grounds, hence provides no guarantee of the total or partial collection of the transferred receivables. As a result of the transfer, the receivables have been de-recognised from the financial statements as of the date of execution. The price paid by the buyers was EUR 3.8 million.

Securitisation of non-performing loans with State guarantee ("GACS")

As part of a broader program of interventions on non-performing loans and in line with the strategy of derisking and improving the quality of assets, Volksbank concluded - together with another 38 participating banks - the securitisation of non-performing loans known as "Buonconsiglio 4". In particular, the Institute sold, with economic effect from 1st December 2021, a portfolio of non-performing loans with a gross value of 37.8 million to the securitisation vehicle known as "Buonconsiglio 4 S.r.l.", established pursuant to (It.) Law no. 130/1999, which, in turn, issued three tranches of ABS notes of which:

- a senior tranche, rated at BBB by the agencies Scope ratings, DBRS Morningstar and ARC Ratings, of 5.0 million. The tranche in question, maintained by Volksbank, has structural characteristics of eligibility to GACS;
- a mezzanine tranche, of 0.7 million, without rating
- a junior tranche of 0.2 million, without rating.

A percentage of 94.9% of mezzanine securities and 94.8% of junior securities were placed with institutional investors, while the remaining 5% is held by Volksbank. In this way, in compliance with the legal obligations in force, the accounting and regulatory deconsolidation of the transferred portfolio will follow.

Assignment of non-performing loan portfolio	**2021**
No. Non-performing positions transferred	249
Gross value (EUR)	33,389,082
Int. Default (in euro)	4,394,153
Total (EUR)	**37,783,234**

The price paid by the buyers was EUR 5.8 million.

1.4 OPERATING PERFORMANCE

1.4.1 RESULTS

Presentation of economic results

A reclassified income statement is presented below to facilitate reading of the results for the year. As required by Consob communication no. DEM/6064293 of 28 July 2006, a description of the reclassifications and aggregations made is provided below:

- the item "Net financial result" is made up of the Profit and Loss Account items "Dividends and similar income", "Net result from trading activities" and the items "Profits (Losses) from disposal or repurchase" and "Net profit/loss from other financial assets and liabilities measured at fair value through Profit and Loss";
- the item "Other operating expenses/income" includes the items "Other operating expenses/income" excluding the recovery of costs and the item "Profits (Losses) from equity investments";
- the item "Administrative expenses" shows the balance of item 160 b) of Profit and Loss net of cost recoveries and excluding taxes and charges relating to the banking system, which are reported in a specific item of the reclassified income statement;
- the item "Value adjustments to tangible and intangible assets" includes the profit and loss items "Adjustments/write-backs on impairment of tangible assets" and "Adjustments/write-backs on impairment of intangible assets" excluding impairment on tangible and intangible assets;
- the item "Net adjustments on loans to customers" includes "Net adjustments/write-backs for credit risk of financial assets valued at amortised cost" limited to the components referable to financial assets that constitute loans, "Profits/losses from contractual amendments without cancellations" and the"Net provisions for risks and charges for credit risk relating to commitments and guarantees given";
- the item "Adjustments on other assets and liabilities" includes "Net adjustments/write-backs for credit risk of financial assets measured at amortised cost", "Net adjustments/write-backs for credit risk of financial assets measured at fair value with impact on comprehensive income", both limited to the components referable to financial assets that do not constitute loans as well as the impairment on tangible and intangible assets.
- the item "Net provisions for risks and charges" shows the balance of item 170 b) of the Profit and Loss Account.

Overall trend in results

Reclassified Profit and Loss Account	31.12.2021	31.12.2020	Change	
(thousands of €)			**Ass.**	**%**
Interest margin	176,521	172,663	3,858	2.2%
Net commission	93,994	84,018	9,976	11.9%
First margin	**270,515**	**256,681**	**13,834**	**5.4%**
Net financial result	48,624	6,853	41,771	609.5%
Other operating charges/revenue	2,088	1,941	147	7.6%
Other operating income	**50,712**	**8,794**	**41,918**	**476.7%**
Net operating income	**321,227**	**265,475**	**55,752**	**21.0%**
Personnel expenses	(101,382)	(93,000)	(8,382)	9.0%
Administrative expenses	(52,917)	(52,853)	(64)	0.1%
Net result of tangible and intangible assets	(12,933)	(13,983)	1,050	-7.5%
Operating costs	**(167,232)**	**(159,836)**	**(7,396)**	**4.6%**
Operating income	**153,995**	**105,639**	**48,356**	**45.8%**
Net adjustments on loans to customers	(54,568)	(63,617)	9,049	-14.2%
Adjustments on other assets and liabilities	(3,746)	(8,002)	4,256	-53.2%
Profits (Losses) on disposal of equity investments and shareholdings	(271)	187	(458)	-244.9%
Levies and charges relating to the banking system	(13,528)	(11,806)	(1,722)	14.6%
Net provisions for risks and charges	(3,430)	(1,302)	(2,128)	163.4%
Gross profit (loss) from current operations	**78,452**	**21,099**	**57,353**	**271.8%**
Income tax	(8,376)	(5,084)	(3,292)	64.8%
Profit (Loss) for the year	**70,076**	**16,015**	**54,061**	**337.6%**

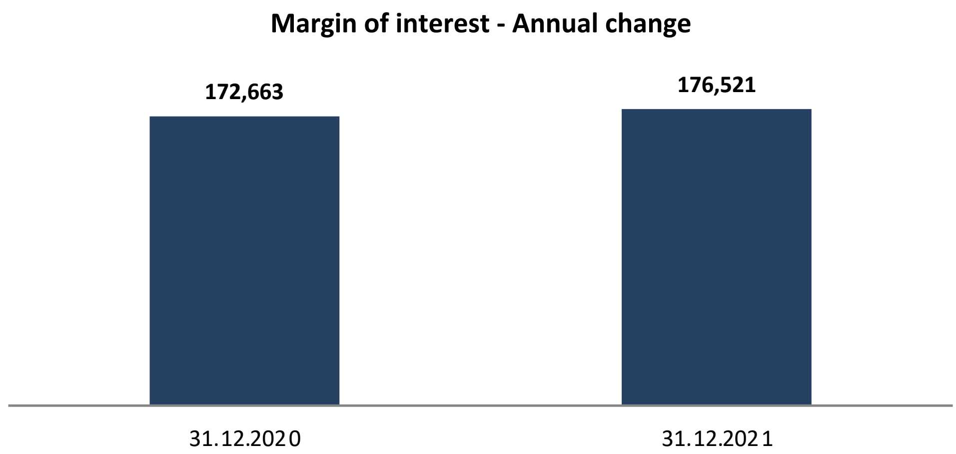
The Company closed the financial year 2021 with a net profit of 70.1 million. Considering a still somewhat complex operational context, the financial statements for 2021 were drafted prudently when measuring assets.

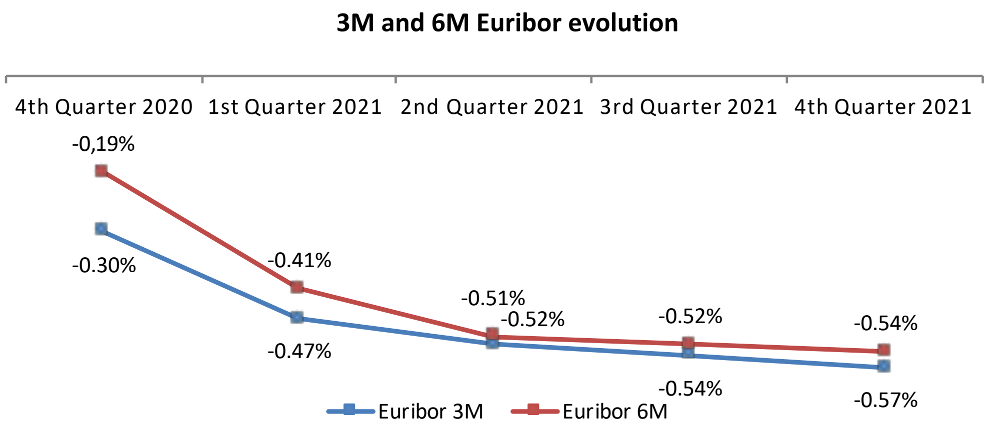
In a complex market context like the one last year, the operating income shows growth of +45.8% compared to 2020.

In particular, net operating income increased by +21.0% to €321.2 million and costs rose by +4.6% to €167.2 million. The operating profit amounted to €154.0 million.

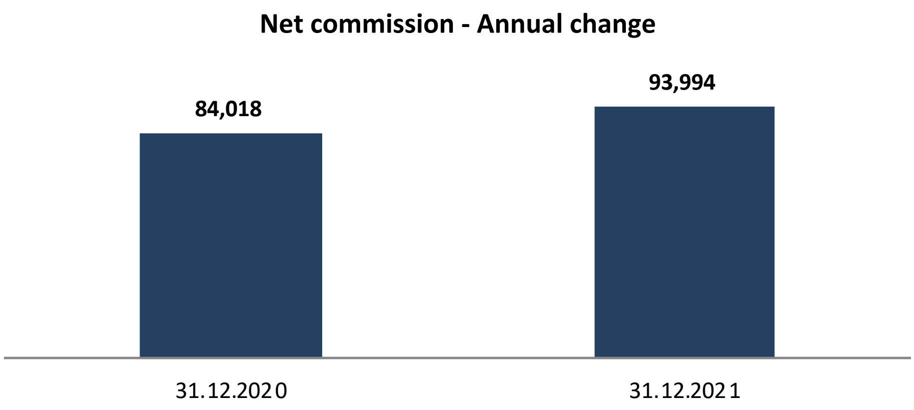
In 2021, net interests reached 176.5 million, net commissions amounted to 94.0 million. Net financial income at 48.6 million and other operating expenses/income at +2.1 million.

The "interest" item was conditioned by the persistence of a historically minimum level of interest rates, also associated with an economic cycle deeply impacted by the COVID-19 pandemic crisis, with levels of extreme uncertainty and volatility. Interest income from customers amounted to 149.7 million, while interest payable to customers amounted to 5.1 million.





Net commissions, equal to €94.0 million in the year, represent 29.7% of net operating income. Among the most important components are the intermediation and consultancy services which amounted to 32.7 million, while the services connected with commercial banking activities amounted to 63.2 million. More in detail, net income from collection and payment services amounted to 5.3 million, income from the maintenance and management of current accounts (equal to 23.4 million) and finally net commissions related to receivables and loans equal to 23.1 million.



The net financial result amounted to 48.6 million. In particular, trading activity had a positive net result of 2.0 million, the sale of instruments measured at the amortised cost +40.5, of instruments valued at *fair value* had an impact on comprehensive income of +5.3 million, and the negative result of the measurement of instruments at *fair value*had an impact on the Profit and Loss Account for -2.9 million.

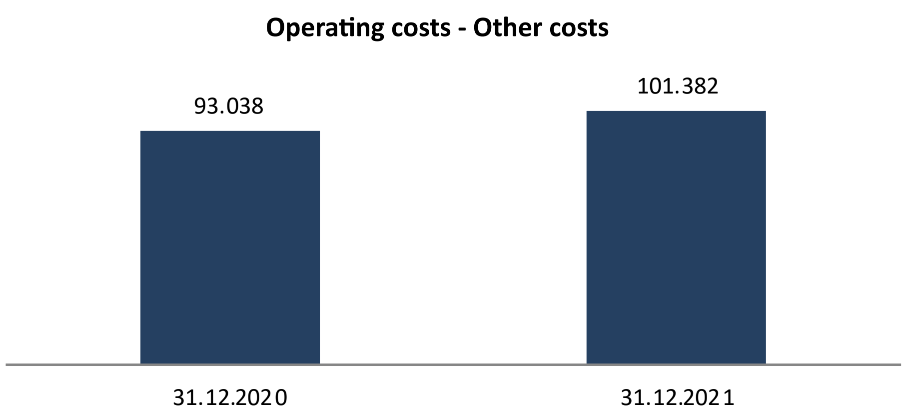
With specific reference to the proprietary portfolio, please note the increased operations on financial assets, with the Treasury focussed on managing the liquidity portfolio and the essential concentration of the other portfolios in Portfolio Management in order to grasp market opportunities by an increase in exposure on maturities after short term, thus structurally increasing the total contribution of securities portfolio management to Company revenue, including the positive effects from interest income.

The diversification of the bond portfolio and investment inequity-based funds were further balanced with alternative investment products in order to optimise the risk/return profile.

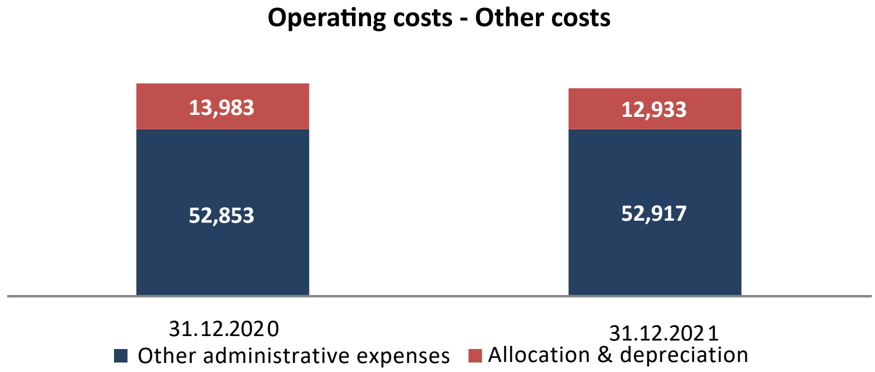
Other operating income/expenses amounted to +2.1 million.

Overall, other operating income amounted to 50.7 million. Net operating income amounted to 321.2 million.

Operating costs amounted to 167.2 million and included personnel costs of 101.4 million, an increase compared to the previous year.



Other administrative expenses amounted to 52.9 million, consisting mainly of costs for information and communication technologies (ICT) of € 6.8 million, property management for € 6.0 million, fees to professionals of € 5.5 million , legal and credit recovery of 2.5 million.



The net result of tangible and intangible assets amounted to -12.9 million. It includes, inter alia, -3.6 million relating to the amortisation of properties, -3.7 million relating to the depreciation of movable and immovable property and plants, and -1.0 million relating to the amortisation of the Client relationship recorded in the accounting of the merger with Banca Popolare di Marostica.

By introducing IFRS 16, rental costs become amortisation of rights of use entered in assets; they amounted to -4.4 million in 2021 (stable compared to the previous year).

Net adjustments on loans to customers amounted to -54.6 million. The amount recorded during the year is mainly attributable to adjustments to *non-performing* loans. The continual control of correct credit risk measurement, in an ongoing economic stagnation, saw the Bank carry on strengthening controls, taking bad debt hedging to levels indicated by European supervisions for significant banks.

Total provisions for impairment accounted for 4.3% of gross lending, compared to 4.5% in the previous year. The bad debts hedging rate rose to 67.8%, against 65.9% at 31 December 2020. The coverage of unlikely to pay reached 40.7%, compared to 40.2% in the previous year. For past due loans the coverage rate was 26.7% compared to 24.3% twelve months earlier, while for performing loans the write-down percentage rose to 1.22%, compared to 1.02% at the end of 2020.

Coverage of non-performing loans	31.12.2021	31.12.2020
Coverage of Bad Debts	67.78	65.83%
Coverage of unlikely to pay	40.65%	40.16%
Coverage of exposures past due	26.71%	24.30%
Coverage of performing exposures	1.22%	1.02%

Adjustments on other assets and liabilities equal to -3.7 million mainly refer to the impairment of tangible assets for -3.4 million.

Net provisions for risks and charges amounted to -3.4 million.

The item “taxes” was negative for -8.4 million.

The charges relating to ordinary contributions provided for in Directives 2014/59/EU - Recovery and Resolution of Credit Institutions and Investment Firms and 2014/49/EU - Deposit Guarantee Schemes (“DGS”) and the Bank Recovery and Resolution Directive (BRRD) amounted to €9.1 million net of taxes.

The net profit for the year was +70.1 million.

1.4.2 STATEMENT OF FINANCIAL POSITIONS

Presentation of the statement of financial position

To facilitate reading the balance sheet, the reclassified statement of financial position is shown below. The reclassification involved the aggregation and disaggregation of items in the balance sheet. In particular, note as follows:

- Cash and cash equivalents are included in the residual Other asset item;
- the separate evidence of financial assets that constitute Loans to banks regardless of the respective allocation accounting portfolios and Loans to customers broken down on the basis of the valuation at amortised cost or at fair value,
- financial assets that do not constitute loans are entered separately, distinguishing between financial assets measured at amortised cost, financial assets measured at fair value with impact on the Profit and Loss Account, financial assets measured at fair value through other comprehensive income, net of the reclassification to Loans to banks and Loans to customers;
- tangible and intangible assets are aggregated into a single item;
- separate indication of assets and liabilities for Right of use as established in IFRS 16;
- payables to banks at amortised cost are entered separately;
- the total sums due to customers at amortised cost and of outstanding securities are aggregated into a single item;
- "Provisions for risks and charges" groups funds designated for a specific use (employee severance benefits, provisions for risks and charges, provisions for commitments and financial guarantees issued) into a single item;
- reserves are indicated in an aggregated manner, net of any own shares.

Reclassified asset items	**31.12.2021**	**31.12.2020**	**Change**	
(thousands of €)			**Ass.**	**%**
Loans to banks	1,597,696	692,399	905,297	130,7
Loans to customers	7,495,896	7,408,186	87,710	1.2%
a) Loans to customers measured at amortised cost	7,466,817	7,374,600	92,217	1.3%
b) Loans to customers valued at FVOCI and with FV in the Profit and Loss Account	29,079	33,586	(4,507)	-13.4%
CA-rated financial assets that do not constitute loans	2,870,430	2,255,581	614,849	27.3%
Financial assets valued at fair value with impact on profit and loss	93,730	104,513	(10,783)	-10.3%
Financial assets valued at FVOCI	680,921	597,473	83,448	14.0%
Investments	5,278	5,168	110	2.1%
Tangible and intangible assets	151,031	160,226	(9,195)	-5.7%
- owned goods	133,379	141,197	(7,818)	-5.5%
- rights of use	17,652	19,029	(1,377)	-7.2%
Tax assets	149,630	171,756	(22,126)	-12.9%
Non-current assets and asset groups held for sale	4,408	15,544	(11,136)	-71.6%
Other assets	234,371	215,017	19,354	9.0%
Total assets	**13,283,391**	**11,625,863**	**1,657,528**	**14.3%**

Reclassified liability items	**31.12.2021**	**31.12.2020**	**Change**	
(thousands of €)			**Ass.**	**%**
Payables to banks at amortised cost	2,668,837	1,972,837	696,000	35.3%
Payables to customers at amortised cost and outstanding securities	9,469,263	8,582,524	886,739	10.3%
Financial liabilities held for trading	60	1,783	(1,723)	-96.6%
Financial liabilities designated at fair value	-	-	-	n.a.
Tax liabilities	18,805	27,046	(8,241)	-30.5%
Liabilities associated with assets held for sale	-	-	-	n.a.
Other liabilities	256,877	242,571	14,306	5.9%
Provisions for risks and charges	37,537	35,040	2,497	7.1%
- of which: commitments and guarantees granted	*7,631*	*6,109*	*1,522*	*24.9%*
Capital	201,994	201,994	-	0.0%
Reserves	557,566	543,935	13,631	2.5%
Valuation reserves	2,376	2,118	258	12.2%
Capital instruments	-	-	-	n.a.
Profit (loss) for the year (+/-)	70,076	16,015	54,061	337.6%
Total liabilities and equity	**13,283,391**	**11,625,863**	**1,657,528**	**14.3%**

Loans and payables to banks

Interbank relations	31.12.2021	31.12.2020	Change	
(thousands of €)			Ass.	%
Loans and advances to banks	1,597,696	692,399	905,297	130,7
Payables to banks	2,668,837	1,972,837	696,000	35.3%
Net position of banks	**(1,071,141)**	**(1,280,438)**	**209,297**	**-16.3%**

With regard to treasury activity, the net liquidity position in the interbank market at year-end was negative at 1,071.1 million, compared with 1,280.4 million at the end of 2020.

Direct funding

Direct customer deposits totalled €9,197.6 million, up €1,056.7m (+13.0%) on the figure as at 31 December 2020 (€8,140.9m).

Direct funding	31.12.2021	31.12.2020	Change	
(thousands of €)			Ass.	%
Direct deposits and current accounts	8,146,145	7,196,080	950,065	13.2%
Liability transactions on repurchase agreements on securities	671,413	480,253	191,160	39.8%
Outstanding securities	305,315	394,089	(88,774)	-22.5%
Other funding	74,718	70,473	4,245	6.0%
Total direct funding from customers	**9,197,591**	**8,140,895**	**1,056,696**	**13.0%**
Wholesale funding	271,672	441,629	(169,957)	-38.5%
- of which subordinate liabilities	131,028	130,940	88	0.1%

Breaking down the figure shows an increase in forms of funding on demand, represented by current accounts and deposits (+1.047.1 million and +15.5%), forming 84.9% of direct funding, and a decrease in fixed-term funding (-267.0 million and -30.4%).

Other payables increased to 74.7 million (they were 70.5 at the start of the year). Repurchase agreements, which stood at 671.4 million at year- end, were up compared to the start of the year (+191.2 million).

Indirect funding

Indirect deposits by private customers stood at approximately 4,891.4 million at 31st December 2021, up by +20.4% compared with 4,063.0 million at the start of the year (+828.4 million).

Technical forms of indirect deposits	31.12.2021	31.12.2020	Change	
(thousands of €)			Ass.	%
Assets under administration - third party products	3,189,063	2,826,131	362,932	12.8%
Assets under management - third party securities and own shares	1,702,344	1,236,845	465,499	37.6%
Total	**4,891,408**	**4,062,976**	**828,432**	**20.4%**

Indirect funding under administration of third party products amounted to 3.189.1 million, up by 12.8% compared with the start of the year (+828.4 million).

Indirect funding under administration of third party securities and own share emissions stood at 1,702.3 million, up compared with 1,236.8 million at the start of the year (+37.6%).

Indirect funding, net of the Bank's shares, amounted to 4.498.9 million, up +23.9% compared to the same aggregate at the start of the year (3,631.1 million; +867.9 million).

Customer credits represented by loans

Loans to Customers totalled 7,466.8 million, up +1.3% compared with the start of the year, which amounted to a balance of 7,374.6 million (+92.2 million).

Technical forms of use	31.12.2021	31.12.2020	Change	
(thousands of €)			Ass.	%
Current accounts	761,177	822,284	(61,107)	-7.4%
Advances and loans	495,861	457,424	38,437	8.4%
Mortgages	5,919,136	5,778,003	141,133	2.4%
Trade receivables	7,176,174	7,057,711	118,463	1.7%
Asset repurchase agreements	-	-	-	n.a.
Receivables represented by securities	82,326	93,180	(10,854)	-11.6%
Non-performing loans	205,937	217,738	(11,801)	-5.4%
Other	2,381	5,971	(3,590)	-60.1%
Other loans to customers	290,644	316,889	(26,245)	-8.3%
Total	**7,466,818**	**7,374,600**	**92,218**	**1.3%**

The short-term technical forms (current accounts, active repurchase agreements and other transactions) amounted to 763.6 million, down -8.5% (-64.7 million) compared to 828.3 million at the start of the year. Medium and long term technical forms, primarily represented by mortgages and personal loans, increased by +2.3% to 6,703.3 million (+156.9 million) compared to the start of the year.

With regard to the breakdown of trade receivables, it should be noted that the technical forms of loans comprise 79.3% of net loans, up from 78.4% at the at the start of the year.

Current accounts represent 10.2% of net loans to customers, down compared with 11.2% in the previous year.

Gross non-performing loans stood at 448.0 million, down -8.8% compared with 491.1 million at the start of the year. The ratio of gross non-performing loans to total gross loans to customers was 5.8%, down from 6.4% at the start of the year.

Credits	31.12.2021	31.12.2020	Changes	
(thousands of €)			Ass.	%
A) bad debts				
gross amounts	225,762	298,560	(72,798)	-24.4%
value adjustments	(153,020)	(196,537)	43,517	-22.1%
net carrying amounts	72,742	102,023	(29,281)	-28.7%
% Coverage	67.8%	65.8%		
B) unlikely to pay				
gross amounts	212,983	189,307	23,676	12.5%
value adjustments	(86,572)	(76,024)	(10,548)	13.9%
net carrying amounts	126,411	113,283	13,128	11.6%
% Coverage	40.6%	40.2%		
C) past due exposures				
gross amounts	9,256	3,214	6,042	188.0%
value adjustments	(2,472)	(781)	(1,691)	216.5%
net carrying amounts	6,784	2,433	4,351	178.8%
% Coverage	26.7%	24.3%		
D) Subtotal non-performing exposures (a+b+c)				
gross amounts	448,001	491,081	(43,080)	-8.8%
value adjustments	(242,064)	(273,342)	31,278	-11.4%
net carrying amounts	205,937	217,739	(11,802)	-5.4%
% Coverage	54.0%	55.7%		
E) performing loans - stage 1				
gross amounts	6,355,894	6,563,010	(207,116)	-3.2%
value adjustments	(36,453)	(38,897)	2,444	-6.3%
net carrying amounts	6,319,441	6,524,113	(204,672)	-3.1%
% Coverage	0.57%	0.59%		

F) performing loans - stage 2				
gross amounts	911,510	573,637	337,873	58.9%
value adjustments	(52,396)	(34,069)	(18,327)	53.8%
net carrying amounts	859,114	539,568	319,546	59.2%
% Coverage	5.75%	5.94%		
G) Subtotal Performing loans (e+f)				
gross amounts	7,267,404	7,136,647	130,757	1.8%
value adjustments	(88,849)	(72,966)	(15,883)	21.8%
net carrying amounts	7,178,555	7,063,681	114,874	1.6%
% Coverage	1.22%	1.02%		
H) performing exposures represented by securities - stage 1				
gross amounts	82,795	93,377	(10,582)	-11.3%
value adjustments	(469)	(485)	16	-3.3%
net carrying amounts	82,326	92,892	(10,566)	-11.4%
% Coverage	-0.57%	-0.52%		
I) performing exposures represented by securities - stage 2				
gross amounts	-	1,611	(1,611)	-100.0%
value adjustments	-	(1,323)	1,323	-100.0%
net carrying amounts	-	288	(288)	-100.0%
% Coverage	n.a.	-82.12%		
J) Subtotal Performing loans consisting of securities (h+i)				
gross amounts	82,795	94,988	(12,193)	-12.8%
value adjustments	(469)	(1,808)	1,339	-74.1%
net carrying amounts	82,326	93,180	(10,854)	-11.6%
K) Non-performing loans represented by securities				
gross amounts	1,050	-	1,050	n.a.
value adjustments	(1,050)	-	(1,050)	n.a.
net carrying amounts	-	-	-	n.a.
Total loans to customers measured at amortised cost (D+G+J+K)				
gross amounts	7,799,250	7,722,716	76,534	1.0%
value adjustments	(332,432)	(348,116)	15,684	-4.5%
Net carrying amounts	**7,466,818**	**7,374,600**	**92,218**	**1.3%**
- of which forborne performing	348,391	44,717	303,674	679.1%
- of which forborne non-performing	89,966	73,665	16,301	22.1%

Net bad debts decreased by -28.7% to 72.7 million, compared with 102.0 million at the start of the year. The coverage ratio was 67.8%, compared with 65.8% at the start of the year. Net bad debts accounted for 0.99% of total net loans, down from 1.40% at the start of the year.

Net unlikely to pay positions amounted to 126.4 million, up +11.6% from 113.3 million at the start of the year. The coverage ratio was 40.6%, up from 40.2% at the start of the year. The ratio of net unlikely to pay to net loans was 1.71%, compared with 1.56% at the start of the year.

Net past-due exposures stood at 6.8 million, compared to 2.4 million at the start of the year. The percentage of write-downs was 26.7%, compared to 24.3% at the start of the year.

Net non-performing loans stood at 205.9 million, down -5.4% compared to 217.7 million at the start of the year. The percentage of write-downs was 54.0%, compared to 55.7% at the start of the year. Net non-performing loans accounted for 2.68% of net loans, down from 2.87% at the start of the year.

Net *performing* loans stand at 7,178.6 million, up 1.6% compared with 7,063.7 million at the start of the year. The estimate of collective *impairment* of performing receivables resulted in an adjustment of 88.8 million, compared to 73.0 million at the start of the year. The percentage of write-downs was 1.22%, up from 1.02% at the start of the year.

This section presents some *key asset quality indicators*:

Asset quality	31.12.2021	31.12.2020
Gross non-performing loans/gross loans	5.81%	6.44%
Net non-performing loans/net loans	2.68%	2.87%
Gross bad debts/gross loans	2.93%	3.91%
Net bad debts/net loans	0.99%	1.40%
Gross unlikely to pay/gross loans	2.76%	2.48%
Net unlikely to pay/net loans	1.71%	1.56%

The ratio between gross non-performing loans and gross loans including financial assets measured at *fair value* constituting loans was 6.29%, whereas the ratio calculated on net values was 3.03%.

Financial assets

Financial assets	31.12.2021	31.12.2020	Change	
(thousands of €)			**Ass.**	**%**
Financial assets valued at FV through profit and loss	122,809	138,099	(15,290)	-11.1%
- financial assets held for trading	1,641	472	1,169	247.7%
- financial assets designated at FV	-	-	-	n.a.
- financial assets compulsorily measured at FV	121,168	137,627	(16,459)	-12.0%
Financial assets valued at FV through OCI	680,921	597,473	83,448	14.0%
CA-rated securities that do not constitute loans	2,870,430	2,255,581	614,849	27.3%
Total	**3,674,160**	**2,991,153**	**683,007**	**22.8%**

The financial assets section is as follows:

- financial assets designated at fair value with impact on the Profit and Loss Account, for 122. 8 million, are made up of 1.6 million in financial assets held for trading, almost entirely consisting of debt securities, 121.2 million financial assets compulsorily measured at fair value, represented by 45.0 million in capitalisation agreements, 47.0 million in UCITS units, and 29.1 million from receivables that do not pass the SPPI test;
- financial assets designated at fair value through other comprehensive income of 680.9 million are made up of 620.1 million in debt securities and 60.8 million in equity securities;
- securities measured at amortised cost that do not constitute loans amount to 2,870.4 million, up 27.3% compared to 2,255.6 million at the start of the year, and are fully composed of debt securities.

Tangible fixed assets

Tangible fixed assets amounted to a total of 135.4 million, down by 8.0 million compared to 143.4 million at the beginning of the year (-5.6%). Overall, there was depreciation of 11.7 million, also considering the amortisation of rights of use, and impairment of buildings for 3.4 million.

Intangible fixed assets

As part of the incorporation of the Banca Popolare di Marostica Group, customer-related intangible assets, known as "*client relationships*", were identified. These related to the enhancement of assets linked to asset management, including the placement of insurance contracts as well as funding through the management of "*core deposits*". At year end, this item amounted to 15.5 million, after depreciation of 1.0 million.

There were no significant investments in intangible assets during the year. Depreciation and amortisation totalled € 0.3 million.

Net equity

At the end of the year, the share capital amounted to 202.0 million, divided into 50,498,938 ordinary shares, with no indication of par value.

Shareholders' equity, including the result for the period of +70.1 million, stood at a balance of 832.0 million. Own funds stand at 945.7 million.

Total treasury stock	**31.12.2021**
(thousands of €)	
Class 1 Primary Capital (CET 1)	815,725
Class 1 Primary Capital (TIER 1)	815,725
- TIER 2 instruments	130,000
Transitional regime - Impact on T2	-
- Items to be deducted from TIER 2	-
Total class 2 Capital	130,000
Total treasury stock	**945,725**

The ratio between Class 1 primary Capital ("CET 1") and the total weighted risk activities (*Common equity Tier 1 Ratio*) was 15.7%, up compared to 14.5% at 31st December 2020. The ratio between Treasury Shares and the total weighted risk activities (*Total Capital Ratio)* is 18.2%, up compared to 17.0% in the previous year.

Total treasury stock	**31.12.2021**	**31.12.2020**
(thousands of €)		
Common Equity Tier 1 Ratio	15.7%	14.5%
Total capital ratio	18.2%	17.0%
Risk-weighted assets (RWA)	5,199,485	5,302,880

For further information please refer to the shareholders' equity movement table and section F in the Notes related to capital and treasury shares.

1.5 THE DISTRIBUTION MODEL

1.5.1 INTEGRATED APPROACH TO CUSTOMERS, MULTICHANNEL AND MULTICHANNEL STRATEGY APPLICATION

Volksbank is dedicated to providing credit intermediation, financial and investment services to its customers, through its presence in the area of reference, maximum enhancement of the bank-customer, bank-company relationship and of specific local aspects.

The distribution model is based on the concept of integrated multichannel distribution, establishing constant dialogue with the customer through all available channels, including innovative channels and a service (information, advice, contact and sale of products) that is integrated across the various channels.

The distribution network is focused on providing advice and assistance to customers to ensure the best service to all customer types, thanks to specific segmentation criteria which assigns the relevant service and consultancy models, the appropriate specifically trained personnel, and specialised advisory centres for specific customer segments.

The Headquarters Manager as a fundamental element of the territorial network to strengthen the presence in the territory; all peripheral structures represented by the Corporate and Private Consultancy Centres, the Area Lead Branches, the Hub and Spoke Branches report thereto.

Private Market deals with customer segments relating to physical persons, allocated to Private Consultancy Centres and to the branches.

Private customers of high standing are followed by consultants present in the consultancy centres.

Corporate Market deals with customer segments relating to enterprises in various legal forms and sole proprietorships, as well as Entities.

The customer is managed fully by a consultant who identifies and meets customer requirements, including through an integrated Customer Relationship Management ("CRM") system.

Consultancy is provided according to specific service standards ("SLAs"), which include, inter alia, an annual interview structured and supported by specific consulting applications.

The multichannel nature and automation of services is progressively freeing time, to the benefit of consultancy services.

The specific commercial initiatives are undertaken with a view to differentiating the Bank's service provision from that of its competitors, inter alia, by maximum exploitation of the Bank personnel, who constitute the real added value of the Bank's service. Closeness to customers enables the Bank to identify and meet their requirements continuously. Volksbank intends to continue in this vein, to foster the development of a demand-driven service provision.

The Volksbank purpose is to constantly strengthen its territorial roots, as a regional bank. It offers its services as an economic operator ensuring an important contribution to local economic growth.

Its multi-channel strategy implementation continued in 2021. This approach foresees four equally-important distribution channels (branch, online banking, contact centre and mobile consultant). Customers choose the channel to use according to their needs and preferences. The new channels are as important as the branch in terms of customer relationships, operations and management. The services provided by the Contact Centre are continuously being extended to take account of customer requirements. The consultants who operate from the Contact Centre mainly come from branches in order to guarantee customers a professionally qualified service. The "mobile consultant" channel is currently being studied.

THE BRANCHES	31.12.2021	31.12.2020
Territorial branch distribution		
Trentino Alto Adige	**69**	**69**
- Bolzano	52	52
- Trento	17	17
Veneto	**87**	**87**
- Belluno	19	19
- Treviso	18	18
- Venice	14	14
- Vicenza	31	31
- Padua	5	5
Friuli Venezia Giulia	**2**	**2**
- Pordenone	2	2
Total	**158**	**158**

1.5.2 THE TERRITORIAL NETWORK AND COMMERCIAL ACTIVITY

THE COMMERCIAL NETWORK	31.12.2021	31.12.2020
Traditional branches	158	158
Advice points	8	7
Self Area	15	15
Corporate Consultancy Centres	10	10
Private Consultancy Centres	6	6
ATMs	200	201
POS	13,979	10,480

With the merger by incorporation of the Banca Popolare di Marostica Group in 2015, the reference market was extended to the provinces of Padua and Vicenza, significantly increasing the number of customers and branches. The commercial network is divided into geographical areas with a territorial division made up of six areas divided into individual markets and the virtual branch Contact Center. Within the individual areas, the geographic market is divided into market areas (Lead Partner) and branches with any detached offices ("spoke"). The Corporate and Private Centres distributed throughout the territory in which the Bank operates report to the territorial areas. These centres provide specialised consultancy services for private and corporate customers.

1.5.3 CUSTOMERS

Private customers

The Volksbank consultant continuously takes care of the relationship with the customer and follows him/her throughout the entire life cycle with multiple solutions adapted to specific needs.

The Bank offers professional advice oriented to the specific needs of the customer. It is therefore proposed to carry out a precise and periodic survey of the needs, in order to adequately respond to the satisfaction of the client's requirements.

Volksbank places "good talks" at the centre of its commercial activity through which the consultant "identifies" the customers' needs and brings added value by proposing the most suitable solutions.

The needs range from building assets to covering both non-life and life risks, from the needs related to the purchase of a first house to social security needs. High-standing private clients are looked after by consultants specialised in financial advice and placed mainly in Private Centres.

Customers in the Private segment are followed by highly specialised consultants whose goal is to find targeted solutions, even with a high rate of customisation, to better meet the needs of high-standing customers, with whom meetings are held at least once a year.

The integrated multi-channel service is a key part of the commercial strategy. Customers are provided with virtual channels through which most transactions can be executed. The Bank offers its customers various solutions: from the Contact Centre to "Mobile" (smartphone and tablet) services, to internet banking and the in-branch kiosk. Customer care is ongoing: the customer is contacted by a consultant for after-sales support, particularly for some more complex products to ensure that the service sold to the customer has created the desired added value.

Corporate customers

Volksbank's goal is to provide the company with comprehensive advice and assistance in accordance with its needs. With this in mind, an interview is periodically held with each company to identify both their short-term and medium-long term needs.

Corporate customers are monitored in a targeted and frequent manner. These customers are invited to an interview by their consultant at least once a year. During this interview, the customer's current situation is analysed, also carving out space for a discussion on future plans. The "Rating Report" is also provided to the customer and discussed. Measures can then be taken to improve the rating.

The objective of this interview is to identify the needs of the company from a 360° perspective: from financing to risk hedging, to payment and collection systems.

During 2021, the sectoral specialisation of Corporate Consultants continued, in order to offer customers more focused and professional advice. For example, specialisations were developed in tourism, metalworking and agri-food. At the territorial level, a number of consultants were identified and received ongoing specialised training.

A new organisational unit, "Corporate Finance and Sustainable Credit", was created to support Corporate customers. It is responsible for supporting the Bank's commercial network in organising and managing structured finance transactions, such as the subscription of minibonds and the active and passive participation of syndicated loans.

From the end of 2021, Corporate Managers, having received appropriate training, will have a tool at their disposal called the ESG Evaluation Tool to evaluate investments with a positive ESG impact made by companies. The tool, aligned with the current European Taxonomy, allows the ESG analysis of the company and the project being financed through the investigation of the three dimensions: Environmental, Social and Governance.

About 243,000 private customers, 31,000 corporate customers and 6,000 customers belonging to other types are followed in the branches and consultancy centres of Volksbank.

CUSTOMERS	**31.12.2021**	**31.12.2020**
Number of customers		
Private	242,520	242,611
Corporate	31,435	29,229
Others (public administration, associations, etc.)	6,286	7,664
Total	**280,241**	**279,504**

1.6 BANKING BUSINESS

1.6.1 BANKING PRODUCTS

The supervision of the following areas continued during 2021:
- continuous monitoring and analysis of the product range and optimisation of the product catalogue;
- introduction of new products in response to inputs received from the commercial network in particular;
- strategic projects, primarily the Bancassurance and Digital Onboarding project;
- digitalisation of sales and after sales processes;
- expansion of service provision on online and mobile channels;
- support and assistance for the commercial network.

The Bancassurance project is nearing completion. The need is to increase revenue from insurance services, optimising the organisation of labour in a network, bringing together the various products of the various companies in a single sales and management portal. The user experience of our collaborators has therefore been improved and has made work easier.

1.6.2 PROVISION OF INVESTMENT SERVICES

During 2021 there was a consolidation of the activities started in 2019 and 2020 aimed at adapting to the "MiFID II" regulation (Directive 2014/65/EU), (such as the consolidation related to the introduction of the new financial advisory platform, based on the adequacy of the level of the customer's total assets), and other activities (such as the transparency of costs and charges ex-post, the evaluation of periodic adequacy) already launched in previous years. In addition, activities related to regulatory compliance with respect to the "SFDR Directive" began (EU Regulation 2019/2088), the "Taxonomy" (EU Regulation 2020/852), as well as Regulation 2021/1253 amending the "Mifid II" Delegated Regulation (EU Delegated Regulation 2017/565) which will continue during 2022. These regulations provide for regulatory deadlines during 2021 and a series of requirements that will lead to implementation adjustments throughout the year 2022.

The process of providing investment services, particularly in the field of advisory services, was further developed/ consolidated, commencing with the identification of customer requirements and the determination of their investment profile. This work resulted in a specific recommendation aimed at meeting overall requirements (portfolio advice). This process will be subject to adjustments with respect to the regulatory updates outlined above, in order to integrate sustainability factors (E-S-G) into the advisory service.

Activities related to the adaptation / integration of the MiFID questionnaire for natural persons, legal entities and entities were also launched on the basis of the regulatory adjustments set out above, in such a way as to incorporate customer preferences in a more efficient / effective way, also in terms of sustainability (ESG).

Furthermore, important developments in the digitalization of the consultancy process were carried out in 2021, allowing the client the possibility of remote execution of the end-to-end process, from the opening of a securities deposit to the signing of orders that are part of a personalised recommendation.

The Bank provides investment advice at various levels of depth (light, full, plus) through its branch network, while for high value customers, consultancy is provided through dedicated centres. The difference between the various levels of depth relates to the greater structuring of the portfolio models offered,

Our primary objective of supporting our customers in making rational and informed investment decisions through simple and sustainable solutions has been further enhanced: particular attention has been paid to asset management products (in conjunction with capital protection insurance products) in response to conditions which are difficult to interpret and which can therefore be met with products characterised by high levels of diversification and varying risk/ return profiles, and with a view to providing customers with comprehensive advice in response to their needs.

Meetings during the year with the various fund houses intensified in order to assess the quality of financial instruments and identify any new services and products that could enhance our offer.

Given the Bank's desire to provide our customers with investment solutions characterised by sustainability, the range of products on offer was expanded during the year with the inclusion among the products available of further products that enrich the traditional range of products but above all improve the quality of the portfolios of the "ethical" line which, designed for customers who are attentive and interested in this important strategic area for the Bank. An "ESG" data supply contract was also signed with the provider MSCI, leader in the supply of data on the sustainability of individual companies and asset management.

In order to develop further technical and specialist knowledge, MiFID II certification training was conducted throughout the year for of the approximately 750 network consultants authorised to provide all investment services to customers, as required by legislation.

In addition to the "mandatory" courses for financial consultants required under MiFID2, it was decided to extend the training to internal training/classroom sessions (digital throughout the year 2021), provided over several days by the Customer Investments service reserved to financial consultants, aiming to consolidate the new approach and the new financial consultancy platform introduced the previous year. These courses are structured at three levels (basic, advanced, evolved) depending on the employee's level of knowledge of economic/financial matters.

Again in relation to training, with a view to improving the skills and knowledge of financial consultants on the range of products offered to better meet customer investment needs, digital training sessions were organised during the year that included our leading asset management partners in collaboration with the Customer Investments service.

Finally, in the order-driven equity segment of Hi-MTF - MiM shares, in 2021 303,187 own-issued ordinary shares were exchanged for a value of €2,917,519.50; the purchase of 257,712 of these shares (for an equivalent value of €2,489,912) was carried out as part of the mandate given by the Bank to Equita Sim for the performance of activities in support of the liquidity of the shares issued by the Bank.

1.6.3 PROPRIETARY PORTFOLIO MANAGEMENT

The vaccination campaign has gradually mitigated the impacts of the COVID-19 pandemic, and the economy and financial markets have also benefited. Economies around the world have been able to react and get used to the new normal.

The support measures of the ECB and the economic policy measures implemented by the European Union, with an expansion of purchases of government bonds and large sums by the Recovery Fund, stabilised and supported the financial markets throughout the year excellently. Supply tensions and generalised increases in commodities have pushed inflation up to unprecedented levels for 20 years. Towards the end of 2021, expectations of a possible rise in rates and sensitivity to the risk inherent in government bonds therefore increased. The spread of the BTP against the Bund gradually rose towards 135 basis points at the end of the year.

At the end of the year, the 10-year BTP returned 1.17%, from 0.55% at the end of 2020, while the 10-year German Bund yield stood at -0.18%, from - 0.57% at the end of 2020.

Equity markets had a strong performance year, ending the year at highs. The sectors that stood out the most were technology and energy. The S&P500 closed the year at +26.89%, the MSCI-WORLD at +20.14%, while the EUROSTOXX 50 with +20.99%. Volatility increased towards the end of the year due to tensions surrounding interest rates and energy price increases.

Volksbank managed the portfolio with a view to taking advantage of the opportunities offered by the trends of the markets and the interventions of the ECB, selectively increasing the portfolio. At the end of 2021, the discretionary portfolio amounted to approximately 3,6 billion, up by approximately 700 million compared to the beginning of the year. The increase is almost exclusively the result of investments in the HTC portfolio, while the average duration of the securities decreased. In line with the investment strategy and the particular market environment, no investments were made in the stock market.

1.7 GOVERNANCE ACTIVITIES

1.7.1 MANAGING LIQUIDITY AND FUNDING

The “strategic plan” and the “liquidity and funding operational plan” for 2021 were based on the timetable of all forms of refinancing by institutional investors, on the development of the owned securities portfolio, as well as on the planning of customer movements, items which were then constantly updated during the year. In addition, the plans were updated taking into account the ECB's guidelines regarding the offer of the TLTRO III program.

The plans in question contribute to the definition of the liquidity requirement during the year and consequently guide decisions regarding the execution of transactions on the market. The solid refinancing base was mainly formed by the growth in direct deposits from customers and by participation in the TLTRO III auctions in March and June without maturities from existing ECB refinancing. Sources of new cash were well above requirements, and consisted of redemptions of institutional bonds for the sum of €1 million and the redemption of €186 million under plans to amortize securities placed on the market from securitisations originated by the Bank and existing EIB loans. The remaining liquidity was used to refinance the gradual increase in the proprietary securities portfolio of approximately 701 million and to cover the outflow relating to the payment of tax deadlines at the end of the year and to create liquidity reserves. The temporary borrowing requirement was guaranteed with interbank deposits and Repo with banks.

The amount of “eligible securities” not yet pledged as collateral remained substantial and was further supplemented by purchases of securities issued by the Italian government, as well as other eligible assets as collateral granted to the Eurosystem. The market environment, still dominated by the Covid-19 pandemic and, with lesser impact, by several other uncertainties, remained complex for most of 2021. Volksbank's tried-and-tested maturity coverage system and the soundness of the Bank's situation ensured easy access to the interbank market. At 31st December 2021, Volksbank had an LCR ratio above 1.30.

The fully phased-in leverage ratio as at 31st December 2021 is 5.3940%. The same value, calculated according to the transitional regime, is equal to 5.8216%.

1.7.2 MANAGEMENT OF PERFORMING LOANS

The Performing Loans Department is responsible for the process of disbursing and monitoring the performing loan portfolio according to the principles of sound and prudent management.

Please note that the Workout Department, on the other hand, is dedicated to monitoring credit risk and managing the non-performing loans portfolio, with the aim of ensuring active management of positions that have already shown a deterioration profile.

The Bank's standards for origination and monitoring of credit risk throughout the entire credit process (acquisition, appraisal, creditworthiness analysis, resolution) are uniform throughout the reference territory. The standards, where necessary, have been aligned with the new European Banking Authority (EBA) guidelines on loan origination and monitoring (LOM) and the new definition of default (NDoD), which came into force in 2021.

Around 40% of the credit portfolio regards credit to retail customers (private individuals and small entrepreneurs) and about 60% credit to corporate customers.

The households located in bank's reference area remain the primary target of reference, both as private individuals and as owners of family-run businesses. For individuals, the aim is to assume the role of reference bank with the strategic product “house mortgage”.

With a view to remaining a Bank who is firmly rooted in the territory, the “special loans” section gives small and medium-sized enterprise better and easier access to credit, exploiting opportunities related to facilitated loans with interest rate subsidies pursuant to the Sabatini bis Law, loans through revolving funds, or to public guarantees granted by the Guarantee Fund pursuant to (It.) Law 662/96. In this context, cooperation continued with finance companies in support of economic growth (e.g. Veneto Sviluppo) with the various Credit Guarantee/Underwriting Consortia with which the relative agreements were concluded. These bodies manage various concessional instruments for the development of regional companies.

The extensive moratoriums granted by the Bank in 2020 and 2021, as provided for in the DL Cura Italia following the health emergency due to the Covid-19 pandemic, have practically come to an end and the resumption of periodic instalment payments is fundamentally regular. The repayment of the numerous loans granted by the Bank with a guarantee from the Guarantee Fund, provided for by the Liquidity Decree, is also fundamentally regular, if already started according to the repayment plans stipulated.

The key criterion for granting credit remains the customer's ability to honour the contractual commitments undertaken (repayment of principal and payment of interest) accompanied by appropriate guarantees calibrated to the perceived credit risk.

The collection of real guarantees, public guarantees and the granting of credit to small and medium-sized enterprises (SMEs - which benefit from the so-called support factor for SMEs), in addition to mitigating the credit risk, also reduces the absorption of equity capital (reduction of risk weighted assets - RWA) that the bank must make available for the concession.

For selected customers, the Bank grants syndicated loans with other banks.

The 2021-2023 “Sustainable 2023” business plan envisages a moderate annual growth rate of the total volume of loans. This growth must be accompanied by a progressive alignment of productivity levels in the credit processes of all areas. Specific projects have been launched for this purpose.

In line with the business plan, the 2022 credit policy envisages the application of sustainability measurement

(ESG) for corporate clients both for the company as a whole, in line with the 17 Sustainable Development Goals (SDGs) defined by the United Nations, and for its ecological transition projects (decarbonisation, circular economy, preservation of biodiversity) in line with the European taxonomy (a classification system aimed at identifying environmentally sustainable economic activities), which are the subject of financing.

1.7.3 PERSONNEL

Male and female employees

The most important resource available to the Bank is represented by Personnel, who, as such, require special attention and specific management that takes into account their specific characteristics. Personnel determines the business result and is the real competitive factor, personifying the specific characteristics and ethical values, which belong to the tradition and code of ethics of Volksbank as a regional bank.

The primary objective of the Human Resources departments is to implement a strategy that allows individual employees to develop and consolidate their professional and personal skills. The development of these skills is also pursued through the continuous and progressive training of employees or through planning work with respect to the evolution of their role in order to support and accelerate the Bank's strategy with a view to transformation.

The Bank's Human Resources Department has devised a "job rotation" model to ensure, through internal rotation and hiring new personnel, the resources needed to consolidate branches located in the various provinces, strengthen internal resources and prompt replacement of employees who have resigned and of those absent for a prolonged period (maternity leave, accident or illness), and an exchange of experiences and professional skills between internal offices and the commercial network, based on sizing criteria and policies. In order to achieve this goal, specific training pathways have been defined, in line with the corporate strategy and responding to the employee's professional and personal development needs.

The annual interview with the employee represents the focus to the assessment of performance and behavioural factors, the identification of the training needs required by the position held by the employee, and the analysis of individual potential. The growth pathway is professional, cultural and human and is designed to lead employees to holding positions of greater responsibility.

Volksbank's workforce at the end of the 2021 financial year consisted of 1,335 employees (no. 1,296 at the end of 2020). Maintaining staffing levels, in line with the objectives set out in the business plan, was made possible thanks to the hiring of 102 new employees over the course of 2021, many of whom (approximately 50%) under the age of 30, thus favouring the generational turnover.

In 2021, 62 new young employees were recruited, of whom 37 for the commercial network, and 40 new staff with specific skills of whom 22 for the commercial network and 18 for internal services that served to increase the level of professionalism.

Taking into account the working time of employees with a part-time contract (281, compared to 278 in 2020) and the exclusion from the count of employees on maternity or unpaid leave, the level of "full-time equivalent" (FTE) employees in service at the end of 2021 stood at 1,218.61, compared to 1,180.55 in 2020.

The following table shows the number of employees active in internal services and branches, broken down by province, compared with the preceding year:

Figures per province	31.12.2021		31.12.2020	
	NR Number of persons	%	NR Number of persons	%
Bolzano - internal services and branches	680	50.94%	661	51.00%
Trento	82	6.14%	81	6.25%
Belluno	82	6.14%	77	5.94%
Venice	72	5.39%	71	5.48%
Treviso	107	8.01%	104	8.02%
Vicenza	277	20.75%	270	20.83%
Padua	24	1.80%	23	1.77%
Pordenone	11	0.82%	9	0.69%

Great importance has always been attributed to employing and creating mixed work teams. The percentage of women employees is currently 44%. Of these, 31 occupy managerial positions in the Bank (16 in headquarters and 15 in the network).

In Italy, participation in the world of work by people with disabilities is governed by law.

Volksbank considers it essential to ensure that people with disabilities also have employment opportunities and interprets its role within local communities as an opportunity to allow these employees to provide a concrete contribution and not simply as a fulfilment of legal obligations.

Volksbank is committed to ensuring a work-life balance. The Bank has promoted the "Family/Work Audit" project since 2011. The Bank obtained its first "Family and work audit" certification in 2014 and then, in 2017, a regular "Re-Audit" programme was successfully launched to positively conduct the Family Audit every three years, most recently at the end of 2021. As part of the Re-Audit, existing measures were confirmed and new measures were adopted for the next three years, to further entrench reconciliation between family and work life within the Bank. These include, for example, flexible working hours for all employees in both the commercial network and internal offices, the Ethica Bank of Hours (overtime and ordinary), and Smart Working (which will come into force when the Covid-19 pandemic ends).

All measures planned will be progressively implemented and serve to confirm that the Bank is very attentive to the needs of the family.

Furthermore, please note that KiTas (a social cooperative or "Tagesmütter"), a kindergarten located at the Bank's registered office, is growing positively from year to year and is fully used.

As in previous years, in 2021 the Bank stipulated new part-time contracts. This enables women employees with children to better combine their jobs with family commitments. This effort is also intended for fathers and all employees, who have taken responsibility for home care of family members.

At the end of 2021 18 employees were on maternity or parental leave; another 14 were absent for an unpaid leave period granted under the Company Supplementary Agreement to parents until the end of their children's 5th year. 4 employees are using INPS leave permission, pursuant to Law 151/2001 (serious family reasons).

Volksbank means to guarantee all employees suitable professional motivation through training programs, to implement a profitable, lasting relationship.

An appropriate generational mix helps to strengthen and maintain the best skills within the Bank. In 2021, the percentage of workers over the age of 50 was 37%, compared to 35% in 2020. The average age of employees is around 46.

At the end of 2019, a new supplementary contract was signed with the Trade Unions for the period 2020 - 2022. On that occasion, an integration was made to give employees the possibility to feed the "Ethical Bank of Hours" by depositing leave for former holidays, bank hours and holidays exceeding the annual minimum established by law for staff belonging to the middle management category.

In order to cope with the epidemiological emergency caused by COVID-19, Volksbank has put in place a series of measures and adopted a series of tools aimed at contrasting and containing the spread of Coronavirus on the one hand, and supporting its employees, on the other.

In particular, among the first measures implemented, Volksbank introduced the regulation of WFH applicable to all employees who perform tasks compatible with carrying out the activity remotely.

Furthermore, in addition to the Ethical Bank of Hours, an Ethical Bank of Overtime ("BEOS") was set up in order to allow the Bank and all employees to "donate" additional leave with respect to the provisions of the law or agreements in favour of anyone who is, due to the Coronavirus emergency, unable to work under certain conditions.

Personnel training and development

The training and updating of employees is an aspect that the Bank has always valued and continues to value as of primary importance in the professional development of its employees. The year 2021 was characterised by the continuation of the Covid - 19 pandemic emergency, which affected the way training was delivered. The ban on the organization of face-to-face activities represented an opportunity to change the way training is provided through digital platforms, making it necessary for the trainers to be professionally updated but also for the participants to adapt.

The challenge was successfully met, resulting in a total of 83,000 training hours provided in the 2021 financial year, which corresponds to an average of more than 60 hours per employee, an increase of around 28% compared to the training hours provided in the 2020 financial year. Of these hours, some 46,400 were delivered through interactive webinars and 36,600 through e-learning, which is an indicator of the commitment to qualification and skills enhancement of employees.

The professional development of the sales network employees was mainly oriented towards training of a technical-banking nature, through the offer of in-depth preparation in the areas of finance, securities, loans and banking products, especially also for newly-hired employees, and leadership development and business skills. In fact, a two-year training course on these issues began in 2021 for all employees in the sales network, with the support of a partner of international importance, aimed at strengthening the leadership of managers and the commercial approach of all employees.

Also in 2021, the optimisation and efficiency of training interventions were at the centre of the planning of development activities, which was done in accordance with the Bank's concrete figures and objectives. In 2021, in accordance with the plan shared with the supervisory body, IT training continued for all the Bank's employees with specific interventions reserved for internal organisation staff and IT specialists within the control functions. Training was also carried out on internal processes and procedures, which concerned, for example, the supplier management process and management of internal regulations. In 2021, training of corporate officers (members of the Board of Directors and Board of Statutory Auditors) also continued through a training plan aimed at developing knowledge and skills in the banking sector and involving internal managers and specialists.

In 2021, a professional development project was introduced for employees under 40 years of age called 'Growing Together'. In the last months of the year, selection activities took place through individual assessments and interviews. Voluntary membership has allowed the participation of all collaborators who wish to get involved and develop professionally, for all participants there is professional and personal development activity through participation in the Development Center during 2022. For the 20 employees who have passed the selection stages, a structured and articulated training plan in the technical/banking field and the development of soft skills and managerial skills is planned for 2022.

In 2021 Volksbank started a process aimed at increasing awareness and attention to diversity issues in a broad sense. First and foremost, the gender neutrality of staff with regard to their remuneration policies. The starting point is an in-depth analysis of the reference corporate context that covers all the Bank's staff and aims to identify any gender pay gap and its evolution over time. The Bank's ultimate goal is to create an inclusive working environment with equal opportunities where differences can be taken advantage of for the creation of business value.

IVASS and Mifid II certification

The approach to professional refresher training within IVASS and MIFID during 2021 was revised with the aim of providing training activities suited to the level of competence of the various professional profiles of collaborators. In order to do this, the target groups were divided into homogeneous groups, to which customised training activities were reserved according to the actual level of competence.

In 2021, 853 employees, i.e., 93% of the employees in the sales network, were certified for IVASS (the Institute for the Supervision of Insurance) purposes and are therefore qualified to provide advice and sell insurance products, while 709 employees, i.e., 78% of the employees in the sales network, were certified for Mifid II purposes and are therefore qualified to provide advice and sell financial products.

A total of about 29,960 training hours were delivered for the two courses, of which about 10,000 are of both IVASS and MIFID relevance.

Annual interview with each employee

Employee interviews are held annually and are an important feedback and development tool for Volksbank personnel. In 2021, the use of the assessment module introduced in 2016 continued, supplemented with some specifications that made it possible to assess the work performance and potential of individual employees more objectively. As part of the process, the dialogue between the supervisor and the collaborator continues to be of prime importance, the activities assigned are discussed and commented on, including everything that can be subject to improvement. The annual interview with the employee is an important tool for establishing mutual expectations, developing strengths and compensating weaknesses, and requires personal commitment on both sides. To support this important process, all Volksbank managers have been trained over the years in the effective handling of employee discussions and a specific module is also reserved in the training of new managers.

1.7.4 WORKOUT DEPARTMENT

The organisational structure of the Workout Management is designed to ensure an adequate process for the oversight and management of non-performing loans and is divided into the Abnormal Loan Analysis Service and the Non-performing Loans Service, with support from the Portfolio Management/Reporting Service.

Despite the persistence of the operational difficulties deriving from the pandemic crisis, the abnormal credit analysis service continued with the activities of prevention and management of classified loans from the first critical issues through targeted and planned interventions on a periodic basis with particular reference to positions benefiting from moratoriums and belonging to the tourism - hotel sector.

During 2021, together with the Portfolio Management Service, the Early Warning engine and the anomalous credit monitoring platform (GdC) were also strengthened. The critical positions, with Covid moratoriums in place and / or with an increase in risk (Stage2) were carefully monitored from a forward-looking perspective.

With regard to day-to-day operations, the risk reduction activities continued effectively, providing for adequate levels of coverage.

The Non-performing Loans Service reviewed the entire bade debt portfolio on the basis of the Policy on the assessment of non-performing loans approved at the end of 2019, with the aim of incorporating recent regulatory changes and methodological practices, thus aligning its operations with the expectations of the Supervisory Authority. The methodology adopted was based on the specific characteristics of our bank (location, economic situation, etc.) in order to align internal valuation practices with market best practices.

The Non-performing Loans Service also continued its core business of proactively managing the portfolio by recovering both out-of-court and in-court positions classified as non-performing. The recovery strategy and its implementation are elaborated by the team of internal lawyers who make use of the support of external lawyers where it is necessary to proceed judicially to the consolidation of the credit and / or to the start of enforcement procedures. For smaller exposures, for which there are no property guarantees, collaboration continued with an external servicer.

In order to optimise the bad debt portfolio, during 2021 Volksbank took part in a new multi-originator securitisation transaction with GACS which made for the sale of approximately 249 positions for a gross book value of approximately 34 million. A number of single-name transactions were also finalised for a GBV of approximately 7 million.

To align itself with the leading market practices and Authority expectations requiring a high depth and quality of the figure to best personalise the assessment and management model, the Portfolio Management Service further strengthened controls of periodical reporting quality and granularity and effectively supported the outsourcer AFAST with updating and implementing IT procedures to support Department activities.

1.7.5 TECHNOLOGICAL AND ADMINISTRATIVE SERVICES AND PROCESS INNOVATION

Volksbank adopts an ICT outsourcing strategy for the core banking system and for those innovative applications that require significant investment and specific skills. For these services Volksbank avails itself of the support of the IT outsourcer Accenture Financial Advanced Solutions & Technology (Accenture FAST) for the management, evolution and innovation of the entire IT system that supports all banking processes, both branch and internal.

Accenture FAST offers advanced multi-channel solutions and centralised back-office services, capable of ensuring adequate levels of service and the constant evolution and innovation of the products and services offered by the bank.

Accenture FAST was born in 2020 following the merger by incorporation of SEC Servizi S.p.A. with sole shareholder into Accenture Managed Services S.p.A. with sole shareholder and of Accenture Managed Services S.p.A. with sole shareholder into Accenture Financial Advanced Solutions & Technology S.r.l.

This corporate transaction concluded the incorporation of SEC Servizi, Volksbank's IT outsourcer of long standing, into the Accenture group which, in November 2018, had acquired 100% of SEC Servizi with the aim of making the SEC platform the most advanced tool for the Italian banking and financial sector.

With the purchase of SEC Servizi in 2018, Accenture was obliged to undertake an ambitious project to update the application solutions, a project that was successfully completed at the end of 2020 and which made it possible to offer new cutting-edge solutions, for example in the field of Digital Onboarding and remote signature solutions.

The IT and organisational sphere is also still confronted with the impacts of the global Covid19 pandemic, both on the customer and employee sides. Generally speaking, the pandemic has reinforced some previously observed trends such as the migration of banking operations (transactions) from bank branches to remote channels such as internet banking and mobile banking. In addition, there is a greater propensity on the part of customers to carry out even more complex transactions and advice through channels without physical contact, together with remote signing and contracting processes. As a result, the bank continued in 2021 with investments and initiatives to improve the user experience on these channels.

Finally, further investments were made in IT solutions to support smart working models for employees (upgraded lines, configuration of workstations and networks/VPNs for remote working, remote training and collaboration solutions).

1.7.6 ONGOING PROJECTS

Advanced electronic signature

In 2020, an important project was started to allow customers to sign contracts and documents remotely via advanced electronic signature (AdES). This method, which envisages the signing of documents in a secure manner through the specific functionality of the bank's App, was activated in 2020 for private customers on the processes of the finance sector and was extended in 2021 to the sales and post-sales processes of basic products (Current accounts, Direct Banking,…).

TARGET2/T2S Consolidation

TARGET2 is a gross payment system of the ECB which handles high amount payments exchanged by banks and represents the assumption needed for the single currency to operate correctly. It is one of the pillars that the Euro area financial integration process is based on.

With the "T2-T2S Consolidation" project, the Eurosystem intends to maximise synergies between TARGET2 (T2) and TARGET2-Securities (T2S), integrating the offer of payment services in securities and cash, providing new functionalities to satisfy the more recent market needs. Consolidation of the technical, application and infrastructural components is also aimed at improving the use of services offered, continuing to guarantee high security levels in line with the international best practices and standards. The project will radically modify the network infrastructure it is based on and the messages exchanged between banks. The impact will also extend beyond the Treasury for both the recent laws on liquidity and for the new information set made available.

The move of the launch requested by the Market Infrastructure Board to November 2022 resulted in a rescheduling of project activities.

Digitalisation of the end-to-end credit process

In order to cope with the profound changes within the banking sector, which is increasingly orienting itself towards the logic of innovation technologies and digitalisation, in the second half of 2020 saw the launch of the "digitalisation of end-to-end credit processes", i.e. consultation for finalisation of the loan. The project focuses on two strategic products: i) mortgage loans for individuals, and ii) the unsecured loans guaranteed by MCC and/or guarantee Consortia for the corporate segment and aims to increase the automation of processes and start end-to-end digitalisation. Specifically, it aims to:

- a greater standardisation of processes;
- a greater integration between the various operating and application systems;
- a greater automation of the process by minimising redundant, manual or superfluous activities.

In the first half of 2021, future processes were designed, and in the second half of the year, construction work began, with the first modules scheduled to start in early 2022.

Credit Processes 2.0

At the end of 2019, the Bank launched the project "credit 2.0 processes" to adopt the new EBA (European Banking Authority) guidelines for:

- Guidelines on application of defining default pursuant to article 178 of (EU) Regulation 575/2013
- guidelines on loan Origination and Monitoring

The "New definition of default" regulation introduced new, uniform quantitative levels (relative and absolute) for the objective classification of default exposures and identified qualitative criteria (i.e. hard triggers) that guarantee uniform regulatory treatment of specific phenomena. The information system has been adapted and will operate from 01.01.2021 according to the new logic.

The regulation on "Concession and monitoring of loans", is aimed at harmonising the entire credit process from granting and on to the loan monitoring stage. Those guidelines aim to guarantee that European banks have solid standards for the subscription, management and monitoring of the credit risk and that new loans granted are top quality. Impacts are structured in 5 levels: Governance, Granting, Pricing, Assessing guarantees and Monitoring.

In the first half of 2021, IT adjustments were made and internal regulations were updated in line with the new EBA guidelines for granting credit that came into force on 01.07.2021. Work continues on the IT developments required in the area of credit monitoring, which comes into force by 30.06.2024.

The project's global objective is to go from a RE-Active to a PRO-Active approach when managing credit with suitable standards for the granting and monitoring of loans in order to promptly identify any deterioration and prevent the passage to NPL.

Online channels for individuals and companies

The restyling and enhancement of the smartphone app has introduced important new features in terms of usability and graphics on the mobile channel for private customers. By accessing the app, customers can find a page summarising their financial situation from which they can quickly access the most used functions. The positioning of functions on the homepage of the direct banking web platform has also been optimised, taking on board some suggestions collected from customers with a view to improving the navigability and usability of content.

From a functional point of view, the Bancassurance section has also been integrated into the online channels, where customers can view their insurance position and also the level of coverage according to their needs, and can also manage claims by transmitting documentation in digital format.

New products aimed at corporate customers in the areas of Corporate Banking and Acquiring (POS) were introduced in 2021 with the aim of offering platforms that are considered more modern and better suited to the needs of companies. In particular, an app with various dispositive functionalities was added to the Corporate Banking product offering, which integrates perfectly with the web version. Major migration projects from the old to the new platforms involved the entire corporate clientele throughout the year.

New Online Trading

In the first half of the year, the Online Trading solution was updated. The new version with a completely new look offers customers, within their Direct Banking, a modern and customisable platform to carry out security transactions autonomously and safely , keep updated on the latest news from the world of stock exchange and finance and monitor the performance of their securities portfolio.

Rating

A major project to upgrade the rating system to support various critical business processes was initiated. The new system:

- constitutes a business intelligence system as a tool to support management decisions for an effective management of credit risk on an ongoing basis and an assessment of the credit risk during the disbursement phase.
- implements an internal rating-based (IRB) approach that is in line with the requirements for the development of 'Advanced' IRB models.
- forms an integral part of credit procedures by providing both summary and analytical representation of the rating judgment

The new system is scheduled to go into production in 2022.

New Contact Centre

In 2021, the upgrade of the Contact Centre's management software was initiated and completed, introducing a market-leading solution. The aim of introducing the new solution is to standardise some of the functions currently in use in the Contact Centre, in order to ensure greater maintainability and development. In addition, the new platform has the evolutionary and integration potential that is becoming increasingly widespread with the introduction of new types of contact channels.

The technology was selected for the new Computer Telephony Integration (CTI) and Interactive Voice Response (IVR) infrastructure dedicated to the implementation of new omnichannel-oriented customer care services. The platform constitutes a complete Contact Centre suite with the following main features:

- IVR responsible for prompting audio messages for reception and menu delivery and the contextual collection of the caller's inputs relating to the selection made on the menus and, for example, to the authentication phase of the calling customer;
- Omnichannel routing for routing voice contacts to a contact centre operator;

- Omnichannel Telephone Bar to enable the contact centre operator to manage voice contacts (e.g. Answer, Put on Hold, Hanging up functions) and to present the context data associated with the contact that may be retrieved from the IVR through integrations with external systems to the Genesys Cloud platform (Contact Centre Operator Portal);
- Real-time and Historical Reporting to display on reports and dashboards the volumes of contacts managed and, more generally, operational data on the performance of contact centre operators.

1.7.7 SPONSORSHIPS AND DONATIONS

Sponsorships

Volksbank's sponsorship activity financially supports events, activities or organisations for certain advertising and/or economic benefits in accordance with a specific marketing plan, in order to achieve specific image and/or commercial objectives.

Sponsorships promote the image and popularity of the company, but also tend to consolidate a bond with the customer and constitute a strategic means of facilitating the establishment of new relationships.

In 2021 Volksbank invested a total of €672 thousand in sponsorships.

The sectors that have benefited from its sponsorship range from sport, culture, social affairs and training. Support for youth sections of sports associations is particularly important.

In 2021, Volksbank sponsored around 110 associations. The investment was approximately 85% in sports activities, while the remaining 15% benefited cultural, social and environmental and category associations.

Sums managed directly by the branches in support of local small/medium-sized enterprises can be added to this total. In 2021 this totalled €223 thousand.

Sponsorship activities 2021	**Amount**	**% of total**
(in EUR)		
Sports	571,588	85.04%
Culture	64,455	9.59%
Social	19,324	2.88%
Economy	16,739	2.49%
Total	**672,105**	**100.0%**

Donations

Volksbank also supports the territory through donations in to entities worthy of support. Usually donations are intended for the common good and can also be provided to cultural institutions. Traditionally, the Company contacts the local structures donated to directly, in the user basin. In 2021, donations amounted to a total of about €205 thousand. The recipient institutions include parishes, voluntary secular associations and local institutions.

1.7.8 BANCA POPOLARE DI MAROSTICA ● VOLKSBANK FOUNDATION

The Banca Popolare di Marostica Volksbank Foundation aims to promote and support initiatives with cultural, educational, training, recreational, social and healthcare, worship or scientific research objectives for the benefit of the civil and social fabric in the area where the former Banca Popolare di Marostica, now incorporated into Volksbank, operated.

Total donations from the Foundation in 2021 amounted to approximately €308,000.

1.8 RISK MANAGEMENT

In view of the significant regulatory changes and the complexity of the operating environment, the Company attaches special importance to risk management and control, which must be safeguards for the creation of value in a context of controlled risk, in line with the objectives of current and prospective profitability as defined by the competent decision-making bodies.

INTERNAL AUDITS

Consistent with what is set forth in the Supervisory Provisions issued by Bank of Italy and in line with the Joint Bank of Italy - Consob Regulation implementing art. 6, paragraph 2-bis of the TUF of 29 October 2007, Internal audit holds the internal Auditing function.

Internal Audit activities, based on Supervisory regulations, are mainly designed on one hand to monitor, in terms of third level checks and on-site audits, the propriety of transactions and the evolution of risks, while on the other hand, to assess the completeness, adequacy, functionality and reliability of the organisational structure and other components of the Internal Control System, bringing possible improvements to the attention of corporate bodies, particularly with regard to the Risk Appetite Framework (RAF), the risk management process, and the instruments for measuring and controlling them.

Internal Audit operates within the context of an integrated corporate assessment model for the internal control system, on the basis of a "risk-based" - "process-oriented" approach, primarily designed to enable company departments to conduct integrated risk analysis and organisational and control measures.

The integration is, above all based on use of information shared amongst all structures involved (in primis, the control functions, but also the operating ones involved each time), and on the growing interaction between company control functions. Besides establishing specific mutual information flows, of special importance was the creation, in 2014, of the internal control Committee, formed by the Corporate Control Departments, to facilitate operational coordination and the exchange of information and to generate synergy when performing their respective tasks.

Internal audit operates independently and does not respond hierarchically to any Head of business units; it reports directly the Board of Directors, also through the Risks Committee. Those bodies are systematically informed of the results of audits carried out, with special evidence of any critical issues detected.

Internal audit has budget autonomy. This enables it, amongst other things, to use external consultancy services. It also has the right to access all Bank activities performed in Central Offices, branches and by outsourcers.

The appointment and revocation of the Head and Deputy-Head of Internal Audit are the sole, non-delegable responsibility of the Board of Directors, having consulted the Board of Statutory Auditors. The Board also approves the regulations of Internal audit.

Internal audit operates in line with an annual/multi-year audit plan drawn up by its Head through a "risk based" and "process oriented" approach, approved by the Board of Directors. In that area:

- it assesses the completeness, adequacy, functionality, reliability of the other components of the internal control system, of the risk management and other company processes, also considering the ability to identify errors and irregularities. In this context, it audits, inter alia, the company's Risk Management and Compliance/ Anti Money Laundering functions;
- it assesses the effectiveness of the RAF definition process, the internal consistency of the overall layout, operational compliance with the RAF and their compliance of with other strategies approved by company bodies;
- it verifies, also through audits:
    - the regularity of several company activities, included outsourced ones, and the evolution of risks in both the Bank's Central Offices and branches;
    - the monitoring of compliance with regulations of the activities at all company levels;
    - compliance, in the different operating sectors, of limits set by delegation mechanisms, and the full, correct use of information available in the various activities;

  - the effectiveness of the powers of the risk control function to provide preliminary opinions on the consistency the most important transactions with the RAF;
  - the adequacy and correct functioning of processes and methods for assessing corporate assets and, in particular, financial instruments;
  - the adequacy, overall reliability and security of the information system (ICT audit);
  - the elimination of anomalies detected in the operation and functioning of controls ("follow-up" activities);
- performs regular tests on the functioning of operating and internal control procedures;
- performs detection duties, including in relation to specific irregularities;
- regularly controls the business continuity plan;
- if it should gain knowledge of critical issues emerging during the independent audit during its collaboration and exchange of information with the party appointed to carry out the independent audit, it takes action so that the company functions responsible take the necessary action to overcome those issues.

In order to perform its activities correctly, effectively and efficiently, Internal Audit:
- has access to all company documentation and information;
- may use any necessary external support to obtain any technical or specialist skills, or skills any other kind, on the basis of a formal agreement. Any such agreement shall not result in Internal Audit delegating any of its responsibilities;
- in cases where it has not participated directly, it is kept informed of relations with the Authorities, and in particular with the Supervisory Authority;
- it collaborates with the different Organisation levels, with the Board of Statutory Auditors and with the other subjects appointed to carry out controls (especially with Risk management, Compliance/Anti money laundering, etc.).

When pursuing its "mission" Internal audit is inspired by the rules of conduct (Code of Ethics) established by the Board of Directors of the Institute of Internal Auditing (hereinafter also "IIA"), that every auditor must comply with. These rules are based on four principles briefly described below:
- integrity: internal auditing is conducted with the utmost care, honesty, diligence and professionalism. Internal Audit operators must not knowingly engage in any illegal activity or take any action that could bring the profession or the organisation for which they operate into disrepute;
- objectivity: the assessments made take into account all significant facts and are not influenced by other people or particular interests. The subject expressing the assessment maintains his/her independence of opinion, analysis and constructive criticism. Internal audit operators must report all known significant facts, the omission of which could provide an altered picture of the activities analysed;
- confidentiality: persons operating in Internal Audit are bound by the confidentiality of the information that they disclose during their work and are therefore required not to disclose such information without prior authorisation, unless they are required to do so for legal and/or ethical reasons. Information obtained must not be used for personal benefit or in a manner that is contrary to law or to the ethical and legitimate objectives of the organisation;
- competence: Internal Audit operators must only perform services for which they have the necessary knowledge, expertise and experience. They must also continually improve their professional preparation and the effectiveness and quality of their services. On this point, please note that Internal audit resources follow a skills growth and development path by taking part in courses and conventions of specific subjects/regulations and through continual professional updating, through self-training.

COMPLIANCE

The Compliance department has the mission of overseeing regulatory and reputational risks and specifically checking that internal procedures are consistent with the aim of preventing the violation of laws and regulations applicable to the Bank, also protecting its reputation and the quality of the services provided to customers.
The Compliance department operates independently and autonomously within the structure, reporting functionally only to the Board of Directors for its operations. The current mandate of the Compliance department was approved

by the Board of Directors at its the meeting of 18 December 2020.
The main tasks/obligations that the Compliance Department is called upon to perform are as follows:
- assistance to corporate structures for the definition of methodologies for assessing the risks of non-compliance with regulations;
- the identification of suitable procedures for the prevention of the risk detected, with the possibility of requesting their adoption as well as the verification of their adequacy and correct application;
- the continuous identification of the rules applicable to the Bank and the measurement/evaluation of their impact on the Bank's internal processes and regulations;
- the proposal of organisational and procedural changes aimed at ensuring adequate control of the identified non-compliance risks;
- the preparation of information flows directed to the Corporate Bodies and the structures involved (for example, operational risk management and internal audit);
- the verification of the effectiveness of the organisational adjustments (processes/internal regulations) suggested for the prevention of the risk of non-compliance with the rules.

During the financial year 2021, the Compliance department systematically monitored the legislative and regulatory novelties, informing the internal services involved; it interacted daily with company bodies and structures, through ex-ante consultancy and control, on the adequacy of safeguards set up to mitigate non compliance risks, and ex-post auditing, related to the consistency of operational conduct. These activities were structured and formalised through:
- annual planning of ordinary activities;
- regulatory alerts to internal organisational units;
- analytical reports on the organisational impact of new regulations;
- ordinary verification reports in implementation of the annual plan, and extraordinary reporting if necessary;
- reports on regulatory consultancy, requests to the various company departments for development of new service products or organisational changes and, as a result of those reports, indications to company structures of organisational measures needed to achieve and maintain regulatory compliance;
- control of correct adoption by company departments of organisational measures following compliance reports (follow up);
- periodic interim reports to the Board of Directors and its committees;
- the annual report for the 2021 financial year, submitted to and approved by the Board of Directors.

The Compliance Department acts as part of the "Internal control system" whose activities are coordinated by the internal controls Committee, composed of the heads of the Bank's second and third level control functions; the objective is to increase, through common rules and methodologies, the risk awareness level of the bodies managing the company.
Its activities mainly concerned the following areas:
- Governance of products (POG);
- Strategies, company policies and internal organisation;
- remuneration and incentive systems;
- management of conflicts of interest;
- investment services;
- market abuse;
- New regulation of the credit process;
- Verification of supervisory reporting;
- new products and services;
- the Transparency and Payment Service Directive (PSD);
- Insurance brokerage and management of potential conflicts of interest;
- Secretariat of the Supervisory Board pursuant to Legislative Decree 231/2001
- Monitoring and updating the Code of Ethics;
- The internal control system;
- Privacy and Data Protection;

- Relationships with the authorities;
- ICT and information systems.

The Compliance Department plays a decisive role in protecting the reputation with its customers and the community at large. It is therefore also responsible for compliance with the Code of Ethics that the Board of Directors adopted in 2005 and which has recently been the subject of revision. Efficient and effective compliance monitoring in this area contributes to the establishment and growth of reputational assets. The Compliance Department therefore represents a benefit for both consumers, who have a point of contact within the company for their rights and grievances, and for the company itself, by virtue of the creation of the reputational value that this safeguard can produce.

RISK MANAGEMENT

With the Risk management department mandate, the Board of Directors formalised the tasks and responsibilities of the risk control function, implementing all the most recent national and international regulations on the role and obligations of corporate control functions that Risk Management belongs to, part of the more general Internal Control System, especially imposing:

- independence requirements for all corporate control functions;
- requirements of suitable professionalism for function heads and personnel, excluding that they have responsibilities or take a direct part in the operating areas being controlled;
- specific planning and reporting of control activities to be provided annually to company bodies.

The mandate establishes that Risk Management depends hierarchically and functionally from the Board of Directors directly. The head of the Risk Management Department communicates and reports on his/ her work to the Board of Directors and fulfils the mandate granted to the function independently.

Within the Internal Control System, the risk control purpose is to implement risk governance policies.

As of 2015, the Bank of Italy circular no. 285/2013 - as an internal advisory committee within the Board of Directors to advise the Board on risks and internal control system. It is composed of between three and five non-executive directors and has the task of:

- identifying and proposing the appointment of heads of company control functions;
- examining in advance the programmes of activity and annual reports of the functions;
- providing assessments and opinions to the Board of Directors on compliance with the principles to which the Internal Control System and the company organisation must conform, and on the requirements to be fulfilled by the company control functions, drawing the Board’s attention to any weaknesses and the resulting corrective actions to be taken;
- checking that company control functions comply correctly with the body’s indications and lines and support the latter with drawing up the coordination document;
- defining and approving the strategic guidelines and risk governance policies (“RAF”), performing the assessment and proactive activity necessary for the Board, acting as a strategic supervisor, to define and approve the risk objectives and tolerance threshold;
- supporting the Board of Directors in verifying proper implementation of risk governance strategies, policies and the RAF;
- supporting the Board of Directors in defining the policies and processes for assessment of corporate activities, including verifying that the price and terms of transactions with customers are consistent with the business model and risk strategies.

This risk management policy sets out, in an organic, systematic manner, the policies for identifying, measuring, managing and controlling risks and the conditions for the informed assumption of such risks.

The Policy firstly contains the definition, in accordance with the rules contained in the aforementioned Bank of Italy Circular no. 285/2013, of the so-called Risk Appetite Framework (RAF) for which it defines, consistent with the maximum risk to be taken by the Bank, its business model and strategic plan, the following fundamental sizes:

- the risk appetite,

- the tolerance thresholds,
- the risk limits,
- the risk governance policies,
- the processes of reference necessary to define and implement them.

The objective is to define the risks in single business activities and describe the variations over time of the structure of risks; in order to ensure accurate, prompt risk control and management. Any unfavourable changes can thus be identified early thanks to systematic oversight, ensuring the possibility of corrective action to the risk structure. The framework adopted provides for four levels of risk assumption based on the ability or willingness to take on risk and they depend on its capital base, which is set aside to cover risks, the income capacity and the risk the bank is willing to take on in order to achieve economic and strategic objectives:

- the *"risk covering potential"* representing the absolute risk limit that the Bank can assume, although this may compromise the continuation of its business, while protecting savers and preserving the stability and efficiency of the financial system - thus avoiding a contagion effect on the system. It reflects the Bank's ability to deal with adverse emergency or crisis scenarios;
- maximum *risk capacity*, representing the maximum risk amount the Bank can take on without compromising normal business continuity ("going concern"). It reflects the ability to confront and survive adverse, emergency or stress scenarios;
- the *risk appetite*, which constitutes the overall (or aggregated) level of risk by risk category that the Bank intends to assume in pursuit of its strategic objectives. It reflects the risk appetite in the context of normally conducting its business;
- *risk tolerance*, which represents the maximum deviation permitted by *risk appetite*. It is the physiological risk deviation accepted compared to its appetite when conducting normal economic activities and is set to ensure sufficient margins to operate, even in stressful conditions, within the maximum risk that may be assumed.

On an annual basis, the Board of Directors, supported by the risk control function, checks the adequacy of the RAF, and its compliance with the business model, and quantifies, in compliance with strategic objectives, risk objectives and any tolerance thresholds for each financial year, in a document entitled the *Risk Appetite Statement ("RAS")*.

With regard to risk assessment, i.e. the periodical assessment of the relevance and significance of each risk to which it is exposed, the Bank uses an evaluation method and scale that conform to the integrated verification method common to company control functions. In particular, the methodology requires that, for each risk category, its relevance considers - where possible - the probability that the risk will occur and the resulting impact. Each control function, in respect of its areas of expertise, is involved and shares the outcome of the audit.

Within the internal control system ("ICS"), the "integrated method", common to all company control functions, defines, in a uniform, consistent framework, objectives, roles, procedures and techniques to be adopted when designing and assessing controls implemented to mitigate risks. This method requires involving and empowering process owners and the adoption of a bottom-up approach to identifying and assessing risks.

RISKS THE BANK FACES

Credit risk

The credit risk is the risk of total or partial insolvency of a counterpart with loans and is the main risk factor the Company is exposed to, consistent with its bank type, oriented towards retail customers and small and medium-sized companies.

Consequently, its credit risk management is designed on the one hand to improve processes for granting credit facilities to render them consistent with underlying risks, while on the other preventing any deterioration of the solvency of customers with loans through increasingly effective and reliable monitoring systems.

During 2021, credit risk management was entirely based on the provisions of the Credit Risk Policy. This document establishes an organic definition of management guidelines for all possible forms of credit risk, as defined in the more general risk policy (default risk, solvency risk, foreign currency exposure risk, risk of concentration of the loan portfolio, residual risk). In particular, the document provides:

- the definition of economic risk appetite in relation to customer credit risk;
- the scope of application of the policy, expressly mentioning the Bank's reference values for lending that apply to the annual credit strategy and management policies;
- the organisational model, specifying the minimum responsibilities, roles and activities assigned to each of the company departments involved;
- the description of the credit risk management and control process, broken down into five key phases: the credit granting phase, the control and monitoring phase for assigned positions, the risk measurement and quantification phase, the adverse scenario analysis phase (stress tests), and the non-performing credit management phase;
- for each phase, the essential procedures for execution, monitoring and control are outlined, making regular reference to detailed internal documentation;
- risk mitigation techniques, i.e. the collateral collection and management process, with their implications for capital requirements;
- the "credit position monitoring" system, which relies on five pillars: specific monitoring assigned to periodic reviews, performance monitoring through the internal rating system, performance monitoring of individual exposures by the Risk Management Department as part of level 2 controls, the supervisory system and warning of positions at risk (early warning, GDC) and the monitoring of risk mitigation instruments;
- the model for recording the likelihood of official default of the loan portfolio and quantifying the expected and unexpected loss;
- the effects of credit risk on the Bank's assets and financial statements: identification of capital requirements for credit risk (Pillar I); regulatory and internal limits for concentration risk (Pillar II); criteria adopted for impairment losses on loans.

From an operational standpoint, the credit monitoring process is continuously guaranteed through an automatic system for classifying anomalous positions (GDC, Credit Management). This uses an early warning engine which, based on performance rating and other indicators calculated and entered on a daily basis, can report the emergence of potentially degraded situations. In addition, the system enables streamlining the internal process of classification and management of problem customers, which in turn is governed by a specific regulation that contains the details of the controls to be performed, the procedure for classifying anomalous positions, and the operating instructions for the administration and management of such positions.
In addition to the usual risk classes for non-performing loans established by the supervisory body (bad debts, unlikely to pay positions, impaired past due positions and forborne exposures), the system also establishes three classes of performing loans for customers, which are graduated according to the presence of anomaly indicators which, although not requiring classification in the category of non-performing loans, nevertheless require attentive management of the risk profile.

In particular, there is system in place to monitor and manage "pre-past two" positions, i.e. positions that have constantly overrun for more than 30 days, in order to prevent their deterioration to "past due" status.

The adoption of credit risk mitigation methodologies for calculating the capital requirement for credit risk in accordance with Basel 3 regulations continues to require a precise definition of the estimation, assessment and periodic re-evaluation processes for properties used as mortgage guarantees, in order to comply with the eligibility and admissibility criteria for such guarantees.

Amongst actions taken to guarantee a correct classification and assessment of credit exposure, the Risk management department controls the trend of single positions, in particular:

- checking that the trend monitoring exposure, both performing and non performing loans, is conducted systematically, with method, in compliance with internal organisational processes;
- ensures that the said monitoring uses methods and procedures that:
  - enable prompt identification and reporting of any anomalies;
  - ensure that adjustments and reported losses are adequate.
- assess, with regard to credit management:
  - whether classifications are consistent, i.e. whether the breakdown into credit classes complies with internal regulations;
  - the adequacy of provisions, i.e. the adequacy of coverage of non-performing loans.
- verify the adequacy of the debt recovery process, in particular:
  - that non-performing loans are correctly placed;
  - the reliability of estimates of recovery times and of the levels of non-recoverability of non-performing loans;
  - the processing of guarantees, including the updating of specialist reports.

The control performed by Risk Management Department take the form of:

- spot checks, using a predefined logic, of all categories of receivables;
- systematic checks, through adoption of summarised remote indicators applied to all outstanding exposures at every stage of the life of the receivable.

During the year, the capital requirement level was monitored continuously as part of the ICAAP process and no significant variations to the average weighting level of exposures in single regulatory portfolios were reported.
The quarterly credit risk report prepared for the Board of Directors serves as the means of reporting on the performance of the lending activities and the associated risks, together with the risk objectives (defined in the "RAF") and the objectives and guidelines defined in medium and long term strategic planning. The report includes an assessment of risk indicators (probability of default and estimation of expected losses), the methods adopted in the calculations and scenario analyses to assess the behaviour of the loan portfolio in response to unexpected events.

A reduced report containing key information on the composition and overall risk level of the loan portfolio is also prepared on a monthly basis.

The assessment and control of credit risk was also the subject of monthly discussions within the Internal Loan Committee, during which the aforementioned monthly and quarterly reports and the detailed situation of the main non-performing positions were examined in detail.

Market Risk

The market risk is defined as the risk of loss on financial instruments owned resulting from possible fluctuation in financial market variables (interest rates, volatility, foreign exchange rates, share prices), considering scenarios in which each individual financial instrument is exposed to one or more of these risks. The market risk is risk is measured as a change in the value of stocks due to market movements.

The market risk measurement and control system is based on the Value-at-Risk (VaR) method, on which it bases a system of maximum tolerable risk and loss limits (risk capital) over various time horizons. The VaR method calculates the maximum potential loss of a portfolio over a given time horizon and with a given probability, under normal market conditions. The VaR is a uniform measurement system, applicable to all types of financial instruments, thus making it possible to compare risk values calculated from the point of view of both time and daily profitability. to calculate the VaR, the Bank uses the parametric model of variance-covariance provided by a leading company with widespread experience, supported by internal models used for the necessary checks, as well as for planning purposes: for example, VaR from Monte Carlo simulations and historical VaR using the Extreme Value Theory for the highest levels of confidence.

In addition to VaR and maximum sustainable loss analysis, market risk management is based, through specific limit systems, on the control of counterpart risk, country risk, the sensitivity of the portfolio to market rate risk ("basis point value") and credit risk ("credit risk sensitivity").

In order to avoid and prevent possible overruns in authorised risk limits, a standardised daily reporting system monitors and raises an alert when the thresholds are approached.

Thee Risk Management Department compiles a detailed, comprehensive monthly report on market risks relating to the proprietary portfolio. Finally, the Risk Management Department is tasked with continuously validating and verifying the pricing system for financial instruments held, in order to maintain a reliable price profile that is consistent with market prices (*fair value*).

Counterparty Risk

Counterparty risk is the risk that a counterpart to a transaction will fail to fulfil its obligations by the methods and deadlines established in the contract. Counterparty risk is regulated through a specific system of operating limits, based on a series of criteria for assessing the creditworthiness of counterparts, in separate form according to their type (corporate or financial).

The general rule that all financial transactions must be carried out exclusively with contracted counterparties also applies.

The limit for each counterparty is approved by the Board of Directors and may be employed by the Treasury and Investment services on the basis of specific percentage shares of the limit assigned to homogeneous categories of financial instruments.

Interest Rate Risk

With regard to the banking book, which corresponds to the Bank's entire commercial operations in relation to the transformation of the maturities of all balance sheet assets and liabilities, treasury, and hedging derivatives, changes in the structure of market interest rates may have unfavourable effects on net interest income and capital, and thus constitute a source of risk (interest rate risk).

The management and investment strategies for this portfolio are based on criteria for optimising the risk/return profile, and are implemented on the basis of expectations for interest rate trends. The Bank's investment policy is accordingly focused on optimising interest margins and minimising their volatility (Asset & Liability Management).

The guidelines and regulations for the management of interest rate risk in the banking book are set out in the ALM Policy, together with the associated operating limits and mandates for financial and liquidity management. Two indicators are identified here, relating respectively to the sensitivity of the interest margin and the present value of the assets in the face of unfavourable changes in the rate curve.

The interest rate control especially avails itself of monthly processes prepared using an application module integrated with analysis and simulation supporting the ALM and risk rate process; the model has been continually refined to process all asset and liability items of the bank's portfolio in a more realistic, reliable way, in order to optimise the strategies of the financial statement asset and liability items.

The verification and control of the interest rate risk profile is discussed quarterly in the Bank's ALCO, during which a specific monthly report is presented by the Risk management department. In particular, the report includes a so-called fixing analysis that provides a daily illustration of the amount of the most important balance sheet items subject to rate change, broken down by indexing parameter. This enables, inter alia, monitoring of the current *natural hedging* capacity of the banking book, in terms of both timing and amount, between assets and liabilities.

Liquidity Risk

Liquidity risk is the risk that the Bank may not be able to meet its payment obligations as they fall due and/or finance increases in its assets. It mainly emerges as an:

- inability to raise funds by financing itself on the market (funding liquidity risk);
- inability to mobilise funds by selling assets on the market (asset liquidity risk).

In compliance with the provisions of circular no. 285 of the Bank of Italy, the Internal Liquidity Adequacy Assessment Process (ILAAP) was reviewed.

Liquidity management is based on the indications and operating guidelines set out in the liquidity and funding Policy, which is constantly updated. An essential element of that management is the distinction between short-term operational liquidity (with a time horizon of up to 12 months) and medium- to long-term structural liquidity (with a time horizon of more than 12 months). The former is aimed at avoiding situations of sudden liquidity tension, caused by specific shocks of the Bank or systemic market shocks; the latter responds to the need to ensure optimal management, from a strategic point of view, of the transformation of the maturities between deposits and loans, through an adequate balance of the maturities of the assets and liabilities, so as to prevent future liquidity crisis situations.

The measurement and control of operational liquidity and structural liquidity have been defined by means of a system of indicators, limits and periodic reporting, also on a daily basis. Furthermore, the organisational structure of the offices and departments responsible for liquidity management and the associated controls and the emergency plans to be implemented in the event of situations of stress or crisis - the so-called Contingency Funding Plan (CFP) - are also clearly defined.

Liquidity risk is calculated using the Liquidity at Risk (LaR) method which estimates - at different confidence intervals - the liquidity requirement, which cannot be directly influenced by the Bank, over pre-defined time horizons. The cash flows of interest in the LaR analysis are the daily imbalances not attributable to choices made by the Bank, i.e. flows that are "independent" of the Bank's will and therefore attributable to the activity of customers. This approach is used to verify the level of reserves and to assess, including from an ICAAP perspective, any internal capital requirement to be allocated to cover liquidity risk.

The liquidity situation is constantly monitored by the relevant offices on a weekly and monthly basis. The Contingency Funding Plan also foresees an alarm signal system monitored on the so-called Liquidity Monitor and based on measurement of pre-alarm indicators divided between systemic and specific crisis indicators.

The indicators are appropriately weighted in order to identify five different operating situations that can be traced back to a progressive deterioration of the Bank's liquidity position: normal operating conditions - in turn are broken down into situations of normality, under observation, and attention - a state of stress (emergency), and a crisis situation (a grave emergency).

The Treasury Service, responsible for managing operating liquidity, also employs the so-called liquidity synoptic chart, a daily report that briefly and exhaustively describes the liquidity situation in the short- to medium-term enabling prompt identification of critical situations and the maintenance of the indicator values at the desired levels.

The calculation and forwarding of monthly reports to the supervisory authority, as provided for in the Basel 3 regulations, has been under way since 2015. The report contains a short-term indicator, the LCR (Liquidity Coverage Ratio), and a long-term indicator, the NSFR (Net Stable Funding Ratio).

For what concerns the excessive financial lever risk, that is the risk that an especially high indebtedness level compared to treasury stock makes the bank vulnerable, making it necessary to adopt business plan corrective measures, including the sale of assets recognising losses which could imply value adjustments to the remaining assets, every year the Board of Directors defines, in the RAF, the bank's risk appetite in financial lever terms establishing a minimum leverage level (ratio between Tier1 and total assets), as set forth in Basel 3.

The liquidity management policy privileges maintaining stably consistent reserve liquidity funding, always enough to handle stress situations. For this purpose, all available instruments are used, last of all those implemented by the European Central Bank and the Italian Government. The proprietary stock portfolio is configured to guarantee an ample reserve over time with which to manage liquidity; establishing, for that purpose, suitable investment regulations in terms of duration, sector, issuer risk, eligibility, etc.

The ABACO refinancing channel, through which loans that meet specific eligibility requirements can be collateralised with the ECB, was activated extensively in 2016.

Operational Risks

Operational risks are naturally inherent in the execution of processes, in the characteristics of the products and services offered, and in the possibility of being the subject of fraudulent or incidental events.

For these reasons, the Bank analyses the causes of operational losses and systematically identifies and measures events in order to limit and reduce the relevant risks.

In accordance with the definitions of the Basel Committee, the operational risk is identified as "the risk of losses arising from errors or inadequacies in internal processes, human resources, systems, or from external events". Legal risks are included but not strategic, reputational or systemic risks.

Thus the definition of operational risk does not include opportunity risks (missed business), reputational damage, or risks involving the entire banking system.

The Company uses an internal system to detect and measure operating losses for better management of potential sources of danger that could undermine its stability.

This system is based on a similar initiative in which the Bank participates, undertaken at national level by the Italian Banking Association (ABI). With the DIPO (Italian Operational Losses Database) project, ABI intends to raise awareness and assist banks in the implementation of these procedures, and to create a national database that will enable banks to obtain broader, more significant statistical information and data.

The operational loss collection process is based on an internal reporting process, which involves the detection and forwarding to a central collection point located with the Risk Management Department, of all listed events arising from legal action, customer complaints, disputes with staff, etc. The collection of systematic analysis of that information over the years has provided precious indications and suggestions for assessing and optimising Bank processes and activities.

Assessment of operational risks is also included in the assessment of the company control functions following the introduction of new products, services or other commercial initiatives, the introduction or modification of new operating processes.

The Risk Management Department is responsible for managing operational risks. This is also the subject of attention, within the Internal Control System and the Internal Control Committee, which meets periodically in order to coordinate all company control functions (Internal Audit, Compliance and Risk Management), to share control perimeters and results of audits, direct corrective actions towards operational functions, and develop and disseminate a risk and control culture among the Bank's operating offices.

On a quarterly basis, the Risk management department draws up a report on the Bank's operating risks discussed in the internal controls committee and submitted to the Board of Directors.

Since 2012, capital requirements compared to operational risks have been calculated applying a standardised method, which also imposes taking actions to improve the general operating risk control level. These include:

- execution of a comprehensive self-assessment process for the operational risk management system, designed

to assess the overall quality of the system in relation to the Bank's organisational structure by assessing the overall level of exposure to operational risks and the system's compliance with applicable regulatory requirements and evaluating the effectiveness of the system in relation to the objectives and programmes of the current strategic plan and the evolution of the market of reference;
- regulations for the correct distribution of operating losses among the Bank's business lines;
- an annual review of the operational risk management system by the Internal Audit department.

The operating risk management system has also been integrated with the so-called "Conduct risk", as defined in the European Central Bank's SREP guidelines. This is the risk of loss from the inadequate provision of financial services, including cases of wilful misconduct or negligence, and arises from any unethical conduct on the part of the Bank's executives and employees, including in violation of properly defined controls and processes: i.e. the result of an unethical corporate culture. This category includes the following risks:
- the fraudulent sale of products on retail and wholesale markets;
- the *pushed cross-selling* of products to private customers, such as "*packaged*" bank accounts or additional products that customers do not need;
- conflicts of interest in the execution of transactions;
- the manipulation of reference interest rates, exchange rates, or other financial instruments or indices to improve the profits of entities;
- barriers to switching from a financial product during its life cycle and/or to switching to other financial services providers

A risk assessment is part of the assessment by the company control functions upon the introduction of new products, services, or other commercial initiatives.

In order to assess the risk, the internal method for assessing so-called "model risk" was more widely used for those areas of banking activity that, for decision-making and the measurement of certain market variables, employ "models", i.e. methods, systems and quantitative approaches that use theories, techniques and statistical, mathematical, economic and financial assumptions to obtain quantitative results/estimates from the processing of input data.

Specific attention is paid to the processes of analysis, measurement and treatment of the "*IT risk*" with reference both to the AFAST service centre in Padua, which continues to constitute the Bank's outsourced IT centre, and to the internal IT components, i.e. those that have not been outsourced.

Still in the area of operational risks, processes and methodologies for the analysis and assessment of the so-called "*outsourcing risk*" have also been developed, aimed at controlling the risks associated with corporate functions transferred to external suppliers, with particular reference to essential or important company functions pursuant to the regulatory framework in force.

Concentration Risk

The concentration risk is defined as a risk resulting from credit exposures with counterparts, groups of connected counterparts, counterparts in the same economic sector or performing the same activity.

The concentration risk per individual borrower is measured in accordance with the provisions of Bank of Italy Circular 285 (Title III - Chapter 1 - Annex B) according to the *Granularity Adjustment* ("GA") method.

As part of ICAAP, specific methods have been developed, in accordance with applicable legislation, to calculate the concentration risk by geographical area, i.e. the risk arising from exposures to counterparts operating in the same economic sector or geographical area.

A comprehensive limit system is also in place that controls and directs guidelines for limiting the level of concentration risk in the Bank's loan portfolio.

The concentration risk in its various forms is also monitored in the quarterly credit report and is discussed during the quarterly meetings of the Internal Loan Committee.

Other Risks

The risk management Policy identifies and defines the following additional categories of risk that are periodically analysed and assessed:

- the strategic risk divided into the following sub-types in terms of the time horizon of the event:
  - the short-term risk (business or commercial risk), i.e. the risk of losses due to unexpected changes in sales volumes (lower revenues) and/or expected margins (higher costs due to technological innovation, the tightening of the tax treatment, a change in the regulatory environment, etc.);
  - the strategic risk in the strict sense, or positioning risk, i.e. the risk of current or prospective losses, a fall in profits or capital arising from changes in the operating context or bad company decisions, inadequate implementation of decisions or insufficient reaction to changes in the competitive environment;
- risks deriving from securitisation transactions, with particular reference to those that entail the Significant Transfer of Risk;
- the equity investment risk, i.e. the risk that the book value of an equity investment may decrease as a result of a reduction in its price stock markets price, in the case of listed companies, or of the equity default of the investee, which renders it necessary or advisable to revise its carrying value in the financial statements, in the case of unlisted companies;
- the reputational risk, i.e. the current or prospective risk of a decline in profits or capital arising from a negative perception of the Bank by stakeholders or by any person with whom the Bank has had a relationship;
- ESG (Environmental, Social and Governance) risks, i.e. the current or prospective risk of a fall in profits or capital resulting from the direct or indirect impact of events linked to environmental (with particular attention to those linked to the phenomenon of climate change), social and governance factors.

THE ANTI-MONEY LAUNDERING OFFICE

Money laundering and financing terrorists are phenomena that, partly because of their possible transnational dimension, pose a serious threat to the legal economy and may have destabilising effects, particularly on the banking and financial system.

The articulated legal bases that the international and internal fight against money-laundering and the financing of terrorism is based on are intended to protect the system against the risk of being exploited, even unknowingly, to perform illegal actions, calling on operators to perform so-called "active collaboration" that is report any transactions suspected of an illegal origin of funds transferred to the Authority responsible.

To enable the anti-money laundering system to be fully effective, an international harmonising process for prevention to avoid that, in an increasingly more open and competitive market, those moving illegal funds can take advantage of gaps in the protection nets established by the different countries.

However, some geographical areas and territories remain where legislation is not yet in line with international best practice and where stricter anti-money laundering controls, calibrated to the highest risk level, must be applied.

On this point, primary and secondary legislation is abundant and is continuously expanded by Authorities appointed to do so. In brief, the system of obligations incumbent on intermediaries and which Volksbank is careful to implement continuously, is still focused on the following three fundamental institutions:

i) customer due diligence;
ii) data storage;
iii) reporting of suspicious transactions.

In order to prevent and combat money laundering and the financing of international terrorism new Community and international, EU and national regulations have been issued in recent years.

In the **international context,** the main regulatory framework of reference is thus constituted by the Recommendations processed by the International Financial Action Group (GAFI), which represent the fundamental principles for preventing and combating money-laundering and the financing of terrorism, that countries are required to adopt in the their various legal, administrative and financial systems. In 1990 the GAFI issued forty Recommendations on preventing and counteracting money-laundering; nine special Recommendations were then added in 2001, dedicated to combating financing international terrorism. The subject was fully reviewed in February 2012 with the release of new "*International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*" (in forty Recommendations). The Recommendations are accompanied by "Interpretative Notes" and a "Glossary" of definitions that are an integral part of the new standards. The Recommendations set out a comprehensive and coherent framework of measures to combat money laundering and terrorist financing and adopt a risk-based approach. The body of the Recommendations also includes standards for countering the financing of terrorism, introduced in 2001, as well as specific measures to address the financing of the proliferation of weapons of mass destruction, in accordance with UN Security Council Resolutions.

In Europe, the main reference regulations include:

- Regulation (EC) 2580/2001 of the Council dated 27 December 2001 related to specific restrictive measures, against certain people and entities, destined to combat terrorism.
- Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, amending Regulation (EU) no. 648/2012 of the European Parliament and Council and which abrogates Directive 2005/60/EC of the European Parliament and Council and Directive 2006/70/EC of the Commission (so-called "IV anti-money laundering Directive");
- Regulation (EU) 2015/847 of the European Parliament and Council dated 20 May 2015, concerning information data accompanying the transfer of funds and which abrogates the Regulation (EC) 1781/2006;
- Delegated Regulation (EU) 2016/1675 of the Commission dated 14 July 2016 which integrates Directive (EU) 2015/849 of the European Parliament and Council, identifying the high risk third countries with strategic shortcomings and subsequent updates;
- EBA Guidelines issued on 1 March 2021 pursuant to Article 17 and Article 18 (4) of Directive (EU) 2015/849 on customer due diligence measures and on the factors that credit and financial institutions should take into account in assessing the money laundering and terrorist financing risks associated with individual business relationships and occasional transactions ("Guidelines relating to ML / TF risk factors"), which repeal and replace guidelines JC / 2017/37, which apply from October 26, 2021;
- Delegated regulations of the European Commission that identify high risk third countries with strategic shortcomings;
- Directive (EU) 2018/843 of the European Parliament and Council dated 30 May 2018 which amends the IV anti-money laundering Directive and amends Directives 2009/138/EC and 2013/36/EU (so-called "V Anti-Money Laundering Directive").

In Italy, the main reference regulations include:

- Legislative Decree 21 November 2007, no. 231, as most recently amended by Legislative Decree 25 May 2017, no. 90, containing "Implementation of Directive (EU) 2015/849 relating to the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and amending Directives 2005/60 / EC and 2006/70 / EC and implementation of Regulation (EU) no. 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) No.... 1781/2006', by Legislative Decree 4 October 2019 no. 125, bearing "Amendments and additions to the Legislative Decrees 25 May 2017, n. 90 and no. 92, implementing Directive (EU) 2015/849, as well as implementing Directive (EU) 2018/843 which amends Directive (EU) 2015/849, relating to the prevention of the use of the financial system for the purposes of money laundering and territory and amending Directives 2009/138 / EC and 2013/36 / EU "and by the 16 July 2020 Law Decree no. 76, "Urgent measures for digital simplification and innovation", converted with amendments by L. 11 September 2020, no. 120 (hereafter: Legislative Decree 231/2007

- Legislative Decree of 22 June 2007, no. 109, containing measures to prevent, combat and repress the financing of terrorism and the activities of Countries that threaten international peace and safety, in implementation of Directive 2005/60 / EC, as recently amended by Legislative Decree 90/2017;
- Bank of Italy Resolution no. 357 of 27 May 2009 with the subject “Provision including operating indications for exercising reinforced controls against the financing of programs to multiply weapons of mass destruction”;
- Bank of Italy Resolution no. 28/2018 of 23 February 2018, on “Enhanced due diligence procedures on Politically Exposed Persons” (hereinafter: "PEP Resolution");
- Bank of Italy communication dated 9 February 2018 on anti-money laundering obligations for banking and financial intermediaries;
- Bank of Italy provision of 26 March 2019, containing “Provisions on internal organisation , procedures and controls to prevent the use of intermediaries for money laundering and the financing of terrorism” (hereinafter: "AML Organization Provision");
- Provision of the UIF (Financial Information Unit), containing “Instructions on objective communications” dated 28 March 2019;
- Bank of Italy provision of 30 July 2019, containing “Provisions on customer due diligence to combat money laundering and the financing of terrorism” (hereinafter: "Provision of due diligence");
- Provision of the Bank of Italy of 24 March 2020, setting out "Provisions for the storage and provision of documents, data and information for combating money laundering and terrorist financing" (hereinafter: "Provision of conservation");
- Bank of Italy Note no. 15 of 4 October 2021 on "Implementation of the European Banking Authority's Guidelines on Risk Factors for Customer Due Diligence (EBA/GL/2021/02)".

The main elements characterising the regulatory framework referred to are:

- the obligation to adopt suitable strategies, policies, procedures and processes to identify, assess and monitor the money laundering risk;
- the obligation to conduct a periodical assessment of the money laundering (ML risk) and financing of terrorism risk (TF risk) it is exposed to, with attention for risk factors associated to its customer type, the operational geographical area and distribution channels, products and services offered;
- the obligation to adopt measures deemed the most suitable to prevent the money laundering risk, consistent with the exposure to the money laundering risk;
- the clear definition, at different role, task and responsibility levels, and the preparation of procedures to guarantee compliance with customer due diligence obligations, preservation of documents and proof of relations and transactions, and the obligation to report suspicious transactions;
- the creation of an anti-money laundering function assigned to supervise the commitment to prevent and manage money laundering risks;
- a control function architecture with coordinated components, also through suitable information flows, while being consistent with the company structure, complexity and size, type of services offered and the entity or risk that can be associated with customer characteristics;
- a control activity whose purpose is the compliance by personnel and collaborators with internal procedures and all regulatory obligations; with special attention for ongoing analysis of customer transactions, the “active collaboration” and protection of confidentiality over reporting;
- customer due diligence obligations, with indication of “when” (e.g. establishing an ongoing relationship, execution of an occasional transaction for an amount exceeding the legal thresholds) and “how” (e.g. how we identify a customer, the effective owner, the purpose and nature of an ongoing relationship) fulfil those obligations;
- the risk-based approach, for which the customer due diligence obligations are structured at different due diligence levels based on the customer’s risk profile, that of the transactions and the ongoing relationship;
- the obligation to apply enhanced customer due diligence methods when faced with a high money laundering or financing of terrorism risks, considering the risk factors related to the customer, products, services, transactions and distribution channels and the geographical area involved while taking into account what is

indicated and / or recommended in the Guidelines EBA / GL / 2021/02 (Guideline 4 - Enhanced measures of adequate customer verification, Points 4.45 et seq.) In any case, enhanced due diligence applies in the case of: (i) customers residing in high-risk third countries identified by the European Commission; (ii) ongoing relationships, professional services or transactions with customers and their beneficial owners who are politically exposed persons (so-called "PEP"); (iii) transactions for unusually high amounts or which cause doubts;

- related to "politically exposed person", an extensive approach for those holding public offices or in any case who administer public assets, with no longer any distinction between domestic and international PEPs;
- the obligation to abstain from opening a new continual account, to maintaining an existing account or executing a transaction if it is objectively impossible to perform a customer due diligence;
- the obligation to report suspicious transactions when you know, suspect or have reasonable motives for suspecting they are in progress or money laundering or financing of terrorism transactions have been committed or attempted or, in any case, the funds, regardless of their amount, come from criminal activities;
- the obligation to periodically transmit to the UIF data and information identified based on objective criteria, concerning transactions risking money laundering or the financing of terrorism (so-called "objective disclosures");
- the obligation to store documents, useful data and information to prevent, identify or ascertain money laundering or financing of terrorism activities and to enable audits to be conducted, for their respective attributions, by the UIF or another competent Authority;
- the limits established for use of cash and bearer bonds;
- the obligation to send the UIF the aggregated figures for transactions, to enable targeted analyses and bring forth any money laundering or financing of terrorism phenomena in certain territorial areas;
- carrying out permanent training programs, for the correct application of provisions, to recognise transactions connected to money laundering or the financing of terrorism and for the adoption of behaviour and procedures;
- the introduction of the so-called procedure in the context of the prevention of money laundering and terrorist financing "whistleblowing", in order to protect those who report violations within the intermediary of the provisions dictated in order to prevent the risk of money laundering and terrorist financing;
- a sanction system based on penal sanctions, reduced compared to the system previously in force, and administrative sanctions, modulated based on principles of effectiveness, proportionality and dissuasiveness;
- obligation to adopt enhanced control measures to contain the risk of involvement in terrorist activities or proliferation (e.g. monitoring the accounts, freezing funds).

MANAGEMENT OF COMPLAINTS

Volksbank is convinced that real and lasting growth and development are possible only if the customer is at the heart of every strategic decision taken by the company. This customer-centred approach, the basis of which can be found in the company's Code of Ethics, emerges straight from the design phase of products and services, with constant focus on quality research, but above all on managing the relationship with the customer in order to provide him or her with the product or service that best suits his or her needs.

Despite the best efforts of employees, given the large number of transactions that are concluded daily, it is not possible to avoid possible cases in which, from time to time, customer expectations are not met, hence generating dissatisfaction by those who believe that they have not received an adequate service. On such occasions, customer cooperation becomes essential in order to identify and eliminate the causes of service failure and to implement appropriate procedural improvements.

Some time ago, the company set up an internal office to handle complaints and adhered, in accordance with applicable legislation, to the relevant extra-judicial bodies to settle disputes arising between banks and their customers. With a view to the continuous improvement of the services offered to customers, third party analysis and judgement of complaints received has been guaranteed; and the personnel of the complaints management office are in a position of organisational and hierarchical independence of business units responsible for marketing products and services.

In cases where a customer is not fully satisfied with a proposed solution, he or she can refer to extra-judicial dispute settlement systems which, as they operate as an alternative to the ordinary judicial authorities, can provide a faster and less costly means of resolving disputes. Through its commercial network and its website, on this point the Company provides customers with information containing, inter alia, complaint regulations and information on the various extra-judicial dispute resolution systems.

Statistical information on complaints received up to 31 December 2021 was also published. During the year, 2,172 written complaints were received and were handled, 230 of which related to banking and financial services and 1,942 of which related to investment services.

Of the 2,172 complaints as of 31st December 2021, 80 complaints were closed, 1,730 were closed pending settlement, while 362 were being evaluated.

A complaint is considered closed when a reply is sent to the customer which is signed by the Complaints Management Coordinator or the Head of the "Corporate and Legal Affairs" organisational unit, while a complaint is considered settled when it has been considered well-founded or when the reason for the complaint made by the customer has been overcome in some other way (e.g. following the settlement of the dispute by judicial or extrajudicial means).

In addition, a complaint is deemed to have been settled if the client does not reply within 12 months of its closure. However, any further reply from the customer on the same issue implies the reopening of the complaint, even beyond the 12-month limit for such settlement.

With regard to the complaints received in 2021 concerning banking and financial services, the Company reimbursed customers a total of €3,805.

With regard to complaints received in 2021 concerning investment services, the Company reimbursed clients for a total of €321,600.

During the year 2021, reimbursements were made for €640,417 relating to complaints presented in previous years. Also during the year, allocations were made to the provision for risks and charges for banking and financial services and for investment services for a total of € 3,928,806.

CODE OF ETHICS

The reflection on business ethics - the sphere of values and the system of rules that guide the behaviour of the company towards its stakeholders (customers, shareholders, employees, communities) - for banks is initially found in the principle of healthy and prudent management, which requires them to operate according to criteria of functional efficiency and risk mitigation with professionalism and fairness, respecting the legislation, guidelines, supervisory provisions and other regulators and the recommendations and expectations that the authorities address to supervised entities.

Rapid and significant changes in the context continually confront banks with new risks and may increase known risks, even in circumstances where the regulatory framework may not be a sufficient guide to govern operational and reputational risks; in this context, the first safeguard is the Code of Ethics, which is adequately formalised and approved by the Board of Directors and made public and disseminated at all levels of the organisation.

It expresses the values and principles of conduct that constitute the foundation of the corporate culture in Volksbank and is a top-level governing document of the Bank and the companies of the group. Listening to interests and balancing them with company strategies (stakeholder engagement) are oriented towards the values and principles indicated in the Code.

The newly approved Code of Ethics replaced the one approved in 2015 by the Board of Directors; it is linked to the values to which Volksbank informs its business:

- **Integrity**: we pursue our objectives with honesty, fairness and responsibility, in full and substantial compliance with legislation, professional ethics and the spirit of the agreements we have signed.

- **Transparency**: we operate with transparency - with respect to rules, communication, and conduct - to enable our counterparts to make informed and informed decisions for themselves.
- **Quality**: we always try to improve, looking at changes as opportunities to learn. We use our merit - which for us is knowledge, method and relational competence - to redesign the value chain of products and services on the basis of the new habits of households and businesses and the opportunities of technological innovation and digital transition.
- **Value of the person**: We orient our conduct towards the principle of personal dignity. We adopt attitudes and behaviours of inclusion and equal opportunities, with full and substantial respect for the diversity of gender, sexual orientation and identity, origin, culture and language, social class, age, different abilities, political and trade union membership, religion.
- **Relationship with the territory**: we pursue close and lasting relationships of trust with the local communities in which we operate and we never lose sight of the legitimate interests that people have in what we do. We promote the development of the territory and we want to be an active part of stable growth over time, in terms of economic value with a positive, measurable influence on society and the natural environment.
- **Responsibility in the use of resources and sensitivity to ESG issues**: we cultivate an awareness of the social and environmental effects of our choices: we promote a responsible use of resources, trying to avoid waste and wastefulness, we pursue a better protection of the natural environment, favouring sustainable choices over time and encouraging virtuous behaviour.

The rules of conduct set out in the Code of Ethics derive from these ethical principles (the "values") sustained and actively experienced by persons operating, for any purpose, at the Bank and in group companies.

CERTIFICATION PURSUANT TO ART. 154 BIS TUF

(It.) Legislative Decree of 6 November 2007, no. 195 implementing Directive 2004/109/EC on the harmonisation of transparency requirements (the "Transparency Directive"), partially extended to companies that issue securities which are admitted to trading on a regulated market under the provisions of Law 28 December 2005, n. 262 on 'Provisions for the protection of savings and the regulation of financial markets', amending Legislative Decree. 58/1998 (Consolidated Finance Act).

These provisions establish an obligation for the Financial Reporting Officer to produce corporate accounting documents that provide a true and fair representation of the Issuer's financial position, results and cash flows.

To this end, in a specific report the Financial Reporting Officer certifies that the administrative and accounting procedures for the preparation of the annual financial statements and all other financial communications have been adequately and effectively applied, and that the documents correspond to the results as stated in company accounting books and records.

In order to issue this certification, the Financial Reporting Officer reviews the adequacy and efficacy of the internal control system for Financial Reporting:

- by means of a concise, comprehensive analysis at company level, designed to verify the existence of a corporate climate that is committed to reducing the risks of errors or improper conduct accounting and financial reporting purposes;
- at a process level, through analysis and audits of company operations generating and supplying Financial Reporting, also conducted using results produced by other control functions. For that purpose, they identify the scope of area activities in order to identify significant processes that need to be checked.

Accordingly, Volksbank has embarked on an organisational process to define a reference model, in line with national practice; with a view to strengthening the processes underlying the reliability of *financial reporting*, i.e. of activities related to the collection, processing and publication of economic and financial information flows.

1.9 OTHER INFORMATION

1.9.1 2 INFORMATION PURSUANT TO BANK OF ITALY/CONSOB/ISVAP DOCUMENTS No. 2 OF 06.02.2009 AND NO. 4 OF 03.03.2010

On 6 February 2009, the Bank of Italy/Consob/Isvap issued document no. 2 on application of the IAS/IFRS, in order to recommend the inclusion in financial reports of information on a going concern basis, the financial risks borne by the company, audits of the possible existence of asset impairments and uncertainties regarding the use of estimates.

The importance of making every effort to assess the applicability of the "going concern" assumption and related financial statement disclosures was further emphasised in Document No. 4 of 3 March 2010 issued by the same authorities. This stresses the need to ensure a high degree of transparency in disclosures on the valuation of goodwill and other intangible assets with an indefinite useful life, on equity investments, the valuation of equity securities classified as “available for sale”, and the classification of financial liabilities backed by special contractual clauses.

With regard to the going-concern principle, the Directors have not detected in the operating performance or in the evolution of their financial position any situations that could jeopardise the company’s ability to continue operating normally. The Directors therefore believe that the capital and financial structure is suitable to guarantee business continuity in the near future. On the basis of this reasonable expectation, the financial statements as at 31st December 2021 were therefore prepared on a going concern basis.

With respect to reporting financial risks, please note that they were analysed both in the report on operations and in Chapter E of the explanatory notes: “Information on risks and on risk hedging policies”.

When preparing its year-end financial statements, Volksbank performed an audit on the possible impairment of its assets, including equity investments recorded in the balance sheet and equity investments. The description of how the audits were conducted and their results is specifically illustrated in the Explanatory Notes where single assets are dealt with.

With regard to uncertainties in the use of estimates in the preparation of financial statements, in the Notes to the Financial Statements "Part A - Accounting Policies, A. 1 - General Part", there is a specific paragraph entitled "Uncertainties associated with the use of estimates".

Finally, with regard to the classification of its financial payables, it should be noted that there is no medium/long-term liability to be classed as “current” due to the forfeiture of an acceleration clause or failure to comply with the contractual clauses governing the liability.

1.9.2 DISCLOSURE OF STRUCTURED CREDIT PRODUCTS AND EXPOSURE TO SPECIAL PURPOSE ENTITIES

On the basis of the recommendations made in 2008 by the *Financial Stability Forum*(now *the Financial Stability Board*) and by the Bank of Italy, the following information is provided on exposures as at 31st December 2021 for those financial products that the market considers to be high-risk, such as, in particular, *Collateralised Debt Obligations* (“CDOs”), real estate mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”), other special-purpose entities (“SPEs”) and *leveraged finance*.

EXPOSURE TO TOWARDS SPES ("SPECIAL PURPOSE ENTITIES")

Special Purpose Entities (SPEs) are entities set up on an ad hoc basis to achieve a specific objective, normally the securitisation of receivables and operations for the issue of Covered Bonds.
Securitisation operations refer to the vehicle companies, established pursuant to Art. 3 of Law no. 130 of 30 April 1999, which place on the market the debt instruments issued to finance the purchase of the securitised loans. These receivables are used to guarantee repayment of liabilities issued by the vehicle company.

Covered Bond transactions, governed by law no. 130 of 30 April 1999, are issues of debt securities by credit institutions specifically guaranteed by a portfolio of assets identified and separate from the issuer's assets. These assets are sold by the issuer to a duly incorporated special-purpose vehicle.

Total exposure to *covered bonds*, in terms of book value, amounted to 0.5 million, all classified at *fair value* through other comprehensive income ("HTCS"), a limited exposure compared to the total portfolio (amounting to approximately 0.0%).

It should be noted that the Company holds a senior tranche of the VIVERACQUA 11.34 TF security, which was recorded among the instruments measured at amortised cost for EUR 10.0 million, related to a bond securitisation.

STRUCTURED PRODUCT EXPOSURES

As at 31st December 2021, the main positions in structured credits issued by third parties were corporate bonds, in addition to a number of corporate minibonds.

Structured securities, which have a carrying amount of €81.7 million (equivalent to 2.2% of the total portfolio) are classified at amortised cost ("HTC") for an amount of 55.4 million and fair value through other comprehensive income ("HTCS") of 24.7 million and among financial assets held for trading for 1.5 million. All these instruments have a residual maturity of ten years or less.

1.9.3 EXPOSURES TO SOVEREIGN DEBT SECURITIES

In accordance with the recommendations of the European Securities and Markets Authority (ESMA) with document no. 2011/226 of 28 July 2011 and of Consob with communication DEM/11070007 of 5 August 2011, the exposure of the Company to sovereign debt, consisting entirely of Italian government debt securities is reported. As stated in the ESMA document, "sovereign debt" relates to bonds issued by central and local governments and government bodies, as well as loans granted to them.

Exposure to sovereign debt securities - by due date

(thousands of €)	**2022**	**2023**	**2024**	**2025**	**2026**	**Beyond 2026**	**Total**
FVTPL	-		-	-	-	-	-
HTCS	-	142,606	85,574	221,242	10,071	-	459,493
HTC	74,886	432,011	566,295	375,510	400,829	862,547	2,712,077
Total	**74,886**	**574,616**	**651,869**	**596,751**	**410,900**	**862,547**	**3,171,570**

A breakdown by accounting category and issuing country is shown below.

Exposure to sovereign debt securities - by issuing country

(thousands of €)	**FVTPL**	**HTCS**	**HTC**	**Total 31.12.2021**
EU countries				
- Italy	-	459,493	2,712,077	3,171,570
Other EU	-	-	-	-
Non-EU	**-**	**-**	**-**	**-**
Total portfolio	**-**	**459,493**	**2,712,077**	**3,171,570**

There are no additional exposures in sovereign debt securities. A percentage of 72.8% of the overall exposure held has a residual maturity of less than 5 years.

At 31 December 2021, the sensitivity to a 1bp increase in the credit spread of the Republic of Italy on securities classified in FVOCI Debt (including not only government bonds in the strict sense but also, conservatively, securities issued by public sector entities and regional governments closely correlated with Italian sovereign bonds) amounted to -120.421 euros/bp, with an implied spread-duration of approximately 2.6 years.

1.9.4 ATYPICAL OR UNUSUAL TRANSACTIONS

With reference to Consob Communication no. 6064293 of 28 July 2006, there are no atypical and/or unusual transactions during the year, such transactions being understood to be, in accordance with the provisions of Consob communications no. DAC/98015375 of 27 February 1998 and no. DEM/1025564 of 6 April 2001, transactions that are not part of normal business operations and which, due to their significance and/or importance, the nature of the counterparties, the method of determining the transfer price and the timing of the event, may give rise to doubts as to the correctness and completeness of the information in the financial statements, conflicts of interest, the safeguarding of the company's assets and the protection of shareholders.

1.9.5 INFORMATION ON PUBLIC DISBURSEMENTS PURSUANT TO ART. 1, PARAGRAPH 125 OF LAW 124 OF 4 AUGUST 2017 ("ANNUAL LAW ON THE MARKET AND COMPETITION")

Law no. 124 of 4 August 2017 "Annual Law on the Market and Competition" (hereinafter also Law no. 124/2017) introduced in Art. 1, paragraphs 125 to 129, some measures aimed at ensuring transparency in the system of public disbursements.

In particular, the law establishes, inter alia, that companies must provide in the notes to the financial statements - and in any consolidated notes - information on "grants, contributions, remunerated assignments and in any case economic benefits of any kind" (hereinafter for brevity "public grants") received from public administrations and other persons indicated in art. 1, paragraph 125 of the aforementioned law. Failure to comply with the publication obligation will result in the return of sums received to the paying agents.

In order to avoid the accumulation of insignificant information, it is stipulated that the publication obligation does not exist if the amount of public disbursements received is below €10,000.

Despite the clarifications provided by the Council of State in its opinion of 1 June 2018, no. 1149, the law in question poses certain doubts as to interpretation and application, in particular its objective scope of application, for which reference was also made to the guidelines emerging from the trade associations (Assonime). In particular, in view of the criteria that inspired the law and the guidelines that emerged, the reporting obligations should not include the following types:

- fees for services rendered by the company as part of the provision of professional services and supplies or any other task that is part of day-to-day business operations. In fact, these are sums received that do not relate to the field of donations/public support policies;
- tax expenditures available to all businesses that meet specific conditions, based on pre-established general requirements, which are also the subject of specific disclosures;
- granting of subsidised loans to its customers, as this involves the disbursement of others' funds (e.g. interest payments by public administration) and not of the Bank's own resources as intermediary.

In addition, since August 2017, the National State Aid Register has been operational at the Directorate-General for Incentives for Companies at the Ministry of Economic Development, in which State aid and de minimis aid for each company must be published by the entities granting or managing the aid. For individual aid to the Bank, please refer to the section entitled "Transparency of the Register", which is publicly available.

That said, without prejudice to the above in relation to what is available in the National State Aid Register, in compliance with the provisions of art. 1, paragraph 125 of the Law of 4 August 2017, no. 124, evidence is provided below on the amounts collected during the year by way of "grants, contributions, paid assignments and in any case economic benefits of any kind".

Company	Type of contributions	Granting Authority	Sums received in the financial year 2021
(data in EUR)			
Banca Popolare dell’Alto Adige S.p.A.	Kindergarten contribution 2019 (*)	Autonomous Province of Bolzano	33,977
Banca Popolare dell’Alto Adige S.p.A.	Kindergarten contribution 2020 (*)	Autonomous Province of Bolzano	42,533
Total			**76,510**

(*) This is a provincial contribution to childcare at the company’s premises.
Please note in this regard that the above table, in line with the provisions of the law in question, does not indicate economic benefits below the threshold of EUR 10,000. This threshold is understood to refer to the total benefits received by the same authority in 2021, whether the benefit was granted by a single deed or whether the disbursement took place in a number of payments.

1.10 BUSINESS OUTLOOK

The Russian invasion of Ukraine marks not only the emergence of a humanitarian tragedy, but also the possible emergence of a new phase of economic warfare with high risks which could further damage the world economy. The extreme economic measures that the West has imposed on Russia have wreaked havoc on its $1.6 trillion economy. The instant impoverishment of a major economy is unprecedented and will cause effects all over the world, not least in China, which will have to reconsider the costs of a war on Taiwan.

The economic sanctions adopted by America and Europe are massive. About 10,000 people or companies are subject to US sanctions, which affect more than 50 countries with 27% of the world's GDP, and cover all sectors of the economy without distinction. The effectiveness of these measures can only be measured over time.

The shock could lead Russia to a coup d'état or a liquidity crisis. Possible reactions by Russia include the same economic weapons at its disposal, including shutting off gas supplies. The risk of a progression in mutual retaliation, in which any Russian economic retaliation is met by a more damaging response from the West is real. The West's ability to retaliate appears superior, not least because of its ability to block technological services and oil exports, from which Russia earns four times more than it does from gas.

The long-term implications of this conflict can be extremely wide-ranging. The greater and more lasting the mutual recourse to sanctions, the more individual countries will try to avoid being dependent on Western financing mechanisms. This could lead to a progressive fragmentation of the world economy.

China alone is capable of inflicting significant economic costs on the West by blocking supply chains, a scenario that could materialise in the event of a war over Taiwan. Even some democracies, such as India, which has avoided condemning Russia's invasion, could start a process of achieving progressive autonomy and reduced vulnerability to Western pressure. Technological changes may allow the creation, in the coming years, of new payment networks and systems as alternatives to the Western banking system. Over time, more and more countries may seek to diversify their reserves by investing more in areas alternative to the Western world.

The ways and timescales for exiting the Ukraine crisis are still completely undefined. The ways in which the West will clarify how sanctions will be controlled once the conflict has ceased, which hopefully will happen soon, will also decide the direction and timing of the evolution of the world economy. The devastating type of economic sanctions used against Russia, which are reserved for the worst acts of aggression and war, constitute an entirely new economic weapon and has placed a serious risk on growth prospects and more widely on the evolution of geo-political equilibrium.

Domestic economic growth, which was initially expected to continue in 2022 at a strong pace, albeit lower than last year's, may be affected, even significantly, but at this stage not predictably, by the evolution of the situation.

In any case, domestic demand will continue to be the main driver of development, but fixed investment will have a greater weight, benefiting from financing conditions that are expected to remain favourable, thanks in particular to resources from the Recovery Fund.

The greatest threats to the current picture may come not so much from a possible resurgence of the COVID-19 pandemic which has been going on for the past two years, but from a further escalation of geopolitical tensions which could generate greater problems on the supply side as well as by hampering development and production. This could lead to higher than expected inflationary pressures in terms of magnitude and duration and necessitate more decisive monetary policy stances by central banks, with a consequent possible impact on financial markets.

In this context, the Bank's profitability, as envisaged in the Strategic Plan, will be supported by the growth of the commission component, in particular from the investment services and Bancassurance segments, while net interest income will be affected by the lower contribution from ECB funding, which is affected by the end of the extra remuneration period, as well as by the portfolio of financial assets.

The management of the dynamics of operating costs will continue to be one of the main factors of attention also in 2022 in order to manage the expected increases related to the application of the national sector contract, to the growth of investments in IT and to inflation, with particular reference to the energy sector.

With regard to the cost of credit, the conservative approach adopted in 2021 in the assessment of both performing and non-performing credit exposures, despite a trend in non-performing loans which is expected to increase compared to the past year, should allow for further progress in the reduction process launched in recent years, favouring the continuation of the risk reduction process and the retention of solid levels of coverage.

Barring any significant worsening of the scenario, which is possible in light of the extreme uncertainty and seriousness of the current scenario, the overall performance in 2022, which could also rely on better-than-expected results recorded in 2021, can be expected, at present, to be consistent with the trend outlined in the Strategic Plan and with the related medium-term targets.

1.11 SIGNIFICANT EVENTS OCCURRING AFTER THE YEAR ENDED

In accordance with the special regulations issued by the Bank of Italy, significant events occurring after the end of the financial year are illustrated in Part A, Section 3 of the Explanatory Notes.

1.12 REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

1.12.1 SHARES AND EXERCISE OF RIGHTS

Banca Popolare dell’Alto Adige S.p.A. is a public limited company resulting from the transformation of the “Banca Popolare dell’Alto Adige società cooperativa” decided by the Shareholders’ Meeting of 26.11.2016 pursuant to (It.) Law 33/2015.

The Bank’s share capital amounts to EUR 201,993,752, fully paid in and divided into 50,498,438 ordinary shares with no nominal value. Shares are exchanged on the order-driven Italian Multilateral Market managed, with Consob authorisation, by Hi-MTF Sim Spa.

Pursuant to and for the purposes of Art. 2357 et seq. of the Italian Civil Code, the Shareholders' Meeting of 30 March 2019 authorised the purchase of treasury shares, as a reduction of equity, up to a maximum amount of €5 million. This authorisation was subsequently renewed, without interruption, up to a maximum amount of €3.5 million (Shareholders' Meeting of 22 April 2020) and €3.5 million (Shareholders' Meeting of 30 March 2021) respectively.

These repurchase plans, authorised by the Bank of Italy from time to time in accordance with the provisions of the relevant regulations, are aimed at

(a) operating in the market, through intermediaries, to support the liquidity of the Bank's stock;

b) establishing/maintaining the "Share Warehouse" from which BPAA shares may be obtained, e.g. for share exchanges in the event of corporate transactions and share or option rights for members of the Board of Directors and employees in accordance with the provisions of the Remuneration Policy adopted by the Bank from time to time;

c) purchasing treasury shares for the purposes set out in Art. 5 of Regulation (EU) no. 596/2014 (Market Abuse Regulation or MAR) - i.e. the fulfilment of the obligations deriving from share option programs or other assignments of shares to employees and corporate officers or any other purpose that may be contemplated by this regulation in the pro tempore version in force - and / or for the purposes contemplated by market practices accepted pursuant to art. 13 MAR, under the terms and conditions that may be decided by the Board of Directors.

In relation to the purpose referred to in subparagraph a) above, it should be noted that in order to ensure maximum transparency and correctness of market behaviour, Consob requires that transactions involving the purchase and sale of treasury shares are carried out, on the basis of a service contract oriented towards the market practices accepted by the Authority, by an experienced third party intermediary (the "Liquidity Provider") which operates independently, within the limits of the resources transferred to it by the issuer under a mandate agreement. To this end, on 25 October 2019, the Bank signed a mandate agreement with the liquidity provider Equita SIM Spa - which is subsequently renewed on an annual basis - "inspired by the principles" contained in market practice no. 1 as per Consob resolution no. 16839 / 2009, in implementation of which, the agent, within the limits of the resources transferred to it by the Buyback Fund, intervenes on the Hi-MTF market to support the liquidity of BPAA shares.

Therefore, as of 8 November 2019, for shares put up for sale on the trading platform, the specialist operator Equita SIM Spa, Milan, registered with the mobile property intermediation company Register held by Consob under no. 67, acts as liquidity provider, based on methods and assignment limits granted by the Bank. The information to the market was made available on the emarketstorage.com website and through publication on the Bank's website.

In the period from 8 November 2019 to 31 December 2021, Equita SIM Spa intervened on the Hi-MTF market by purchasing a total of no. 515,268 BPAA shares.

In relation to the purpose referred to in point b) above, it should be noted that as at 31 December 2021 the Bank held in its share warehouse no. 2,167,877 treasury shares, representing 4.29% of the share capital, of which:

- n) 1,652,609 shares, representing 3.27% of the share capital, were acquired as part of the liquidation process of the shares subject to withdrawal in connection with the transformation of the Company into a joint-stock company;
- n) 515.,268 shares, representing 1.02% of the share capital, were purchased by Equita during the period from 8 November 2019 to 31 December 2021.

Each BPAA share entitles the holder to one (1) right to vote in the Shareholders' Meeting, except for treasury stock held by the Bank, for which the right is suspended. Voting rights are certified pursuant to Art. 83-sexies of the Consolidated Finance Act, based on deposit accounts, related to closure of the accounting day on the seventh market day open prior to the date set by the Shareholders' Meeting. Credits and debits recorded on accounts after that term do not count to legitimise exercising the right to vote in the Shareholders' Meeting.

Exercising the right to vote is not limited. Please note that the legal limitation to the right to vote for shares exceeding 5% of share capital expired on 26 March 2017 with no effects.

Volksbank is owned by a widespread shareholder base of approximately 58,000 shareholders. The considerable fragmentation of share ownership, the legacy of the form of governance which foresaw the capita vote and strict legal limiting for acquiring shares in co-operative banks results in the presence at the Shareholders' Meeting of a capital share that is, usually, relatively low with regard to the shareholders who only participate in person. Therefore, for corporate activities to take part in an orderly manner, voting proxies and the forms of joint representation of shareholder interests take on a certain importance and, in general, as does organisational simplification to take part and vote at the Meeting. On the proposal of the Board of Directors, the Shareholders' Meeting of 30 March 2019 introduced some amendments to the Articles of Association aimed at ensuring greater numbers of voting rights at the Shareholders' Meetings; from now on:

- the proxy to attend and vote could have been conferred with a simple signature and no longer just to shareholders;

- Volksbank may have designated one or more independent third parties to whom the shareholders could confer a voting proxy with instructions in accordance with the procedures established by law for listed companies in Italy, without prejudice to the number of proxies exercisable pursuant to art. 2372, paragraph 6 of the (It.) Civil Code;
- Volksbank could have organised the proxies and the participation and vote in the Shareholders' Meeting electronically.

It is understood that the directors, statutory auditors and employees of the Bank and its subsidiaries may not take on proxies.
The legitimacy of the right to participate and vote is certified by the custodian bank of the shares in favour of the person who has the right to vote pursuant to art. 83-sexies of the Consolidated Law on Finance.

For the purpose of exercising the vote, the holders of rights can aggregate - typically, depending on the specificity of the associated interests, in:
- an association of shareholders: it exercises the voting proxies obtained from its members;
- a shareholder voting agreement (voting syndicate): it expresses the vote agreed by a majority;
- a vote holding company: voting is decided by the Board of Directors of the holding company.

On 18 November 2019, the Bank was notified of the existence of a shareholders' agreement between some shareholders with commitment for consultation and vote in the Shareholders' Meetings, to define some limits to the circulation of Volksbank shares owned by the associates and establish terms and methods for other shareholders requesting it to adhere to the agreement (the "Agreement").

Within the terms set forth in the Notice of call, a list of candidate directors (the "List") was presented, which was the only validly filed list of candidates, from which all the directors of the Board of Directors 2020 - 2022 were drawn, with the vote of the Shareholders' Meeting held on 22 April 2020.

As far as the Bank knows, when this document was drafted, the voting rights held directly or indirectly by the shareholders singly or aggregated in forms permitted by law, do not reach any relevant threshold for Supervisory purposes.

1.12.2 THE SHAREHOLDERS' MEETING

The call of the Shareholders' Meeting is published with an advance notice of at least twenty (20) days, as per the Articles of Association. The Meeting is normally held, by legal and statutory methods, in a single call in ordinary and extraordinary session and is, in a single call, validly constituted whatever the part of share capital present in ordinary and extraordinary session when at least 1/5 of voting rights are present or represented or, on share capital subscribed to and paid up of EUR 201,993,752, divided into number 50,498,438 shares, when at least 10,099,688 rights are present. The high number of voting rights required for the valid constitution of an extraordinary Shareholders' Meeting reflects concerns that an adequate quorum be reached and the importance of establishing proxies and correct organisation in the interests of shareholders for the orderly management of the company.

The Articles of Association allow for multiple convocation of the Shareholders Meeting, at the discretion of the Board of Directors. In that case, with special constitutional and decision-making quorums; and a reinforced quorum regulates matters indicated in art. 16, paragraph 3 of the Statute.

The Shareholders' Meeting adopts resolutions openly, by a majority of the established voting rights, with the exception of the appointment of the Board of Directors and the Board of Statutory Auditors, which takes place by list voting in accordance with the procedures established in the articles of association: art. 21 for the Board of Directors and in Art. 33 for the Board of Statutory Auditors.

Corporate bodies serve for three year terms, with the terms of office under way in 2021 expiring:
- for the Board of Directors, upon approval of the financial statements for the year ending 31st December 2022;
- for the Board of Statutory Auditors, upon approval of the financial statements for the year ending 31st December 2021.

Lists of candidates for the election of directors and statutory auditors are validly submitted, in accordance with legislation, including regulatory and statutory provisions governing the matter, with signature authenticated by

a Notary or signed in Banca Popolare dell’Alto Adige, in the presence of employees authorised to receive it, of shareholders who, together, hold voting rights equal to at least one per cent (1%) of share capital. The threshold of voting rights (capital) necessary and sufficient for the presentation of a list of candidates (directors or statutory auditors) is represented by 504,984 Banca Popolare dell’Alto Adige shares.
To present candidate lists, the shareholders consult the articles of association, the Shareholders’ Meeting regulation, the regulation of time availability and limits to the accumulation of roles in third-party companies, and the appointing Meeting notice of call, as well as documents published on the Bank website when Bank Bodies are renewed.
For the purposes of the criterion for drawing from the lists of candidates to form the Board of Directors or the Board of Statutory Auditors, the list that obtains the highest number of votes at the Shareholders’ Meeting is considered the “majority” list, while the second and third most voted lists for the election of the Board of Directors or the second most voted list for the election of the Board of Statutory Auditors are deemed to be the “minority” list when they have obtained a vote of at least one per cent (1%) of share capital.

1.12.3 THE SIZE PROFILE AND GOVERNANCE MODEL OF THE BANK

NOTES ON SIZE PROFILE

Volksbank is a commercial retail bank for families and small and medium-sized enterprises. Established in South Tyrol through the merger of the three local credit cooperatives dating back to the second half of the 1800s, as at the end of 2021 it operates with a distribution network in the Northeast of 166 branches integrated into an advanced multi-channel system for the use of banking services.

Volksbank is the issuer of financial instruments that are widely distributed among the public, traded on the multilateral trading facility Hi-MTF.

It is subject to surveillance by the Bank of Italy in the context of guidelines and supervision in any case under the responsibility of the European Central Bank. As the issuer of widespread financial instruments, the Bank is required to comply with the related obligations set out in the Consolidated Finance Act (It.) Legislative Decree no. 58/1998) and by the Issuers' Regulations (Consob Regulation no. 11971/1999).

As part of the harmonisation process of banking supervision at European level with the entry into force in 2014 of the Single Supervisory Mechanism (SSM), Volksbank is one of the “Less Significant Institutions”, which remain subject to the supervisory powers of the National Authority.

With the issue of the 35th update of Circular no. 285/2013, the Bank of Italy replaced Chapter 1 of Part One, Title IV, containing the supervisory provisions on "Corporate Governance", making, inter alia, changes to the quantitative criteria for classifying banks (larger banks and banks of operational complexity, intermediate banks and smaller banks). These changes have no impact on Volksbank which, with 11.4 billion in total assets (assets are now calculated as the average of the four years immediately preceding the current financial year), falls into the category of "intermediate banks", i.e. banks with assets of between 5 billion (compared to 3.5 billion previously) and 30 billion.

Volksbank applies the traditional type of corporate governance system, characterised by the presence of a Board of Directors (which has the function of strategic supervision and management) and a Board of Statutory Auditors which performs the audit function; supervision of current activities is exercised by the General Manager, who represents the top of the Bank's internal structure.

CORPORATE GOVERNANCE MODEL

Quality of organisational and corporate governance design is an essential requirement for ensuring that the Bank is managed in a sound and prudent manner, that it is capable of generating profitability, and that it can foster the confidence of its economic partners. Based on the assumption of sound, prudent management, the Bank of Italy establishes the general principles and application lines for enhancement of governance structures, with particular attention to the:

- financial structure and the relationship with its owners;
- configuration and functioning of corporate bodies;
- requirements for company officers and the role of directors;
- organisational architecture and monitoring of internal controls and risk management;
- control of conflicts of interest;
- remuneration and incentive policy;
- fight against money laundering and terrorist financing;
- disclosure obligations to investors and the market.

The governance regulations of Volksbank are based on Articles of Association and on the organisational and corporate governance project. The latter is considered as the group, updated from time to time, of Company control documents based on Supervisory guidelines and provisions.

With the issue of the 35th update of Circular no. 285/2013, some provisions were introduced to strengthen the governance structures, which include, inter alia, gender diversity in the administration and control bodies; the extension of the non-delegable powers of the Board of Directors; strategic planning profiles; accountability for standards of ethical conduct; the command documents under the purview of the Board. On 17 December 2021, the Bank's Board of Directors started the process of adapting the Articles of Association to the changes introduced by the 35th update of Circular no. 285/2013 and MEF Decree no. 169/2020 referred to below. It should be noted that this adjustment does not require the approval of the Bank's Shareholders' Meeting since, pursuant to Art. 28, paragraph 2, letter v) of the current Articles of Association, it falls within the competence of the Board of Directors.

Volksbank adopts the so-called "traditional" corporate governance model which prescribes the corporate Bodies and the functions they are called on to perform, in compliance with statutory and banking Supervision regulations, in:

- a Board of Directors which defines the strategic lines and objectives, monitors their implementation and supervises the management of the Bank (body in charge of strategic supervision and management);
- a Board of Statutory Auditors which monitors compliance with regulations, the adequacy of the organisational structure and the proper administration of the Bank.

THE BOARD OF DIRECTORS

The Board of Directors is assigned the strategic supervision and management of the Banca Popolare dell'Alto Adige banking Group and must govern the risks the Bank is exposed to in its activities based on "healthy, prudent management" principles.

The strategic **Supervision** involves the definition of the Group's strategic guidelines and objectives and the verification of their implementation and includes, in particular:

- the commercial model;
- the Business Plan;
- the risk objectives, their relation with the Business Plan and the external context, and the risk governance policies;
- the guidelines of the internal control and risk management system, such as to ensure that the main Bank risks are correctly identified and adequately measured, managed and monitored in order to assess their compatibility with business management consistent with the strategic objectives;
- the direction and coordination guidelines of the subsidiaries;
- operations and measures of strategic importance and which cannot be delegated.

The Board of Directors is also responsible for taking decisions concerning the design of the organisational structure and the verification of its adequacy and appropriateness with respect to the Bank's size profile, as well as the conduct of operations in the area of:

- the Bank's organisational, administrative and accounts structure;
- the delegation and the directional information flow systems;
- the risk management process and IT security;

- The internal control system;
- the process for introducing services, products and new activities and for entering new markets;
- policy for the outsourcing of corporate functions;

Management supervision includes monitoring and coordination of guidance and verification area to ensure:

- internal consistency between decisions in the Business Plan, RAF, risk objectives, ICAAP, budget and internal control system;
- the consistency between supply of capital, liquidity reserves and risk appetite, risk governance policy and resulting management processes.

With the issue of the 35th update of Circular no. 285/2013, the powers of the body with strategic oversight function that cannot be delegated were extended to cover the main command regulations and crisis management.

Operational management is controlled, pursuant to law and the articles of association, by the General Manager who supervises the internal structure, executes board resolutions and exercises current activities based on guidelines and within limits of powers established by the Board of Directors.

The system of proxies assigns management powers

- by categories of deeds, to the operational structure and
- on the granting of credit, in particular, to executive directors organised in the Credit Committee, to operating structure committees (e.g. internal credit Committees) and employees individually.

The Delegated Functions take care of the activities with executive powers according to the guidelines and objectives set by the Board and report to the Board, also for aggregate amounts, on the powers exercised.

<u>The number of directors</u>. Pursuant to art. 20 of the Articles of Association, the Board of Directors may consist of a minimum of nine and a maximum of twelve directors, elected by the Shareholders' Meeting for a period not exceeding three years. Directors may be re-elected. The number of directors to be elected is determined by the Shareholders' Meeting in the year preceding the appointment, on proposal of the Board of Directors in compliance with the Supervisory instructions and in accordance with the procedures set out in the Supervisory Provisions, Circular 285/2013.

The proposal is based on the self-assessment carried out by the Board of Directors with regard to the body's composition deemed optimal.

<u>The professional qualification of directors</u>. The Shareholders' Meeting of 22 April 2020 elected the directors for the 2020 - 2022 term with a list vote governed by articles 21 and transitional 43 of the articles of association. Directors must hold the position requirements established by the law, by bank supervision provisions and by the articles of association and have the "competence" and "time" appropriate to the professional diligence required by the position.

In order for shareholders to be able to select and appoint directors suited to the office, the supervisory provisions Circular 285/2013 Part One, Title IV, Chapter 1-IV require the boards of directors of banks to define ex-ante, at the time of new appointments, the "professional profile of reference" which, on the basis of the experience gained, they consider preparatory to assessing the suitability of the incoming directors, both at individual level and at the level of the quality of the board group they form. The result is that directors must each have a competence profile that is pertinent to the size of the bank they are managing and must form, as a whole, a Board of Directors that shows a balanced combination of "theoretical" (from formal studies) and "practical" knowledge (from professional careers) and from suitably diversified individual skills and personality profiles.

The outgoing Board of Volksbank, in defining the Competence Profile that incoming directors should have met, took into account the EBA/ESMA 09.2017 guidelines and the 05.2018 ECB guide on the qualification of bank officers and, in particular, the principles contained in the draft MEF decree - being issued on the date of the Profile resolution (7 February 2020) - containing the regulation on the requirements and criteria [for the evaluation] of the suitability of bank officers. Requirements for the office and competence criteria "suited to the size and complexity of the Banca Popolare dell'Alto Adige Group" are written in the 2020 professional Profile of reference published on the Bank's website.

The 2020 - 2022 Board of Directors constituted by extraction - according to the rules indicated by art. 21, paragraph 8 of the Articles of Association - from the only list of candidate directors presented within the deadline, carried out, with a formal process and with disclosure to the Bank of Italy, the verification of the suitability of individual directors and the assessment of the collective composition resulting from the appointment process.

In addition to specific induction sessions aimed at facilitating the induction of newly appointed corporate officers, the Bank periodically organises further in-depth sessions (so-called continuous training), in order to consolidate the skills/knowledge required to perform the role knowledgably.

Roles in the Board of Directors. Directors are required to act in an informed manner and make collective decisions, each with full autonomy of judgement.

The chairman is required to ensure the effective functioning of corporate governance and the effectiveness of Board discussions so that the decisions that the Board takes are the result of a genuine dialectic process, based on the informed and reasoned contribution of all directors.

Executive directors are organised in Board committees with executive mandates for the granting of credit.
Non-executive directors shall participate in the Board’s resolution process with specialist expertise, in particular to analyse the risk associated with major decisions.

Independent directors are non-executive directors who have been formally assessed as meeting the independence requirements established from time to time by the sector regulations and by the Articles of Association. They participate in Board discussions on potential conflicts of interest with authority and autonomy that is not influenced by relations with the Bank or persons connected with the Bank.

The following committees are set up within the Volksbank Board of Directors:

- the Risks Committee
- the Committee of Independent Directors
- the Credit Committee

The Risks Committee (RC) - art. 30 of the Articles of Association- is a Board of Directors sub-committee dealing with risk assessment and the internal control system matters. The Risks Committee has advisory, investigative and proactive powers in support of the Board’s decision-making process. The RC 2020 - 2022 is composed of four non-executive directors, the majority of whom are independent. The Committee is governed by specific Regulations governing its characteristics and duties, pursuant to the provisions of the Supervisory Provisions, Circular no. 285/2013.

The Committee of Independent Directors (CiD) -articles of association, art. 28, paragraph 2, letter (l) of the Articles of Association, acts as a consultative and advisory body to the Board of Directors, with a mandate to minimise Banking risks arising from resolutions that involve a potential conflict of interest, with particular regard to (i) transactions with persons who may exercise influence over Board decisions (the so-called “Persons connected with the Bank”), (ii) in determining the system of remuneration and incentives for personnel whose work has a significant impact on the Bank’s risk profile (the “Remuneration Policies”), (iii) determining the theoretical requirements that candidate directors must meet (the “Optimal Composition of the Board”) and selecting and appointing personnel that are most appropriate for the Bank’s risk profile. The 2020 - 2022 CID consists of three non-executive directors that meet the relevant independence requirements. The Committee is governed by specific Regulations and operates according to company regulations that transpose the supervisory regulations governing the transactions indicated in this paragraph.

The Credit Committee (CC) - art. 31, paragraph 2 of the Articles of Association, the Credit Committee exercises the executive powers granted annually by the Board of Directors with regard to the granting of credit and instructs the Board in relation to customer positions that exceed the established limits. The 2020 - 2022 CC consists of four executive directors appointed by the Board of Directors and the General Manager with an effective vote. The CC is governed by its own Regulations. The Committee compiles minutes on its deliberations and it reports to the Board of Directors, providing aggregated data, at the earliest opportunity.

The Board of Directors (appointed by the Shareholders’ Meeting of 22 April 2020)

Number of components	12 directors
Number of meetings (2021)	19
Gender balance	10 M and 2 F
Average age	48 years old
Average years in office	6.7 years
Directors drawn from minority lists (2020 election)	no minority lists were submitted

The 2020 Board Committees (appointed by the Board of Directors of 24 April 2020)

Risks Committee	
Number of components	4 non-executive directors, of whom 3 are independent
Number of meetings	25
Committee of Independent Directors	
Number of components	3 independent non-executive directors
Number of meetings	15
Credit Committee	
Number of components	4 Executive Directors
Number of meetings	20

Self-assessment by the Board of Directors

In accordance with the provisions of the Bank of Italy's Supervisory Provisions - Circular no. 285/2013, in the first quarter of 2021, the Board of Directors carried out its annual self-assessment with the support of a specialised consultancy firm.

As part of this process, the information needed for the assessment was collected by means of a questionnaire, followed by individual in-depth interviews with the interested parties in order to gather further insights.

During the meeting of 26 March 2021, the Board of Directors discussed the results of the analyses carried out and subsequently drew up a conclusive document. An overall positive assessment of the Board - both as holder of the strategic supervision function and management function - emerged, confirmed by the fact that the majority of directors declared themselves to be 'fully in agreement' with the statements proposed by the questionnaire.

The points of improvement that emerged were investigated and specific corrective actions were identified, including the continuation of the board induction process. The 2020 programme was mainly aimed at facilitating the induction of newly appointed company officers, while further induction sessions were organised for 2021, in order to continuously strengthen the skills/knowledge needed to knowledgably perform the role.

It is understood that the self-assessment process can only be considered as a starting point for initiating a series of reflections and defining the actions to be taken to further improve the functioning and dynamics of the Board.

Further reflections and in-depth analyses on the qualitative and quantitative composition, size, degree of diversity and professional background of the members of the Board of Directors were carried out as part of the self-assessment process conducted in the early months of 2022, also in consideration of the fact that, pursuant to art. 20 of the Articles of Association, the 2022 Shareholders' Meeting is called upon to determine the number of directors on the Board of Directors for the 2023 - 2025 term of office. In particular, the 2022 Shareholders' Meeting resolves on the proposal made by the Board of Directors to reduce the numerical composition of the 2023 - 2025 Board of Directors to 9 directors. This proposal is based on the self-assessment carried out by the Board in relation to its optimal composition; the number of members of the corporate body thus identified is adequate for the size and complexity of the Bank's organizational structure.

The Board of Statutory Auditors

The Board of Statutory Auditors supervises compliance with the legislation governing the activities of Volksbank and the proper administration and adequacy of the Bank’s organisational, administrative and accounting structure. The Board of Statutory Auditors is required to report to the Bank of Italy on matters it becomes aware of when exercising the mandates provided for in art. 34 of the Articles of Association, where such facts may constitute an irregularity in Bank management or, in general, an infringement of the rules governing proper banking conduct.

The incumbent Board of Statutory Auditors was elected by the Shareholders’ Meeting of 30 March 2019 for the three-year term 2019-2021. Its mandate expires with approval of the financial statements for the year ending 31st December 2021.

The Board of Statutory Auditors (appointed by the Shareholders’ Meeting of 30 March 2019)

Number of components	3 standing auditors, 2 alternate auditors (*)
Number of meetings	31
Gender balance	3 M and 2 F
Age – standing auditors (average)	50 years old
Length of office – standing auditors (average)	5.7 years
Statutory auditors drawn from the minority list	no minority lists were submitted

(*) Following the resignation of an alternate auditor, the Shareholders' Meeting of 30 March 2020 resolved to integrate the Board of Statutory Auditors by appointing an alternate auditor for the residual period of the 2019 - 2021 mandate.

Board of Auditors Self-assessment

In accordance with the provisions of the Bank of Italy's Supervisory Provisions - Circular no. 285/2013, in the first quarter of 2021, the Board of Statutory Auditors carried out its self-assessment with reference to the 2020 financial year with the support of an external consultant. At the end of this process, the Board expressed an overall assessment of the adequacy of its composition and functioning.

On 2 March 2022, the Board of Statutory Auditors approved the document "Optimal qualitative and quantitative composition of the Board of Statutory Auditors" with the aim of fostering the process of:

a) search for appropriate individual profiles and

(b) their optimal collegial combination

such that the Board of Statutory Auditors which will be appointed for the three-year period 2022 - 2024 by the Shareholders' Meeting called for the approval of the financial statements as at 31 December 2021 has the prerogatives to perform the duties of the "body with control function" to the best of its ability in a particularly challenging transitional context of the banking sector.

The guidelines summarised in the aforementioned document are the result of an analysis conducted by the outgoing Board of Statutory Auditors on the basis of the experience gained over the three-year period as well as on the basis of the results of the self-assessment process conducted by the same - most recently during the first quarter of 2022 - also pursuant to the provisions of the Supervisory Provisions.

1.12.4 THE REFORM OF ART. 26 OF THE CONSOLIDATED BANKING ACT (TUB)

The Italian Consolidated Banking Act (Legislative Decree 385/1993) provides in art. 26 provides that persons performing administrative, management and control functions at banks must be suitable for the performance of their duties and grants the Minister for the Economy and Finance a mandate to identify, by means of a decree adopted following consultation with the Bank of Italy, the requirements and eligibility criteria to be met by the officers, the limits on the number of positions they may hold in third party companies, the grounds on which they may be temporarily suspended from office and the duration of any such suspension, and the cases in which the requirements and eligibility criteria also apply to the heads of the main corporate departments in major banks.

The MEF has drawn up the draft decree containing the regulation on the requirements and eligibility criteria for carrying out the duties of corporate officers of banks [...] which was in the process of being approved in the timeframe for the renewal of the 2020 - 2022 Board of Directors; as indicated by art. 26 of the Consolidated Banking Act, the implementing discipline would have found full application to appointments subsequent to the date of its entry into force.

However, the "Professional profile of reference" for the candidate directors, approved by the Board of Directors on 7 February 2020, taking into account the requirement for professional competence and personal qualities that are essential for a sound and prudent management of the Bank in a significantly more complex reference context characterised by strong uncertainty, aligned itself with the EBA/ESMA 09.2017 (European Banking Authority and European Securities and Markets Authority) and ECB 05.2018 (European Central Bank) guidelines on the qualification of the governing bodies of banks and adopted the principles contained in the scheme of the MEF decree, in order to guarantee BPAA a Board of Directors for 2020 - 2022 suitable for protecting, from an evolutionary perspective of the preparatory skills, the business interests of the Bank, engaged in a particularly challenging transition context. On the occasion of the presentation of the lists of candidate directors, the Board therefore proposed to the shareholders a professional reference profile adequate to the size and complexity of Volksbank and which considered the aforementioned draft MEF decree, still in the process of being issued, as an orientation benchmark.

Finally, by decree no. 169 of 23 November 2020, the MEF issued the new Regulation of requirements and eligibility criteria for corporate officers, which entered into force on 30 December 2020.

The main changes in the decree, compared to the superseded regulatory framework of 1998, are inspired by the guidelines of the European Central Bank (*Guide to fit and proper assessments* - May 2017) and propose some new parameters for the suitability of corporate officers, including:

- new criteria for propriety, independence, and independence of judgement, in addition to good repute requirements;
- greater professionalism and competence, based on the principle of proportionality in relation to the size of the Bank;
- an exhaustive indication of the criteria of independence, under penalty of forfeiture of office;
- stricter criteria for assessing the commitment of company representatives, including their availability and the time they intend to dedicate to their mandate and stricter limits the holding of multiple positions;
- a review of the criteria for adequacy of the Board's collegiate composition.

The regulation significantly strengthens the standards of suitability of officers, partly by raising the requirements already envisaged by the previous regulations but above all through the introduction of new profiles (fairness, competence, independence of judgment, availability of time, limits on the accumulation of offices and search for a balanced collective composition by factors of diversity and complementary skills).

1.12.5. INTERNAL CONTROLS RELATED TO ACCOUNTING AND FINANCIAL REPORTING

The Internal Control System for corporate reporting can be understood as a process that, as it involves multiple corporate functions, can provide reasonable assurances as to the reliability of financial reporting, the reliability of accounting documents, and compliance with applicable legislation.

There is a close and clear correlation with the risk management process, which is the process of identifying and analysing those factors that may compromise the achievement of the company's objectives, in order to determine how these risks can be managed. In fact, an appropriate, effective risk management system can mitigate any negative effects on the company's objectives, including the reliability, accuracy, reliability and timeliness of accounting and financial information.

In order for the Bank to establish and maintain an adequate system of control over corporate reporting and assess its effectiveness, a comparative model must firstly be identified to which reference can be made. It must generally be accepted, rigorous, complete and therefore serve as a guide to proper implementation and evaluation of the control system.

The presence of an adequate system of administrative and accounting procedures and its proper functioning over time is verified according to specific methodologies defined in internal regulations and is partly achieved by the appropriate organisational unit established for this purpose, and partly by the same unit with the support of other corporate functions.

The scope of analysis must also take account of the components of the internal control structure at company level that affect financial reporting; these controls operate across the single line business processes.
Below please find a description of the main characteristics of the existing risk management and internal control systems in relation to the financial reporting process.

Identification of risks on financial reporting

Risks are identified primarily by analysing the risks that reside alongside the business processes from which financial reporting originates.

This activity involves defining quantitative and qualitative criteria.

Significant processes identified are defined as such if associated with material data and information, i.e. accounting items for which there is no possibility that they could contain errors that could potentially have a significant impact on financial reporting.

In each significant process, the most significant "assertions" are also identified, again according to assessments based on risk analysis. Assertions in the financial statements consist of the existence, completeness, need and valuation of rights, obligations, presentations and disclosures. The risks are therefore associated with the possibility that one or more assertions in the financial statements are not correctly recognised, with a consequent impact on reporting.

Assessment of financial reporting risks

Risk assessment is performed both at the overall corporate level and at the level of the specific process. The first category includes, with particular regard to financial reporting, risks of fraud and risks of IT systems functioning incorrectly or of failure to separate functions. At process level, the risks associated with financial reporting (operational errors, underestimation or overestimation of items, inaccurate reporting, etc.) must be analysed at the level of the activities making up the processes.

An assessment of relevant risks and controls associated with the critical processes of the Financial Reporting Officer is conducted using a risk-based approach, which has as a fundamental prerequisite the precise mapping of company processes.

The potential risk index is a summary assessment of the single risk event, the occurrence of which could cause direct/indirect economic and financial damage, damage to assets, sanctions, or damage to the company's reputation. It is recognised as part of the process and is independent of existing controls. The risk index is assessed on the basis of the intensity of potential damage and its frequency, i.e. the number of times the risk may occur. A combination of intensity and frequency gives rise to an indication of an inherent or potential risk.

Identification of controls for the identified risks

In the first instance, the focus centres on controls at company level that can be linked to data/information and the relevant assertions, identified and evaluated by monitoring the impact both at process and general level.

Company-wide controls can prevent or detect any significant errors although they do not operate at the process level.

Having adopted a “risk based” approach, determination of critical processes and, within them, of accounting risks at process level, guides the analysis and involves the subsequent identification and evaluation of controls, which can mitigate the level of inherent risk and bring the residual risk within acceptable levels.

Assessment of controls in response to identified risks

An assessment of the control system used is based on various elements: virtuous controls; timing and frequency; adequacy; operational compliance; organisational evaluation. An overall analysis of the controls of each risk is defined independently as a synthesis of the process of assessing the level of adequacy and compliance of the controls. These analyses summarise subjective considerations regarding the effectiveness and capacity of controls to control single risks. The overall assessment of risk management may be broken down into assessments of existence, adequacy and compliance.

The risk assessment process ends with a determination of the level of residual risk as a value resulting from application of the overall assessment of controls in relation to the inherent risks.

Information flows with the results of assessments are made available to the administrative bodies on a half-yearly basis as operating reports of the Financial Reporting Officer. These reports include: the results of determination of the critical scope of analysis, identification of accounting risks with related final valuation scores, a focus on the deficiencies and points for improvement detected and the relevant mitigation procedures, together with a summary of the adequacy and effectiveness of controls at the company level.

The Financial Reporting Officer is essentially at the top of the system overseeing the drafting of financial reporting. In order to pursue his mission, the Financial Reporting Officer has the power to lay down the organisational guidelines for an adequate structure within his remit.

Various company departments contribute to providing economic and financial information. Accordingly, the Financial Reporting Officer must establish a systematic and fruitful relationship with these offices.

The Board of Directors is responsible for ensuring that the Financial Reporting Officer has adequate powers and means to perform the tasks assigned to him, as well as ensuring actual compliance with administrative and accounting procedures.

The Financial Reporting Officer is required to inform the Board of Statutory Auditors promptly if any problems of an accounting, asset and financial nature arise.

The above model is being progressively refined as part of a project to formalise the administrative, accounting processes and relative controls. The subsequent integration of processes and controls in a specific application will enable the financial information controls system to evolve towards better management of growing company complexity.

The model used during 2021 is believed to provide sufficient guarantees for correct accounting and financial reporting. It should be noted, however, that we cannot be certain that dysfunctions or anomalies with an impact on accounting and financial reporting cannot occur, even if the internal control systems are established and functioning correctly.

1.12.6 THE INDEPENDENT AUDITING FIRM

The Shareholders' Meeting of 30 March 2019 appointed, pursuant to Art. 13 Legislative Decree 39/2010 based on a motivated proposal by the Board of Statutory Auditors, the company KPMG S.p.A. to conduct the independent auditing of the accounts of Banca Popolare dell'Alto Adige S.p.A. for the financial years 2019 – 2027, within the terms and under the conditions contained in the Board Report for the Shareholders' Meeting decision.

1.12.7 MANAGEMENT OF CONFLICTS OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES

The "Group Regulation for management of Transactions with related parties and connected Subjects" updated by the Board of Directors on 17 December 2021 sums up, in a single body of rules:

- prudential limits on risk activities by an individual related party;
- the constraints of overall exposure to all connected parties: the determination of the maximum ceiling is defined in the Risk Appetite Framework;
- procedures for the identification, approval and execution of transactions with related parties and internal rules to ensure the transparency and substantive and procedural propriety in making decisions on transactions, together with procedures for the fulfilment of public disclosure obligations, financial reporting requirements, and any other reporting requirement established by applicable legislation, including regulatory provisions;
- supervision of transactions in which an employee is a bearer of his own interest or of that of third parties, even when not in conflict with that of the BPAA;
- internal policies for controls on risk activities and conflicts of interest involving related parties;
- the responsibilities of the corporate departments involved.

The Regulation illustrates the procedures that, in compliance with Consob and Bank of Italy rules and regulations, the Bank adopts to identify the "related parties" and their "connected" parties and to oversee the transactions carried out with related and connected counterparties and ensure compliance with the prudential limits for risk activities in relation to such transactions. This safeguard is designed to capture the risk that any proximity of certain parties to the decision-making centres could compromise the objectivity and impartiality of decisions on the granting of loans and other transactions with such parties, with possible distortions in the resource allocation process and the consequent exposure of the Bank to risks that are not adequately measured, to the potential detriment of depositors and shareholders.

The Bank uses IT systems for the automatic acquisition and reporting of the agreements and transactions entered into with the counterparties, Related Parties and Connected Subjects, identified in accordance with the Implementation Regulations of the Consob and Bank of Italy Provisions.

For further details on the management of transactions with related parties and connected persons, please refer to the documentation available on the Bank's website in the corporate-governance-documents section.

1.12.8 REMUNERATION POLICIES

On 18 November 2014, the Bank of Italy supplemented the Supervisory Provisions for Banks (Circular no. 285 of 17 December 2013) with a new chapter on remuneration and incentive policies, implementing the European Directive 2013/36/EU (CRD IV). In particular, the 25th update of the Circular, published on 23 October 2018, introduced a series of provisions mainly aimed at adapting the Italian regulatory framework to the EBA Guidelines on sound remuneration policies. The 37th update of the Circular published on 25 November 2021, implemented the changes introduced by Directive 2019/878/EU (CRD V) on this matter and the Guidelines of the European Banking Authority implementing the Directive (EBA/GL/2021/04).

Starting from 2015, Volksbank has therefore launched an annual review process of the Remuneration Policies in order to guarantee the constant update and regulatory adaptation thereof. On 30 March 2021, the Shareholders' Meeting approved the text of the Remuneration Policies decided by the Board of Directors on 5 March 2021, updated due to the changed regulatory context mentioned above, with the goal of pursuing its medium- and long-term company objectives.

In particular, the Remuneration Policies in force include a bonus and incentive system anchored to the long term performance of "key personnel" who have a greater impact on Bank risk. Therefore, in compliance with European legislator principles and Bank of Italy regulations, the Remuneration Policies applied by Volksbank foresee payment of a part of variable remuneration in the form of financial instruments, deferment over time of a part of those variable payments, the prohibition to sell (for a set period of time) the financial instruments paid and a series of ex post corrective mechanisms, if the performance assumptions the remuneration received are based on prove to be wrong or, in worse cases, depended on the non-compliant conduct (or even fraudulent) of beneficiaries - so-called malus and claw-back mechanisms.

Neutrality of the gender pay system

With reference to paragraph 4 of the Remuneration Policies "Gender neutrality of the remuneration system" or in compliance with national legislation and the most recent EBA Guidelines on sound and prudent remuneration policies, BPAA aims to ensure, at the same of activity carried out, that the personnel have an equal level of remuneration, also in terms of conditions for recognition and payment.

Specifically, the BPAA Board of Directors - on the proposal of the Committee of Independent Directors and with the support of the Human Resources department- launched a formal process aimed at pursuing the highest level of pay parity within the structure.

This process, aimed at the entire corporate population, was launched in 2021 and involves dividing it into homogeneous clusters.

These clusters take into account qualitative-quantitative and gender-neutral parameters, namely:
- the value of the position (job grade);
- managerial responsibilities;
- the place of employment and its cost of living;
- the level of formal education of the staff;
- company seniority;
- position seniority;

and other parameters selected from time to time by the Human Resources department, according to the characteristics and peculiarities of the institution.

Also in order to guarantee the same remuneration with reference to variable remuneration, for the purposes of calculating any remuneration gaps, the Annual Overall Remuneration (AOR) of the personnel was taken into consideration, which is calculated as the sum of the fixed component plus the variable bonus coming from the employee's performance.

To date, Volksbank has conducted this analysis on executive personnel and two of its territorial areas (Bolzano / Merano and Marostica / Vicenza) of the institution, with aim of completing it by the end of the calendar year.
Executive personnel:

Job Grade	Ratio of female AOR to male AOR
24-25	0%
20-21	105%
16-19	94%

With reference to the executive personnel, a small gap has emerged mainly due to the reduced presence of women in top positions, which Volksbank undertakes to resolve by favouring programs to promote gender diversity.

Middle Management and Professional Areas for local offices:

Job Grade	**Ratio of female AOR to male AOR**	
	Bolzano	Marostica
19-21	90%	125%
17-18	90%	80%
15-16	85%	106%
12-14	107%	104%

With regard to the local offices of Bolzano/Merano and Marostica/Vicenza, the process included further detailed analyses with reference to subgroups of clusters which are organised according to the department they belong to. The intervention was conducted by giving priority to subgroups with a pay gap of more than 5%.
From this further analysis, a residual number of organizational situations are highlighted in which the HR department, also through the responsible corporate bodies, reserves the right to carry out further investigations and evaluate any remuneration adjustment mechanisms.

1.12.9. INTERNAL CONTROL SYSTEM AND CONTROLLING RISKS

A detailed description of the single components of the internal control System and management and risk control activities is contained in this Report on Operations in paragraph 1.8 Management of Risks and in the Notes to the Financial Statements.

CHANGES SINCE THE END OF THE FINANCIAL YEAR OF REFERENCE

Except for what was reported in "Part A of the Explanatory Notes, Section 3 – Events occurring after the date of reference of the financial statements", no further changes to the governance structure need to be reported.

REPORT OF THE BOARD OF STATUTORY AUDITORS

REPORT OF THE BOARD OF STATUTORY AUDITORS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ART. 2429, PARAGRAPH 2 OF THE ITALIAN CIVIL CODE AND ART. 153 OF (IT.) LEGISLATIVE DECREE. NO. 58/1998

Dear Shareholders,
with this report, drawn up in compliance with the Italian Civil Code - specifically art. 2429, paragraph 2 - and art. 153, paragraph 1, Legislative Decree of 24 February 1998, no. 58, the Board of Statutory Auditors of Banca Popolare dell'Alto Adige S.p.A. (hereinafter the "Bank", the "Company" or "Volksbank"), Parent Company of the Banca Popolare dell'Alto Adige Banking Group, reports on the supervisory and control activities carried out during the year ended 31st December 2021.

Summary of supervisory activity

During the financial year 2021, the Board of Statutory Auditors performed the supervisory activities required by the (It.) Civil Code, (It.) Legislative Decree No. 385/1993 (the Consolidated Banking Act or "T.U.B." in its Italian acronym), (It.) Legislative Decrees Nos. 39/2010 and 58/1998 (the Consolidated Finance Act or "T.U.F." in its Italian acronym), by the guidelines for public authorities exercising supervisory and control activities, by its Articles of Association, and by the principles and rules of conduct recommended by the Italian National Council of Chartered and Registered Accountants.

In 2021, the Board of Statutory Auditors met 31 times, participated in 19 meetings of the Board of Directors and, also through its own representative or in joint session, participated in all the meetings of the Risk Committee and of the other internal Board Committees as well as those of the Supervisory Body, set up in the Bank pursuant to Legislative Decree 231/2001, obtaining exhaustive information on activities carried out and on the most important transactions conducted by the Bank and ascertaining the regularity of management through periodical audits.
The Board of Statutory Auditors maintained a profitable and constant dialogue with the corporate bodies, the heads of the corporate control departments and with the various Departments and the various organisational structures of the Bank, also maintaining a continuous and proactive exchange with the company that audits the accounts and with the Manager in charge of preparing the Bank's corporate accounting documents.
In particular, during the year the Board of Statutory Auditors:

- has obtained the required information on compliance with law, the Articles of Association and regulations, on observance of the principles of sound administration, the adequacy of the Bank's organisational structure and its internal control and administrative-accounting systems;
- has obtained significant information on management, its evolution and the Bank's most significant economic, financial and capital transactions from Directors and General Management;
- has performed audits on the Internal Control System ("ICS"), including through participation by the Head of Internal Audit at its meetings, and liaised with managers of the Risk Management, Compliance and Anti-Money Laundering departments to oversee the necessary interrelationship of their respective control duties, and duly informing them of the outcomes; the Board appreciated the Board of Directors' decision to carry out an Assessment on the internal control system in order to strengthen its effectiveness and efficiency;
- has continuously monitored and supervised the progress and execution of the action plans containing the corrective measures taken to implement the indications contained in the findings that emerged following the inspections of the Bank carried out by the Supervision Authorities (Bank of Italy and CONSOB) during the 2019 financial year;
- has checked transactions coming within the scope of art. 136 of the T.U.B. and ensured compliance with the obligation, established in art. 2391 bis of the Italian Civil Code, to adopt rules to guarantee the transparency and substantive and procedural propriety of transactions with related parties. No significant findings emerged from these audits. Information on transactions with related parties is provided in section "H" of the explanatory notes to the financial statements;
- in light of orders issued by the Supervisory Authorities on remuneration and incentive systems, the Board of Statutory Auditors, in close collaboration with the other corporate functions, ensured that the rules on the remuneration of the heads of corporate control bodies and of the executive responsible for preparing corporate accounting documents were correctly applied. The Board of Statutory Auditors has acknowledged

the audits carried out by and endorsed the observations of the corporate auditing functions on the compliance of remuneration practices with policies and the regulatory environment, leading to a satisfactory assessment. On the basis of the information available, the Board of Statutory Auditors considers that the principles set out in the Remuneration Report are not inconsistent with the corporate objectives, strategies, and policies of prudent risk management;
- has duly ascertained the adequacy of orders given to subsidiaries;
- has regularly acquired information on the procedures, management methods and evolution of complaints and assessment of relative risks with specific reference to management of complaints regarding Bank shareholders;
- in close and continuous cooperation with the auditing firm KPMG S.p.A., has verified compliance with laws and regulations in force on financial statement preparation, implementation and layout processes for year 2021, and the compliance with laws and regulations in force and consistency with Board of Directors' resolutions.

Significant transactions during the year

During the financial year, the Board of Statutory Auditors obtained information on the most significant economic, financial and financial transactions undertaken by the Bank. On the basis of the information provided, the Board of Statutory Auditors found that the transactions were based on observance of the principles of proper administration, compliance with law and the Articles of Association, and were not manifestly imprudent, risky, involving conflicts of interest, contrary to resolutions adopted, or liable to compromise the integrity of the company's assets.

The significant facts and events occurring during the year, details of which are provided in the Report on Operations and in the Explanatory Notes, included:
- the approval of the update of the 2022-2024 "Sustainable" Business Plan, with the same strategic lines and managerial actions as those approved in December 2021 for the 2021-2023 "Sustainable" plan;
- the sale, in the first half of the year, of a portfolio of classified securities valued at amortised cost for a nominal value of €387 million, all classified as Stage 1. The difference between the value of the amortised cost and the sale price of the securities was recognised in the profit and loss account under item "100. a) Gains (losses) on sale or buyback of financial assets measured at amortised cost";
- the exercise of the option to realign the differences between the tax and accounting values of certain tangible and intangible assets and of long-term equity investments provided for in Article 110 of Legislative Decree No. 104 of 14 August 2020 resulting from the financial statements of the year ending 31 December 2019 and still present at the end of the following year. The total effect on the profit and loss account was approximately 14.5 million.
- the sale in the fourth quarter of a portfolio of non-performing loans for approximately 37.8 million gross as part of a multi-originator securitisation which envisages, among other things, obtaining state guarantee on the senior tranche;
- the Bank of Italy initiated an audit on 15 October 2021 which was completed on 25 February 2022. The Board of Statutory Auditors maintained a regular dialogue with the Supervisory Board on issues relating to its activities.

Covid-19 epidemiological emergency

In 2021, in accordance with the provisions of public authorities for containment and management of the Covid-19 epidemic, the Company adopted various means and preventive measures to protect its employees and clients. In this context, in addition to safeguarding the health and well-being of staff and customers, Volksbank prioritised the continuity of its business.

The special crisis unit set up in 2020 and headed by the General Manager continued to operate in 2021 with the aim of ensuring business continuity and taking all measures to reduce the risk of contagion, encouraging staff to work from home and limiting work at company premises.

The company staff was also kept constantly updated through specific communications on the evolution of the

emergency, on the safety measures to be adopted, and on the guidelines for work on site and at home. The Bank applied the government's legislative measures to support the economy and the additional measures introduced by trade and local associations to support households and businesses; this enabled the Bank to successfully manage the effects of the pandemic in line with the provisions of the Authorities.
During the ongoing emergency the Board of Statutory Auditors, in compliance with the regulatory provisions of article 2403 of the (It.) Civil Code and considering due attention to business continuity, has been and is constantly informed and updated on the approach and initiatives adopted by the Bank.

Russia's invasion of Ukraine

The invasion of Ukraine, which is taking a heavy toll on its state, society and economy, has seen restrictive measures imposed on Russia and Belarus. The European supervisory authorities stressed the need for European banks and other financial institutions to implement and comply with the restrictive measures adopted in response to the Ukrainian crisis. Financial institutions are required to assess the adequacy and effectiveness of internal controls and governance to ensure compliance with these measures and to adapt or improve systems and processes as necessary.
The competent authorities are establishing rules to ensure the adequacy of the internal controls and governance of supervised entities, with a particular view to identify, monitor and raise awareness of types of fraud and financial crime and to prevent circumvention of restrictive measures.
The Board of Directors described, in the management report and in the explanatory note, the possible impact of short- and long-term risks that may arise in the light of these geopolitical developments. Considerations about the possible and foreseeable impact of economic and political sanctions were given, as well as information on the increased economic uncertainty and vulnerabilities resulting from the current situation. As pointed out by the Council, the extreme variability of the context inevitably means that the assessments expressed therein are preliminary and subject to a high degree of uncertainty.
With regard to cyber risks, the Bank has adopted stronger measures in the interim.
In relation to these events, the Board of Auditors has acquired, during its periodic meetings, information on the possible impact on the Bank and assesses that it has acted appropriately.

Supervision of the administrative-accounting system, of the financial reporting process, and of and Non-Financial Disclosure

The Board of Statutory Auditors, in its capacity as the Internal Control and Audit Committee, has overseen the adequacy and functioning of the organisational structure, the internal control system, the risk management system and the Bank's administrative and accounting system, including an assessment of the latter's ability to properly report on management-related issues.
In particular, meetings with the heads of the main corporate bodies, with the Auditing Firm, with the Financial Reporting Officer and with Internal Audit did not reveal any critical issues concerning the adequacy and reliability of the administrative and accounting system to correctly report on management-related issues and to provide correct financial reporting.
The Board of Statutory Auditors received confirmation of its independence from KPMG S.p.A., pursuant to art. 17 of Legislative Decree 39/2010, together with a communication on non-audit services provided to the Bank by that company and by other companies belonging to its network.
The Board of Statutory Auditors reports that in 2021, in addition to the auditing assignments, the following assignments were entrusted to KPMG S.p.A.:

- certification pursuant to art. 7, paragraph 1, letter e) of the MEF Decree of 3 August 2016 ("GACS") for EUR 16,500;
- report on the prospectus of investments in advertising campaigns prepared for the purposes set out in the Decree of the (IT.) Prime Minister No. 90 of 16 May 2018 in implementation of art. 57-bis of (It.) Law Decree

n.50 of 24 April 2017 and subsequent amendments for EUR 4,000;
- report of the independent auditors pursuant to art. 23(7) of the Regulation implementing Art. 4-undecies and 6, paragraph 1, letters b) and c-bis) of Legislative Decree 58/98 ("Mifid II") for EUR 28,000;
- certification services for tax returns for €6,250;
- audit of the non-financial disclosure for a fee of €16,000.

During their regular meetings and in light of the Supplementary Report issued on 15 March 2022, the independent auditors KPMG S.p.A. did not report any critical situations to the Board of Statutory Auditors that could affect the internal control system relating to administrative and accounting procedures, nor did the auditors raise any matters deemed reprehensible or irregularities that would require reporting pursuant to article 155, paragraph 2, of the T.U.F.

As provided by law, the Board of Directors produced the draft financial statement of Banca Popolare dell'Alto Adige for the year ended 31st December 2021. The Board of Statutory Auditors monitored compliance with the rules of procedure on the preparation and layout of the financial statements and the Report on Operations.

The Board of Directors also produced the Non-Financial Disclosure ("NFD"), as introduced by Directive 2014/95/EU and implemented in Italy by Legislative Decree 254/2016, as an autonomous document. The NFD was approved by the Board of Directors on 4 March 2022 as a separate document from the Management Report to the financial statements as at 31st December 2021.

The Board of Statutory Auditors monitored compliance with the provisions of law on the procedures and timescales for publication of the Non-Financial Disclosure, in terms of its objective and subjective perimeter of application, compliance with the "comply or explain" principle regarding policies implemented, and on the capacity of the organisational, administrative, reporting and control system established by the Bank to a provide a proper and complete description of its corporate activity in the Non-Financial Disclosure, together with its results and impact on the non-financial issues indicated in Article 3, paragraph 1, of the Decree.

The KPMG auditing firm, responsible for carrying out the limited examination of the NFD pursuant to art. 3, paragraph 10, of (It.) Legislative Decree 254/2016, in the report issued on 15 March 2022, highlights that no elements have come to its attention that would suggest that the NFD relating to the year ended 31st December 2021 has not been drawn up, in all significant aspects, in compliance with the requirements of art. 3 of (It.) Legislative Decree 254/2016 and the "Global Reporting Initiative Sustainability Reporting Standards".

Proposals concerning the financial statements, their approval, and matters coming within the competence of the Board of Statutory Auditors

With respect to the financial statements for the year ended 31st December 2021, it should be noted that:
- the independent audit of the accounts of Banca Popolare dell'Alto Adige, through Shareholders' Meeting appointment, was assigned pursuant to art. 2409-bis of the (It.) Civil Code to the Independent Auditing Firm, KPMG S.p.A. for the years 2019-2027;
- on 15 March 2022, the Auditing Firm released its audit report on the financial statements as at 31st December 2021 pursuant to art. 14 and 16 of (It.) Legislative Decree 39/2010 and 10 of EU Regulation no. 537 of 16 April 2014. On the merits, it should be noted that the financial statements were published without any observations or objections. The financial statements also include an assessment of the consistency of the report on operations;
- in meetings with the independent auditors, the application of accounting standards and the recognition and representation in the financial statements of elements of economic, financial and capital significance were discussed. During these meetings, no anomalies, critical issues or omissions were detected by the Auditors;
- the draft financial statements for the year ended 31 December 2021, as approved by the Board of Directors on 4 March 2022, were presented, and information was provided on the layout of the financial statements, their general compliance with legislation, including regulations, on their formation and structure, also in accordance with the IAS/IFRS international accounting standards and the instructions issued in the Bank of Italy in circular No. 262 of 22 December 2005 and subsequent updates;
- the Internal Control and Audit Committee and the Auditing department performed the supervisory activities

provided for in art. 19 of (It.) Legislative Decree no. 39/2010, obtained the results of audits carried out by the independent auditors on the proper keeping of company accounts and the correct recognition of management-related issues in the accounting records. It also supervised the overall effectiveness of the internal control system for financial reporting. No significant events worthy of mention emerged from this supervisory activity;
- the Board of Directors' report on operations describes the course of operations during the year and contains an analysis of the Bank's situation and operating result. There are no particular issues to report in this regard;
- directors did not make use of the exception set forth in art. 2423, paragraph 4 of the Italian Civil Code. Meetings with the Financial Reporting Officer did not reveal any significant shortcomings in administrative and accounting processes and controls that would invalidate the conclusion that the administrative and accounting procedures used to oversee proper representation of the company's financial position, in accordance with current international accounting standards, were adequate and effective;
- On 4 March 2022, in accordance with Article 154 bis of the T.U.F. and Article 81 ter of Consob Regulation 11971/1999, the Chairman of the Board of Directors and the Financial Reporting Officer signed the report for the 2021 financial year. The report did not reveal any shortcomings that could invalidate the assessment that administrative and accounting procedures were adequate.

Verifications performed in accordance with article 19 of (It.) Legislative Decree 39/2010 enabled monitoring of the administrative and accounting processes for financial reporting, the effectiveness of the internal control and risk management systems, the effectiveness of audits, and the independence of the statutory auditor.

Complaints received pursuant to art. 2408 of the (It.) Civil Code

The Board of Statutory Auditors did not receive, during the year 2021, complaints from Shareholders pursuant to Art. 2408 of the Italian Civil Code.

Conclusions

Following the supervisory activities conducted by the Board of Statutory Auditors, no reprehensible facts, omissions or irregularities emerged that need to be included in this Report.
In light of the above, the Board of Statutory Auditors, having examined the content of the reports drawn up by the independent auditors, does not identify, for its area of responsibility, any reasons for not approving the draft financial statements as at 31st December 2021, accompanied by the report on operations and the proposal for the allocation of the profit for the year and the distribution of dividends formulated by the Board of Directors.
With this report on Board of Statutory Auditors concludes its three-year mandate granted by the Shareholders' Meeting on 30 March 2019.

Bolzano, 16 March 2022

THE BOARD OF STATUTORY AUDITORS
Dr. Astrid Kofler – Chairman Dr.
Georg Hesse – Full member
Mr Emilio Lorenzon – standing auditor

Firmato digitalmente da: ASTRID KOFLER
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CERTIFICATION OF THE FINANCIAL STATEMENTS

CERTIFICATION OF THE FINANCIAL STATEMENTS

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 81 - TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED AND SUPPLEMENTED

1. The undersigned Lukas Ladurner, as Chairman of the Board of Directors of Banca Popolare dell'Alto Adige Joint Stock Company, and Alberto Caltroni, as Manager in charge of preparing the corporate accounting documents of Banca Popolare dell'Alto Adige, a joint-stock company, certify, also taking into account the provisions of art. 154-bis, paragraphs 3 and 4, of (It.) Legislative Decree of 24 February 1998, no. 58:

   - that the accounts are consistent with the characteristics of the company, and
   - the effective application

   of the administrative and accounting procedures for the preparation of the financial statements during 2021

2. We also certify that:
   2.1. the financial statements as at 31st December 2021:

   a) have been prepared in compliance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b) correspond to the results of the accounts and records;
   c) provide a true and fair view of the issuer's financial position and profit performance.

   2.2. the report on operations includes a reliable analysis of the performance and result of operations, together with the issuer's situation and a description of the main risks and uncertainties to which the issuer is exposed.

Bolzano, 4 March 2022

The Chairman of the Board of Directors
Lukas Ladurner

The Manager in charge of preparing the corporate accounting documents

REPORT OF THE INDEPENDENT AUDITORS

KPMG S.p.A.
Revisione e organizzazione contabile
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(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Banca Popolare dell'Alto Adige S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Banca Popolare dell'Alto Adige S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2021, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Banca Popolare dell'Alto Adige S.p.A. as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets at amortised cost"

Notes to the financial statements "Part B - Information on the statement of financial position - Assets": section 4 "Financial assets at amortised cost - caption 40"

Notes to the financial statements "Part C - Information on the income statement": section 8 "Net impairment losses/gains for credit risk - caption 130"

Notes to the financial statements "Part E - Risks and related hedging policies": section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers is one of the bank's core activities. Loans and receivables with customers recognised under financial assets at amortised cost totalled €10,287.3 million at 31 December 2021, accounting for 77.4% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €53.2 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, an assessment of any guarantees, the impact of macroeconomic	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — selecting a sample of exposures tested collectively, checking the application of

Key audit matter	Audit procedures addressing the key audit matter
variables, future scenarios and risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the loan and receivable categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets measured at amortised cost.

Measurement of other provisions for risks and charges recognised under provisions for risks and charges

Notes to the financial statements "Part A - Accounting policies": section A.2.11 "Provisions for risks and charges"

Notes to the financial statements "Part B - Information on the statement of financial position - Liabilities": Section 10 "Provisions for risks and charges - Caption 100"

Notes to the financial statements "Part C - Information on the income statement": Section 11 "Net accruals to the provisions for risks and charges - Caption 170"

Notes to the financial statements "Part E - Risks and related hedging policies": section 4 "Operational risk"

Key audit matter	Audit procedures addressing the key audit matter
The financial statements at 31 December 2021 include other provisions for risks and charges of €13.7 million related to pending litigation under provisions for risks and charges. The net other accruals recognised in profit or loss during the year totalled €3.4 million. Measuring provisions for other risks and charges for pending litigation is a complex activity, with a high degree of uncertainty, and entails directors' estimates about the	Our audit procedures included: — understanding the process for the measurement of the other provisions for risks and charges and assessing the design and implementation of controls; — analysing the changes in the composition of the other provisions for risks and charges compared to the previous year end and discussing the

Key audit matter	Audit procedures addressing the key audit matter
outcome of the litigation, the risk of losing and the timing for its settlement. For the above reasons, we believe that the measurement of other provisions for risks and charges is a key audit matter.	results with the relevant internal departments; — analysing the discrepancies between past years' estimates of the other provisions for risks and charges and actual figures resulting from the subsequent settlement of disputes, in order to check the accuracy of the estimation process; — sending written requests for information to the legal advisors assisting the bank about the assessment of the risk of losing pending litigation and the quantification of the related liability and checking the consistency of the information obtained with the elements considered by the directors to measure the other provisions for risks and charges; — analysing the reasonableness of the assumptions used to measure the other provisions for risks and charges relating to the main litigation through discussions with the relevant internal departments and analysis of the supporting documentation; — assessing the appropriateness of the disclosures about the other provisions for risks and charges.

Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian 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 bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;
- obtain 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 bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the 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 bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other 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 determine those matters that were of most significance in the audit of the financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 30 March 2019, the bank's shareholders appointed us to perform the statutory audit of its financial statements as at and for the years ending from 31 December 2019 to 31 December 2027.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of a directors' report and a report on corporate governance and ownership structure at 31 December 2021 and for the consistency of such reports with the related financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's financial statements at 31 December 2021 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's financial statements at 31 December 2021 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Banca Popolare dell'Alto Adige S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Bolzano, 15 March 2022

KPMG S.p.A.

(signed on the original)

Vito Antonini
Director of Audit

COMPANY REPORTING FORMATS

Balance Sheet

Assets and liabilities		31.12.2021	31.12.2020
(in EUR)			
10.	Cash and cash equivalents	92,348,846	83,657,688
20.	Financial assets at fair value with impact on profit and loss	122,808,702	138,098,926
	a) financial assets held for trading	1,640,918	471,888
	b) financial assets designated at fair value	-	-
	c) other financial assets that must be measured at *fair value*	121,167,784	137,627,038
30.	financial assets designated at *fair value* through other comprehensive income	680,921,245	597,473,448
40.	Financial assets measured at amortised cost	11,934,943,122	10,322,580,377
	a) due from banks	1,647,681,913	714,612,737
	b) due from customers	10,287,261,209	9,607,967,640
50.	Hedging derivatives	-	-
60.	Value adjustment of hedged financial assets (+/-)	-	-
70.	Investments	5,277,763	5,168,007
80.	Tangible fixed assets	135,355,796	143,382,083
90.	Intangible fixed assets	15,674,551	16,842,987
	of which:		
	- goodwill	-	-
100.	Tax assets	149,630,421	171,755,814
	a) current	53,628,036	62,392,063
	b) anticipated	96,002,385	109,363,751
110.	Non-current assets and asset groups held for sale	4,407,814	15,543,732
120.	Other assets	142,022,584	131,360,306
	Total assets	**13,283,390,844**	**11,625,863,368**

Liabilities and equity items		31.12.2021	31.12.2020
(in EUR)			
10.	Financial liabilities valued at amortised cost	12,138,099,570	10,555,360,705
	a) due to banks	2,668,836,977	1,972,836,871
	b) due to customers	9,032,919,126	8,057,494,788
	c) securities in issue	436,343,467	525,029,046
20.	Financial liabilities held for trading	59,740	1,782,869
30.	Financial liabilities designated at fair value (IFRS 7 par. 8 (e))	-	-
40.	Hedging derivatives	-	-
50.	Value adjustment of hedged financial liabilities (+/-)	-	-
60.	Tax liabilities	18,804,760	27,046,077
	a) current	14,803,485	6,786,274
	b) deferred	4,001,275	20,259,803
70.	Liabilities associated with assets held for sale	-	-
80.	Other liabilities	256,877,965	242,572,282
90.	Employee severance indemnities	16,163,760	16,801,656
100.	Provisions for risks and charges	21,373,126	18,238,086
	a) commitments and guarantees issued	7,631,272	6,109,409
	b) pensions and similar obligations	-	-
	c) other provisions for risks and charges	13,741,854	12,128,677
110.	Valuation reserves	2,375,680	2,118,111
120.	Redeemable shares	-	-
130.	Capital instruments	-	-
140.	Reserves	284,004,937	267,883,424
150.	Emission surcharges	298,786,747	298,786,747
160.	Capital	201,993,752	201,993,752
170.	Own shares (-)	25,225,203	(22,735,291)
180.	Profit (loss) for the year (+/-)	70,076,010	16,014,950
	Total liabilities and equity	**13,283,390,844**	**11,625,863,368**

Profit and Loss Account

	Profit and Loss Account	31.12.2021	31.12.2020
(in EUR)			
10.	Interest receivable and similar income	196,115,501	196,370,076
	of which: interest income calculated according to the effective interest method	191,045,457	191,145,664
20.	Interest paid and similar charges	(19,594,634)	(23,707,274)
30.	**Interest margin**	**176,520,867**	**172,662,802**
40.	Commission income	107,069,666	97,910,204
50.	Commission expense	(13,075,659)	(13,892,289)
60.	**Net commission**	**93,994,007**	**84,017,915**
70.	Dividends and similar income	3,557,901	880,907
80.	Net result of trading	2,048,979	2,168,573
90.	Net result of hedging	-	-
100.	Profits (losses) on disposal or repurchase of:	45,899,612	8,450,276
	a) financial assets measured at amortised cost	40,546,942	5,401,997
	b) financial assets measured at fair value through comprehensive income	5,345,877	2,969,226
	c) financial liabilities	6,793	79,053
110.	Net profit/loss from other financial assets and liabilities measured at *fair value* through profit and loss	(2,882,775)	(4,646,906)
	a) financial assets and liabilities designated at *fair value*	-	-
	b) other financial assets that must be measured at *fair value*	(2,882,775)	(4,646,906)
120.	**Net interest and other banking revenue**	**319,138,591**	**263,533,567**
130.	Net adjustments/write-backs on credit risk:	(53,128,556)	(62,946,204)
	a) financial assets measured at amortised cost	(53,204,833)	(63,396,465)
	b) financial assets measured at fair value through comprehensive income	76,277	450,261
140.	Profits/losses from contractual amendments without write-downs	(40,082)	(65,809)
150.	**Net profit from financial activities**	**265,969,953**	**200,521,554**
160.	Administrative expenses:	(185,866,392)	(174,663,283)
	a) personnel expenses	(101,382,305)	(92,999,906)
	b) other administrative expenses	(84,484,087)	(81,663,377)
170.	Net provisions for risks and charges	(5,195,696)	(2,359,165)
	a) for credit risk relating to commitments and guarantees issued	(1,766,185)	(1,057,192)
	b) other net provisions	(3,429,511)	(1,301,973)
180.	Net adjustments/write-backs on physical assets	(15,073,658)	(19,687,605)
190.	Net adjustments/write-backs on intangible assets	(1,238,585)	(1,845,415)
200.	Other operating charges/revenue	20,027,243	19,230,887
210.	**Operating costs**	**(187,347,088)**	**(179,324,581)**
220.	Profits (Losses) on equity investments	100,482	(284,421)
230.	Net result of measurement at fair value of tangible and intangible assets	-	-
240.	Goodwill value adjustments	-	-
250.	Profits (Losses) on disposal of investments	(271,383)	186,873
260.	**Pre-tax profit (loss) for the period from continuing operations**	**78,451,964**	**21,099,425**
270.	Income taxes on current operations	(8,375,954)	(5,084,475)
280.	**Profit (Loss) from current operations after tax**	**70,076,010**	**16,014,950**
290.	Profit (Loss) on discontinued operations after tax	-	-
300.	**Profit (Loss) for the year**	**70,076,010**	**16,014,950**

Statement of comprehensive income

Items *(in EUR)*		31.12.2021	31.12.2020
10.	**Profit (Loss) for the year**	**70,076,010**	**16,014,950**
	Other profit components net of taxes not reversed to the Profit and Loss Account		
20.	Equity securities designated as at fair value through other comprehensive income	1,567,932	390
30.	Financial liabilities designated at fair value through profit or loss (changes in credit rating)	-	-
70.	Defined benefit plans	(322,441)	(112,830)
	Other income net of taxes reversed to the profit and loss account		
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(987,922)	2,410,053
160.	Share of valuation reserves of equity accounted investments	-	-
170.	**Total other income net of taxes**	**257,569**	**2,297,613**
180.	**Comprehensive income (Item 10+170)**	**70,333,579**	**18,312,563**

Statement of changes in shareholders’ equity

Statement of changes in shareholders’ equity from 1st January to 31st December 2021

(in EUR)	Balance as at 31.12.2020	Change in opening balances	Balance as at 01.01.2021	Allocation of result for previous year: Reserves	Allocation of result for previous year: Dividends and other allocations	Changes in the year: Reserve changes	Transactions on equity: Issue of new shares	Transactions on equity: Purchase of own shares	Transactions on equity: Extraordinary distribution of dividends	Transactions on equity: Variation to capital instruments	Transactions on equity: Derivatives on treasury shares	Transactions on equity: *Stock Options*	Comprehensive income for the year 2020	Shareholders’ equity as at 31.12.2021
Capital	**201,993,752**	-	**201,993,752**	-	-	-	-	-	-	-	-	-	-	**201,993,752**
a) ordinary shares	201,993,752	-	201,993,752	-	-	-	-	-	-	-	-	-	-	201,993,752
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Emission surcharges	**298,786,748**	-	**298,786,747**	-	-	-	-	-	-	-	-	-	-	**298,786,747**
Reserves	**267,883,424**	-	**267,883,424**	**16,014,950**	-	**106,563**	-	-	-	-	-	-	-	**284,004,937**
a) of profits	267,883,424	-	267,883,424	16,014,950	-	-	-	-	-	-	-	-	-	283,898,374
b) other	-	-	-	-	-	106,563	-	-	-	-	-	-	-	106,563
Valuation reserves	**2,118,111**	-	**2,118,111**	-	-	-	-	-	-	-	-	-	**257,571**	**2,375,681**
Capital instruments	-	-	-	-	-		-	-	-	-	-	-	-	-
Own shares	**(22,735,291)**	-	**(22,735,291)**	-	-	-	-	**(2,489,912)**	-	-	-	-	-	**(25,225,203)**
Profit for the year	**16,014,950**	-	**16,014,950**	**(16,014,950)**	-	-	-	-	-	-	-	-	**70,076,010**	**70,076,010**
Shareholders’ Equity	**764,061,693**	-	**764,061,693**	-	-	**106,563**	-	**(2,489,912)**	-	-	-	-	**70,333,581**	**832,011,923**

Statement of changes in shareholders’ equity from 1st January to 31st December 2020

(in EUR)	Balance as at 31.12.2019	Change in opening balances	Balance as at 01.01.2020	Allocation of result for previous year: Reserves	Allocation of result for previous year: Dividends and other allocations	Changes in the year: Changes in reserves	Transactions on equity: Issue of new shares	Transactions on equity: Purchase of own shares	Transactions on equity: Extraordinary distribution of dividends	Transactions on equity: Variation to capital instruments	Transactions on equity: Derivatives on treasury shares	Transactions on equity: *Stock Options*	Comprehensive income for the year 2020	Shareholders’ equity as at 31.12.2020
Capital	**201,993,752**	-	**201,993,752**	-	-	-	-	-	-	-	-	-	-	**201,993,752**
a) ordinary shares	201,993,752	-	201,993,752	-	-	-	-	-	-	-	-	-	-	201,993,752
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Emission surcharges	**383,158,533**	-	**383,158,533**	**(84,371,785)**	-	-	-	-	-	-	-	-	-	**298,786,748**
Reserves	**267,883,116**	-	**267,883,116**	-	-	**308**	-	-	-	-	-	-	-	**267,883,424**
a) of profits	267,883,116	-	267,883,116	-	-	308	-	-	-	-	-	-	-	267,883,424
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	**(179,194)**	-	**(179,194)**	-	-	**(308)**	-	-	-	-	-	-	**2,297,614**	**2,118,111**
Capital instruments	-	-	-	-	-		-	-	-	-	-	-	-	-
Own shares	**(19,126,853)**	-	**(19,126,854)**	-	-	-	-	**(3,608,437)**	-	-	-	-	-	**(22,735,291)**
Profit for the year	**(84,371,785)**	-	**(84,371,785)**	**84,371,785**	-	-	-	-	-	-	-	-	**16,014,950**	**16,014,950**
Shareholders’ Equity	**749,357,568**	-	**749,357,568**	-	-	-	-	**(3,608,437)**	-	-	-	-	**18,312,564**	**764,061,693**

Cash flow statement

A. OPERATING ACTIVITY *(in EUR)*	31.12.2021	31.12.2020
1. Management	**113,709,543**	**129,940,291**
- interest revenue received (+)	196,115,501	196,370,076
- interest expense paid (-)	(19,594,634)	(23,707,274)
- dividends and similar income (+)	3,557,901	880,907
- net fees (+/-)	93,994,007	84,017,914
- personnel costs (-)	(101,244,997)	(88,253,606)
- other costs (-)	(86,245,709)	(84,172,832)
- other revenues (+)	35,503,428	49,889,581
- taxes and duties (-)	(8,375,954)	(5,084,475)
- costs/revenues relating to discontinued operations net of tax effect (+/-)	-	-
2. Cash generated/utilised by financial assets	**(1,680,931,637)**	**(1,166,184,363)**
- financial assets held for trading	879,949	9,344,217
- financial assets designated at *fair value*	-	-
- other assets necessarily measured at*fair value*	13,576,479	(700,213)
- financial assets designated at fair value through other comprehensive income	(77,445,633)	37,654,371
- financial assets measured at amortised cost	(1,638,775,281)	(1,262,110,268)
- other assets	20,832,849	49,627,531
3. Cash generated/utilised by financial liabilities	**1,585,694,779**	**1,043,275,476**
- financial liabilities measured at amortised cost	1,582,745,658	1,066,043,747
- financial liabilities held for trading	(1,723,129)	298,270
Financial liabilities designated at *fair value*	-	-
- other liabilities	4,672,250	(23,066,541)
Net cash provided by/used in operating activities	**18,472,683**	**7,031,404**

B. INVESTMENT ACTIVITY		
1. Cash flows generated by	**(271,383)**	**186,873**
- sales of equity investments	-	-
- dividends received on equity investments	-	-
- sales of tangible assets	(271,383)	186,873
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash absorbed by	**(7,126,794)**	**(15,384,475)**
- purchases of equity investments	(9,274)	(45,350)
- purchases of tangible assets	(7,047,371)	(15,117,341)
- purchases of intangible assets	(70,149)	(221,784)
- purchases of business units	-	-
Net cash generated/utilised by investment activities	**(7,398,177)**	**(15,197,602)**

C. FINANCING ACTIVITIES		
- issues/Purchases of treasury shares	(2,489,912)	(3,608,437)
- issues/Purchases of capital instruments	106,563	-
- distribution of dividends and other	-	-
Net cash generated/utilised by funding	**(2,383,349)**	**(3,608,437)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	**8,691,158**	**(11,774,635)**

RECONCILIATION	31.12.2021	31.12.2020
Cash and cash equivalents at beginning of year	83,657,688	95,432,322
Total net cash generated/utilised during the year	8,691,158	(11,774,635)
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at end of year	**92,348,846**	**83,657,687**

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

PART A ACCOUNTING POLICIES

A.1 GENERAL PART

Section 1 DECLARATION OF CONFORMITY WITH THE INTERNATIONAL ACCOUNTING STANDARDS

These financial statements, prepared in accordance with (It.) Legislative Decree of 28 February 2005 no. 38, were drafted in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission in accordance with the procedure set out in Community Regulation no. 1606 of 19 July 2002.

The financial statements have been drafted in accordance with the approved international accounting standards in force at 31st December 2021, including the SIC and IFRIC interpretations.

The accounting principles adopted for the preparation of the financial statements, with reference to the phases of classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods of recognition of revenues and costs, have nor changed with respect to those adopted for the preparation of the 2020 Financial statements of Volksbank.

For an overview of the standards endorsed in 2021 or those endorsed in previous years, the application of which may be planned or permitted for 2021, reference should be made to the following “Section 4 - Other Aspects”, in which the main impacts on the Company are also described.

In addition, the financial statements as at 31st December 2021 have been prepared on the basis of the “Instructions for the preparation of the company’s financial statements and the consolidated financial statements of banks and financial companies parent company of banking groups” issued by the Bank of Italy on 22 December 2005 and subsequent updates. These instructions set out in a binding manner the format of the financial statements and the way in which they are drawn up, as well as the content of the Notes to the Financial Statements.

Section 2 BASIS OF PREPARATION

The financial statements consist of the Balance Sheet (statement of financial position), the Income Statement, the Statement of comprehensive income, the Statement of Changes in Equity, the Cash Flow Statement and the Notes to the Financial Statements and are accompanied by a report by the directors on operations, the economic results achieved and the financial position of Volksbank.

These financial statements have been prepared using the Euro as the reporting currency.

The amounts in the financial statements are expressed in Euros, while the figures in the tables in the Notes to the Financial Statements are expressed - unless otherwise indicated - in thousands of Euros.

In accordance with provisions applicable, the financial statements must be drawn up clearly and give a true and fair view of the financial position, the results of operations and the cash flows for the year. If the information required by international accounting standards and by the provisions contained in the above Circular is considered insufficient to give a true and fair view, the Notes to the Financial Statements provide the additional information needed for this purpose.

If, in exceptional cases, application of a provision of the international accounting standards is incompatible with a true and fair view of the financial position, the results of operations and the cash flows, it will not be applied. In this case, the reasons for possible derogation and its influence on the presentation of the statement of financial position, financial situation and economic result must be explained in the Notes to the Financial Statements.

The financial statements have been drafted in accordance with the following general principles:

- *Going concern*: the financial statements have been prepared on a going concern basis;

- *Accrual basis for accounting*: the financial statements are drafted in accordance with the principle of accrual, regardless of the settlement date;
- *Consistency of presentation*: the presentation and classification of items in the financial statements is constant from one financial year to the next, except when a standard or an interpretation does not require a change in presentation or when another presentation or classification is deemed more appropriate taking into account the requirements of IAS 8. In the latter case, the explanatory notes provide information on the changes made with respect to the previous year;
- *Relevance and aggregation*: The balance Sheet and the Income statement include items (marked with Arabic numerals), sub-items (marked with letters) and further information (the "of which" of the items and sub-items). Items, sub-items and related information constitute the accounts of the financial statements. The formats comply with those defined by the Bank of Italy in the aforementioned Circular no. 262 of 22 December 2005 as updated. New items may be added to these schedules if their contents cannot be traced back to any of the items already provided for in the schedules and only if they are significant amounts. The sub-items provided for in the diagrams may be grouped together when one of the following two conditions is met:
    a. the amount of the sub-items is immaterial;
    b. the grouping favours the clarity of the financial statements; in this case, the Notes to the Financial Statements contain the sub-items covered by the grouping separately.

The Balance Sheet and the Income statement do not present accounts that do not show amounts for either the year to which the financial statements refer or the previous year.

- *Prevalence of substance over form*: transactions and other events are recognised and presented in accordance with their substance and economic reality and not also taking into account their legal form;
- Offsetting: assets, liabilities, revenue and costs are not offset unless this is permitted or required by an international accounting standard or its interpretation or by the provisions of the above Bank of Italy Circular;
- *Comparative information*: comparative information relating to the previous year is provided for each account of the Balance Sheet and the Income statement, unless an accounting standard or interpretation does not allow or provides otherwise. The figures for the previous financial year may be suitably adjusted, where necessary, to ensure the comparability of information for the year in progress. Any non-comparability, adaptation or impossibility of the latter are indicated and commented on in the Explanatory Notes.

The Notes are divided into parts. Each part of the note is divided into sections, each of which illustrates a single aspect of management.

Uncertainties related to the use of estimates

The preparation of financial information also requires the use of estimates and assumptions that can have a significant effect on the values recorded in the Balance Sheet and the Income statement, as well as on the information relating to potential assets and liabilities recorded in the financial statements. The preparation of such estimates involves the use of information available and adoption of subjective evaluations, also based on historical experience, used to formulate reasonable assumptions for the recognition of operating events. Due to their nature, the estimates and assumptions used may vary from year to year and, accordingly, it cannot be excluded that in subsequent years the values recorded in the financial statements may vary significantly as a result of changes in the subjective assessments used.

The main cases for which the use of subjective assessments by management is most required are:

- the quantification of impairment losses on loans, equity investments and, in general, other financial assets;
- the use of valuation models for recognition of the *fair value* of financial instruments not listed on active markets;
- the assessment of the adequacy of the value of intangible assets;
- quantification of the *fair value* of property;
- the quantification of provisions for personnel and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets;
- estimate of the recoverable value of property held for investment purposes;

For some of the cases listed above, the main factors, subject of estimates, can be identified and accordingly contribute to determining the book value of assets and liabilities in the financial statements. Without claiming to be exhaustive, it should be noted that:

- to calculate the *fair value* of financial instruments not listed on active markets, where it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on the one hand, development of future financial flows (or even revenue flows, in the case of shares), possibly subject to future events and, on the other, the level of certain input parameters not listed on active markets;
- for allocation of receivables and debt securities classified under Financial assets at amortised cost and Financial assets at *fair value* to the three credit risk stages envisaged by IFRS 9 through other comprehensive income and the calculation of the related expected losses, the main estimates concern:
  a. calculation of parameters for a significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of financial assets and at the financial statement date;
  b. the inclusion of forward looking factors, including macroeconomic factors, for the determination of the PD;
  c. the determination of the probability of sale of impaired financial assets, by realising the positions on the market;
- to determine estimates of future cash flows from impaired loans, certain elements are taken into consideration: the expected recovery time, the estimated realisable value of any guarantees as well as the costs that are expected to be incurred for the recovery of the credit exposure;
- to determine the use value of intangible fixed assets with a finite life ("client relationship"), the useful life is estimated, on the one hand, and the future cash flows from the asset, on the other. In the case of intangible fixed assets with a finite useful life, the cost of capital is also included in the estimates;
- determination of the *fair value* of real estate is performed through the preparation of special valuations. In order to prepare the valuations relating to the properties, the rental prices, sale prices, discount rates and capitalisation rates were estimated;
- for quantification of provisions for pensions and similar obligations, the present value of obligations is estimated, taking into account the flows, suitably discounted, deriving from historical statistical analyses, and the demographic curve;
- for quantification of provisions for risks and charges, an estimate is made - where possible - of the amount of disbursements needed to meet the obligations, taking into account the actual probability of having to invest resources;
- for determination of the items relating to deferred taxation, the probability of future taxes effectively incurred (taxable temporary differences) is estimated and the degree of reasonable certainty - if any - of future taxable amounts at the time when the tax deductibility will become apparent (deductible temporary differences).

Section 3 EVENTS FOLLOWING THE DATE OF REFERENCE OF THE FINANCIAL STATEMENTS

Russia's invasion of Ukraine

For more details on the Ukraine crisis situation and its impact on the evolution of operations, please refer to the specific sections of the Directors' Report.

With regard to direct exposures to persons and/or entities subject to the crisis in Ukraine, it should be noted that on the basis of the information available at date, taking into account the extreme uncertainty and volatility affecting the context of persons directly or indirectly affected by the crisis and the sanctions in place, the Bank has no significant exposures to the Russian currency or to natural and legal persons affected by the sanctions as well as to the countries involved.

Accounting and fiscal framework of the provision under Art. 42 paragraph 1 of Legislative Decree 1/3/2022 N. 17

On 2 March 2022 it was published in the Official Gazette no. 50 the decree-law of 1 March 2022, no. 17 containing urgent measures to contain the costs of electricity and natural gas, for the development of renewable energies and for the revitalization of industrial policies. Art. 42 paragraph 1 of the decree in question provides that the deduction of 12 percent of the amount of the negative components provided for, for the purposes of corporate income tax and the regional tax on productive activities, respectively by paragraphs 4 and 9 of '' article 16 of the decree-law of 27 June 2015, n. 83, for the tax period ending on 31 December 2021, is deferred, on a straight-line basis, to the tax period ending on 31 December 2022 and the following three tax periods. This provision, while referring to the tax period in progress as at 31 December 2021, was neither issued nor announced by the aforementioned balance sheet date, in accordance with IAS 10 par. 22 letter (h) and IAS 12 paragraphs 47, 48 and 88, did not entail a change in the calculation of the Bank's current and deferred taxes as at 31 December 2021 which was determined on the basis of the provisions in force at the time. It follows that the effects of the aforementioned legislative change, if confirmed, despite being reflected in the determination of the balance of taxes relating to the year 2021 to be paid by the end of June 2022, will be recognized in the accounting year 2022.

Section 4 OTHER ASPECTS

Deadlines for the approval and publication of the financial statements

Art. 135-sexies of Legislative Decree 59/98 (TUF) requires that, within one hundred and twenty days of the end of the financial year, the financial statements be approved and the annual financial report, including the financial statements, the report on operations and the certification referred to in article 154-bis, paragraph 5, be published. The draft financial statements were approved by the Board of Directors on 4 March 2022.

Changes in governance structure

Ruling out, with the 35th update of Circular no. 285/2013, the possibility that the Chairman of the Risk Committee may coincide with the chairman of other committees, the Board of Directors has (i) confirmed the appointment of members of the Independent Directors Committee on 24 April 2020 to non-executive independent directors Alessandro Metrangolo, Adriano Dalpiaz and Margherita Marin; (ii) the independent non-executive director Margherita Marin was called to hold the office of Chairman of the Independent Directors Committee until the end of the mandate which will end with the approval of the financial statements at 31 December 2022. The latter took over this role from the director Alessandro Metrangolo.

Audit

The separate financial statements for the year have to be audited, pursuant to Legislative Decree 58/98, by the company KPMG S.p.A., in application of the mandate conferred to that company for the period 2019 - 2027 through shareholders' meeting resolution of 30 March 2019. The audit report is published in full together with the annual financial report, pursuant to art. 135-septies of (It.) Legislative Decree 58/98.

New accounting standards or amendments to existing ones approved by the European Commission

Over the course of the twelve months, the European Commission adopted the following regulations, which implement certain changes to the accounting standards currently in force: 2020/1434 of 9 October 2020, 2020/2097 of 15 December 2020, 2021/25 of 13 January 2021 and 2021/1080 of 28 June 2021. Specifically:

IAS/IFRS - SIC/IFRIC interpretation	Amendments
Regulation 2020/1434	the Regulation adopted the IASB's proposed amendments to IFRS 16 relating to the ongoing Covid pandemic: they contain a practical expedient granted to lessee companies that have benefited from concessions on contractually due payments; it is effective retrospectively from 1 July 2020.
Regulation 2020/2097	contains an extension of the exemption from IFRS 9 granted to insurance companies: they may continue to apply IAS39 until 2023. These Regulations shall apply from 1 July 2021.
Regulation 2021/25	contains amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16; they implement the document 'Reform of Interest Rate Benchmarks - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' published by the IASB on 27 August 2020. It is also valid from 1 July 2021.
Regulation 2021/1080	introduced some minor changes to IAS 16, IAS 37, IAS 41, IFRS 1, IFRS 3 and IFRS 9. These amendments take effect on 1 July 2022.

Below are the measures and pronouncements published by the regulatory and supervisory authorities on the most appropriate way to apply the accounting standards in relation to the Covid-19 emergency over the 12 months. In particular, they include:

- ESMA: Public Statement of 28 October 2020 "European common enforcement priorities for 2020 annual financial reports", which highlights the attention that the body will pay to the application of IAS 1, IAS 36, IFRS 9, IFRS 7 and IFRS 16, non-financial statements relating to the impact of the Covid-19 pandemic on non-financial matters; social and employee issues; business model and value creation; risk related to climate change. Considerations on the application of the ESMA Guidelines on Alternative Performance Measures (APMs) in relation to Covid-19 are also provided.
- EBA: Guidelines of 2 December 2020 (EBA / GL / 2020/15) "Guidelines amending Guidelines EBA / GL / 2020/02 on legislative and non legislative moratorium on loan repayments applied in the light of the COVID 19 crisis" relating to the extension of the period of application of the discipline of the so-called "Eba-compliant" moratoriums:
- ECB: Letter from the Chair of the Supervisory Board to all Significant Institutions on 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic" which, although not directly applicable to the Bank, nevertheless provided additional guidance on the identification and measurement of credit risk in the context of the current pandemic. The ECB stresses the importance of balancing the need to avoid excessive pro-cyclicality and ensuring that risks are adequately reflected in internal management measures and processes, financial reporting and regulatory reporting. In this regard, the focus is on the procedures for recognising forborne exposures, the process for periodically assessing borrowers' unlikely to pay--including exposures under general payment moratoriums--the identification and recording of any increase in credit risk at an early stage, the proper estimation of provisioning levels using realistic assumptions and parameters that are appropriate to the current environment, and the governance and involvement of management;
- "Recommendation ECB / 2021/31" of 23 July 2021, on the distribution of dividends during the Covid-19 pandemic, in which extreme caution is recommended when credit institutions take decisions regarding dividends or their distribution or proceed to repurchase treasury shares in order to remunerate shareholders.

Consob: Notice of attention no. 1/21 of February 16, 2021 relating to the disclosure to be provided by the supervised issuers. In particular, Consob, echoing the themes set out by ESMA in its document of 28 October 2020, clarifies that information must also be provided in management reports, with particular emphasis on describing the evolution of the business model in response to the pandemic and the actions taken to address the short- and medium-term uncertainty that has arisen as a result of Covid-19.

The aforementioned interpretations did not have a significant impact on the Bank's financial and economic situation.

Option for national tax consolidation

Volksbank, together with its subsidiaries Quartiere Brizzi S.r.l., Voba Invest S.r.l. in liquidation and Valpolicella Alta Società Agricola S.r.l., has opted for application of group taxation (tax consolidation) pursuant to articles 117 et seq.of (It.) Presidential Decree 917/86.

Relations between these companies were regulated by private agreement signed by the parties in June 2014 for the three-year period 2014-2016. This option is automatically renewed unless the Group tax interruption option is explicitly exercised. Quartiere Brizzi S.r.l. has been included in the tax consolidation regime since 2018, the year in which the Bank acquired control.

The system allows the single subsidiaries participating in the tax consolidation, having determined the tax burden pertaining to them, to transfer the corresponding taxable revenue (or tax loss) to the parent company, which determines - by making the adjustment for intercompany interest expense provided for in relation to the deductibility of interest expense - a taxable revenue or consolidated tax loss, as the algebraic sum of its own revenue/losses and those of the subsidiaries participating, with identification of the tax payable to or receivable from the tax authorities.

The offsetting of flows relating to transfers resulting from tax profits and losses between the parent company and its subsidiaries is e governed by specific agreements. Those flows are calculated by applying the current IRES rate to the taxable revenue of the companies participating in the consolidation. For companies with tax losses, the compensation, calculated as above, is recognised by the parent company to the subsidiary for losses realised after joining the national tax consolidation system, where those losses are included in the consolidated taxable revenue. Losses realised before joining the national tax consolidation scheme will have to be offset in its taxable revenue only by the consolidated party taking part in accordance with tax rules in force.

THE IMPACT OF THE COVID-19 PANDEMIC AND THE INITIATIVES UNDERTAKEN BY VOLKSBANK

The impact of the epidemic on operational activities

The health emergency relating to the spread of Covid-19 and the restrictive measures adopted by the Government for the protection of public health have had a significant impact on the Bank's management methods, necessary to ensure business continuity and continuity of customer service, while taking the utmost care and paying great attention to the health and protection of employees and customers.

The structural measures aimed at avoiding the spread of the virus involved regular communication of the rules of conduct to personnel. With reference to the hygiene of the workplace, the frequency of cleaning has been increased by introducing the use of specific disinfectant products.

Without prejudice to the rules on social distancing, anti-contagion masks, detergent liquid and other useful aids to reduce the risk of contagion were progressively provided to central and network structures.

In order to safeguard the continuing operations of the branches, the opening was planned in accordance with new rules in relation to opening hours and methods of access to the premises. The measures also envisaged interventions aimed at limiting movement and presence in the offices.

These organisational solutions were the subject of extraordinary interventions from time to time, in order to adapt the model to operational peaks (e.g. pensions, flows of financing requests relating to the "Relaunch Italy", "Care for Italy Decree", "Liquidity Decree" programmes, as well as ABI Agreements and Conventions and Territorial

Conventions) and/or to particularly critical situations.

In fact, stringent measures have been adopted within the branches, such as the admission of customers by appointment only, for transactions that are really necessary and cannot be postponed and in any case with the number of customers admitted not exceeding that of the employees present in the branch. As well as maintaining interpersonal distance, all possible pro-tempore individual protection aids have been adopted, to safeguard both staff and customers, also providing for the installation of mobile screens in light material to ensure distance and safety measures.

The Bank has facilitated the use of remote access tools to banking services and related documentation, boosting support, as well as through specific communications on the new opening hours, rules of conduct and methods of interaction with branches.

Efforts were also intensified to facilitate access to the support measures provided for by (It.) Decree Laws of 17 March 2020, no. 18 (so-called "Cura Italia") and of 8 April 2020, no. 23 (so-called "Liquidity").

The Contact Centre structure was the subject of specific interventions with the aim of better managing the increase in traffic.

In terms of employee operations, the measures and flexibility adopted have made it possible for a large number of employees not to go to the workplace and/or to work remotely, limiting travel and circulation.

Right from the start of the first restrictive measures adopted by the Government, the Bank has invited all employees to take advantage of the possibility of working from home, making the tools for remote working available to both the resources employed in the central structures and in the commercial network. These interventions were made possible thanks to the use of remote security protocols, thanks to the activation of connections over Virtual Private Network ("VPN"), which allows the operations carried out in the office to be replicated at home, by accessing the application procedures and key customer information, acquiring and finalising contracts relating to specific products and carrying out banking and financial consultancy activities.

The rapid spread of remote operations has preserved, thanks to the enhancement of the technological platform, the guarantee of operational continuity. The focus on safety has also been strengthened.

The moratoria granted by the Bank

By promptly implementing the reminder sent by the Government, the Supervisory Authorities and the ABI to credit institutions to adopt suitable measures to counter the slowdown in the economy following the epidemic, the Bank activated timely interventions to support households and companies affected by the health emergency through moratoria applicable to mortgage loans, unsecured loans and personal loans.

The moratorium initiatives adopted by the Bank are listed below:

- Initiative in accordance with (It.) Decree Law "Cura Italia" of 17 March 2020 - which provides for Micro-enterprises and SMEs present throughout the national territory the possibility of requesting (i) for mortgages and other instalment , the suspension of payment of instalments or lease fees until 30 September 2020; the repayment plan of the instalments or lease fees subject to suspension is deferred together with the ancillary elements, without any formalities and without new or higher charges for both parties. Companies have the right to request that only capital account repayments be suspended; (ii) the extension until 30 September 2020 of the maturity of non-instalment loans; (iii) the irrevocability until 30 September 2020 of loans granted against advances on loans and revocable credit lines in place as of 17 March 2020.
- ABI moratorium - applicable to all loans outstanding as of 31st January 2020 - on the basis of which all Micro-enterprises and SMEs damaged by the Coronavirus emergency may request (i) the suspension of the payment of the principal amount of the instalments up to 12 months for medium/long-term loans (mortgages, also stipulated through the issue of agricultural loans) and the extension of the expiry date thereof; (ii) the suspension of the share capital implicit in the fees for leasing, real estate or securities transactions;
- Garfidi initiative - Alto Adige Cooperative Guarantee, as part of the addendum to the 2019 Credit Agreement signed on 6 March 2020 by ABI and the Business Associations, as well as the "Cura Italia" Decree Law of 17 March 2020 for adoption of the official confirmation of the guarantee for all medium- and long-term

loans already guaranteed for which the increase in the duration of the loan is communicated by the Bank, connected to the suspension of payment of the principal amount or of the total instalment (capital + interests) pursuant to the provisions of the Agreement and the Addendum. The extension is also applied if the Bank recognises more favourable conditions for companies than those established by the Agreement and the Addendum;

- Moratorium of up to 2 years granted by the Autonomous Province of Bolzano for the repayment of loans granted on the revolving fund pursuant to provincial law 9/1991;
- Memorandum of Understanding between Volksbank and the Autonomous Province of Trento and Cassa del Trentino S.p.A. relating to (i) suspension of mortgage instalments and leasing fees in place as at 31st January 2020, with the option of suspending the entire instalment or just the principal amount - with extension of the amortisation plan for the same duration, or renegotiation of existing transactions at no additional cost to the borrower; (ii) activation of unsecured fixed-rate credit lines in favour of beneficiaries for investments and/or working capital, structured through the activation of different support ceilings differentiated by type of credit line; (iii) issue of Confidi guarantees and (iv) free support and advice to economic operators in relation to the suspension or renegotiation of instalments, disbursement of loans within the Ceilings referred to in point (ii) and activation of Confidi guarantees.

THE MAIN ACCOUNTING TOPICS TO BE ADDRESSED IN THE CONTEXT OF THE EPIDEMIC

The instructions of the European Regulators

In the context of the health crisis exhaustively outlined above, the European Regulators have adopted a series of measures aimed at guaranteeing intermediaries flexibility in the management of this period of tension, first of all ensuring support for the measures adopted by national governments to cope with the systemic economic impact of the pandemic.

Credit institutions have also been encouraged - also by applying their own "subjective judgement" - to avoid excessive pro-cyclical effects when applying IFRS 9. In the published documents it is suggested that, in light of the current uncertainty, in determining the Expected Credit Loss (ECL) in accordance with IFRS 9, the methodologies already in use should not be applied mechanically and there is reminder of the need to use an appropriate "judgement". In particular, there was a reminder that IFRS 9, at the same time, requires and allows businesses to change the accounting approach by adapting it to the various circumstances.

The documents published starting from the first days of March make it possible to identify the "methodological" support elements, having dealt with some specific accounting issues:

- the instructions relating to the classification of loans, issued by the IASB, the European Central Bank (ECB) and the European Banking Authority (EBA), which provide guidelines for the treatment of moratoria;
- the determination of the Expected Credit Loss (ECL) in accordance with IFRS 9 from a forward looking perspective, in particular in relation to the use of future macroeconomic scenarios (topic dealt with by the IASB, the EBA and ESMA in general and more in detail by the ECB);
- transparency and disclosure to the market, on which instructions have been given in the statements of the European Securities and Markets Authority (ESMA), the International Organization of Securities Commissions (IOSCO) and the National Commission for Companies and the Stock Exchange (CONSOB).

With specific reference to the issue of credit valuation, on 27 March the IASB published the document "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 document, which does not amend IFRS 9, supports the interpretation thereof in the context of the pandemic. It clarifies that entities should not continue to apply the existing methodology for determining ECL mechanically ("Entities should not continue to apply their existing ECL methodology mechanically") but, acknowledging the difficulty in incorporating both the effects of the pandemic, and the related government aid, provides for the adoption of post-model management adjustments ("management actions"). With regard to the classification, the Board confirms that the extension of the moratoria to customers should not automatically translate into the belief that all their contracts have undergone a significant increase in credit risk (SICR).

The ECB, with a communication dated 20 March "ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus", provided instructions on the classification and valuation of loans. The document clarifies that adherence to the moratorium does not constitute an automatic "trigger" of probable default. Furthermore, from a prudential point of view, the ECB also expresses its opinion on the forward-looking IFRS 9 valuations, recommending that banks avoid excessively pro-cyclical assumptions in their estimation models. In determining the Expected Credit Losses, the ECB invites institutions to "give greater weight to the stable long-term prospects highlighted by past experience in estimating provisions for credit losses".

The ECB also sent a further communication to the supervised banks aimed at providing additional guidance on the inclusion of forward-looking information in the determination of ECLs in accordance with IFRS 9 in the current context of the COVID-19 pandemic. The letter refers to the expectations already expressed by the ECB to intermediaries, i.e. avoiding the use of excessively pro-cyclical assumptions, in consideration of the extreme uncertainty of the context and in light of the impossibility of having forward-looking information that can be considered "reasonable and supportable".

The letter provides some guidelines on certain aspects:

- collective assessment for the purpose of identifying a significant increase in credit risk (SICR), on which the ECB expects the institutions to evaluate a possible top-down approach in determining the transfer of stages using the collective assessment and consequently noting an ECL lifetime on the portion of financial assets for which it is believed that the credit risk has increased significantly, without therefore the need to identify which financial instruments have undergone a SICR at individual level;
- long-term macroeconomic forecasts, in which the ECB recognises the current uncertainty in the determination of macroeconomic forecasts and therefore invites intermediaries to focus on long-term macroeconomic forecast expectations in determining the ECL in accordance with IFRS 9, taking into account all the historical evidence covering at least one or more entire business cycles. The ECB believes that the provisions of IFRS 9 lead to the conclusion that, where there is no reliable evidence for specific forecasts, the long-term macroeconomic prospects provide the most relevant basis for the estimate.

Lastly, with a press release published on 25 March, the EBA instead dealt in more detail with the management of loans subject to a moratorium for the aspects relating to (i) identification of default (ii) forbearance measures and (iii) IFRS 9 staging. On the points in question, the EBA specifies that:

- adherence to a moratorium - both by law and granted by the bank - does not represent a trigger of default and blocks the count of the past due for the purposes of identifying the default;
- with regard to considering moratoriums as forbearance measures, the EBA excludes that the positions concerned can be considered forborne, as they aim to address systemic risks and alleviate potential risks that could occur in the future in the wider EU economy;
- on the possible classification at Stage 2 of the positions subject to a moratorium, the EBA clarifies that the application of a public or private moratorium should not be considered on its own as a trigger for the identification of a significant increase in credit risk, thus excluding the automatic classification at Stage 2.

Also with reference to forward-looking estimates, the EBA document underlines the complexity of the context: "Institutions should consider the current exceptional circumstances when determining which information can be considered reasonable and supportable information as foreseen under IFRS 9, also taking into account the expected nature of the shock and the scarcity of available and reliable information. Institutions should carefully assess the extent to which, amongst other facts, the high-degree of uncertainty and any sudden changes in the short-term economic outlook are expected to result in impact over the expected life of the financial instrument".

Lastly, on 2 December 2020, the EBA announced that, "after closely monitoring the developments of the COVID-19 pandemic and, in particular, the impact of the second COVID-19 wave and the related government restrictions taken in many EU countries, the European Banking Authority has decided to reactivate its Guidelines on legislative and non-legislative moratoria. This reactivation will ensure that loans, which had previously not benefitted from payment moratoria, can now also benefit from them. The role of banks to ensure the continued flow of lending to clients remains of utmost importance and with the reactivation of these Guidelines, the EBA recognises the exceptional circumstances of the second COVID-19 wave. The EBA revised Guidelines, which will apply until 31 March 2021, include additional safeguards against the risk of an undue increase in unrecognised losses on banks' balance sheet".

With the reactivation of these Guidelines on legislative and non-legislative moratoria, the EBA has introduced two new constraints to ensure that the support provided by the moratoria is limited to filling the liquidity gaps triggered by the new lockdowns and that there is no operational constraint to the continuous availability of credit.

The two new constraints are:

- only loans that are suspended, postponed or reduced under general payment moratoria not more than 9 months in total, including previously granted payment holidays, can benefit from the application of the Guidelines. In essence, the extension applies to loans for which a maximum period of nine months of total moratorium has been agreed starting from 30 September 2020. The nine months do not apply to loans with a moratorium granted before 30 September, while this extension may be granted for moratoria granted before 30 September but for which the suspension was for a period of less than nine months. For example: if the first suspension (granted before 30 September) was for 6 months, the second suspension - in accordance with the new guidelines - can only be granted for 3 months;
- credit institutions are requested to document to the ECB/SSM their plans, known as "Unlikeness to Pay", for assessing that the exposures subject to general payment moratoria do not become unlikely to pay. This requirement will allow supervisors to take any appropriate action.

Classification and valuation of loans in accordance with IFRS 9 in light of the provisions issued by the various supervisory authorities

As regards the classification, in alignment with the instructions of the various regulators, who have expressed themselves on the subject, the already performing positions that are affected by the statutory or voluntary moratorium measures of the COVID-19 emergency are treated as follows:

- they are not normally subject to stage 2 classification (nor are they automatically considered forborne in accordance with prudential regulations);
- they are not subject to classification as impaired (stage 3). In particular, performing loans subject to a moratorium are not classified in this circumstance in the risk class of due or past-due loans, as the moratorium intervenes on the overdue subject of the moratorium. Furthermore, adherence to a moratorium is not considered an automatic trigger of probable default.

In order to take into account the instructions relating to the classification of loans, issued by the IASB, the ECB and the EBA, which provide in particular the guidelines for the treatment of moratoria, the Bank, for exposures characterised by higher risk (identified through methodologies specifically developed to better capture the risk profiles not highlighted by traditional risk control tools), in the event of a moratorium decided by the Bank, has progressively introduced specific assessments to verify whether or not to consider the renegotiation as a forbearance measure. This verification activity has been progressively extended in order to evolve towards the indicated approach, which envisages the specific verification of the possible state of financial difficulty of the customer for the purpose of a possible activation of the forborne state.

For the purposes of evaluating the effects of the renegotiation of the contractual terms, and in particular the need to assess whether the amendment of the contractual terms resulting from the application of the moratorium should lead to a cancellation of the modified relationship (so-called derecognition), with the consequent registration of a new asset, the following general rules have been applied:

- renegotiations that introduce specific objective elements that affect the characteristics and/or the financial flows of the financial instrument are considered substantial (such as, for example, the change of the currency of denomination, the introduction of indexing to equity or commodity parameters) in consideration of the significant expected impact on the original financial flows or those made to customers who do not present financial difficulties, with the aim of adjusting the cost of the contract to current market conditions;

- renegotiations granted to counterparties with financial difficulties (concessions of forbearance measures) attributable to the bank's attempt to maximise recovery of the original exposure are considered non-substantial renegotiations, the risks and benefits of which however continue to be retained by the bank;
- the moratoria on payments pursuant to the law adopted by national governments to deal with the systemic economic impact of the COVID-19 pandemic as well as similar initiatives introduced independently by the Bank towards counterparties who do not present financial difficulties have been considered non-substantial negotiations.

With regard to the assessment, the macroeconomic projections for Italy in the four-year period 2021-24 prepared by the experts of the Bank of Italy as part of the Eurosystem staff macroeconomic projection exercise. The projections, as agreed during the year, are based on the information available as of 25 November for the formulation of technical assumptions and 1 December for economic data.

The forecast incorporates a scenario in which, in the second and third quarters of 2021, the recovery of the Italian economy was very strong, thanks to the success of the vaccination campaign and the subsequent relaxation of containment measures. In the current quarter and the first quarter of 2022, economic activity was affected by the resurgence of the pandemic and tensions in global supply chains. The projections presented here assume that the current phase of increased new infections will persist in the coming weeks, but without leading to a major tightening of mobility restrictions, and that it will gradually come to an end in the first months of 2022, thanks to further strengthening of vaccination coverage. It is assumed that over the forecast horizon, growth in foreign demand for goods produced in our country, estimated at almost 9 per cent this year, will remain robust (at around 4 per cent on average over the next three years) and that monetary, financial and credit conditions will remain relaxed.

Under these assumptions, output would return to sustained expansion from next spring, as the health situation improves, and recover to pre-pandemic levels by mid-2022. Growth would subsequently remain robust, albeit not as intense as that which characterized the production rebound that followed the reopening of the economy in 2021. On average over the year, the macroeconomic scenario foresees an increase in GDP in Italy of 6.2% this year, 4.0% in 2022, 2.5% in 2023 and 1.7% in 2024.

Considerable support for economic activity comes from fiscal policy and the interventions outlined in the National Recovery and Resilience Plan (PNRR). It is estimated that the support measures introduced this year, those included in the draft budget law and the actions of the PNRR, can raise the level of GDP by a total of about 5 percentage points over the four-year period 2021-24, more than two points of which can be attributed to the measures outlined in the PNRR.

In this context, the set of interventions outlined for the purpose of determining the IFRS 9 ECL on the customer loan portfolio may be summarised as follows:

- development of the forward-looking component of the ECL on the customer loan portfolio based on the macroeconomic projections for Italy in the four-year period 2021-24 prepared in December by the experts of the Bank of Italy as part of the Eurosystem staff macroeconomic projections exercise, in order to incorporate the evolution of the forecast scenario compared to the one used for the purposes of the half-year report;
- development of *management overlays* in order to better reflect the specificity of the COVID-19 impact, not captured by the modelling, in the credit assessment. In particular, taking into account the fact that the underlying rationale remains valid, the need to continue with specific approaches, already for the purposes of the half-year report, when preparing the financial statements as at 31st December 2021, ad hoc corrections were applied mainly concerning the rating system and the probability of default:
    - sterilisation of the rating trends, by adopting the rating in place before the start of the COVID-19 pandemic, for exposures that (i) benefited from a COVID-19 moratorium, or from certain COVID-19 support measures, such as public guarantees, subsidised loans, etc. and that (ii) at the reporting date, showed an improvement in the rating compared to that detected immediately before the start of the COVID-19 pandemic;

- adoption of a corrective factor determined at individual sector level in order to include with greater flexibility the impacts of the expected deterioration scenario on the individual sectors, not captured by the satellite models.

In order to complete the picture connected with the credit risk profile, it should be noted that the Risk management and Internal audit departments, each for the areas of its competence, have progressively adopted methods and tools for analysing the credit risk, particularly with reference to the specific profiles introduced by the COVID-19 pandemic, in order to capture the main cases with increasing effectiveness and precision, both through precise analysis of individual exposures and through a portfolio-based approach.

With reference to the other valuation components, it should be noted that, with reference to intangible assets with a finite life, no critical factors emerged on the retention of the recoverable value, also in consideration of the amortisation process which reduced the book values compared to the original book values and taking into account that the standard requires that the recoverable value be determined by referring to the assets of the entire CGU as at the date and not only to the residual ones with respect to which the initial value of the intangible asset was determined.

With reference to equity investments, it was considered that there are currently no elements to reliably and verifiably appreciate the possible impact of the epidemic or the repercussions of the huge public resources being put in place on individual assessments, considering that such valuations are mainly based on forecast cash flows generated by the investee companies.

For investments at *fair value*, the valuation of financial instruments at *fair value* was updated on the basis of current market conditions, in line with the provisions of IFRS 13 and the internal Policy. For instruments that derive their value directly, in the case of listed securities, or indirectly, in the case of convertible investments or investments that are strictly linked to listed/valued instruments with market multiples, from market prices (therefore valued with methods attributable to *fair value* levels 1 and 2), the valuations were updated on the basis of stock market prices.

With reference to investment funds (classified in the FVTPL category), the effects in the Profit and Loss Account from the update of the valuation based on the NAVs provided by the management companies have been acknowledged.

A.2 MAIN ITEMS OF THE FINANCIAL STATEMENTS

The accounting principles applied are shown below, broken down by Balance Sheet item.

A.2.1. Financial assets at fair value through profit or loss (FVTPL)

Classification criteria

This category includes financial assets other than those classified as Financial assets measured at *fair value* with impact on comprehensive income and as Financial assets measured at amortised cost. The item, in particular, includes:

- financial assets held for trading, mainly consisting 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 measurement at amortised cost or at *fair value* through other comprehensive income. These are financial assets whose contractual terms do not just foresee capital repayments and payments of interest on the capital to be repaid (so-called "*SPPI test*") or that are not held in a business model whose target is the possession of assets aimed at collecting contractual cash flows ("*Hold to Collect*" Business model) or in a business model whose target is achieved both through the collection of contractual cash flows and through the sale of financial assets ("*Hold to Collect and Sell*" Business model);
- financial assets designated at *fair value*, i.e. the financial assets thus defined at the time of initial recognition, if the conditions are met. In this case, an entity may irrevocably designate a financial asset for recognition as measured at *fair value* through profit or loss if, and only if, by doing so, it eliminates or significantly reduces a valuation inconsistency ("accounting mismatch") that would otherwise emerge from measuring assets or liabilities or from recognising costs and revenues on a different basis.

They find, accordingly, evidence in this entry:

- debt securities and loans that are included in an *Other/Trading* business model (i.e. not attributable to the "*Hold to Collect*" or "*Hold to Collect and Sell*" business models) or that do not pass the SPPI test, including the portions of syndicated loans subscribed which, from the outset, are intended for sale and which are not attributable to a *Hold to Collect and Sell* business models
- equity instruments - not qualifying as control, connection or joint control - held for trading purposes or for which it was not decided, on initial recognition, to designate them at *fair value* through other comprehensive income;
- quotas of UCIs.

The item also includes derivative contracts, recorded under 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. Positive and negative current values arising from outstanding transactions with the same counterparty may only be offset if there is a current legal right to offset the amounts recognised in the accounts and it is intended to settle the net positions to be 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;
- 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 related changes recognised in the Profit and Loss Account.

With regard to classification rules, IFRS 9 does not allow any reclassification for equity securities. For the other categories of financial assets, reclassifications are also not permitted unless the entity changes its business model for management of financial assets. In those cases, expected to be highly infrequent, financial assets may be reclassified from the category measured at *fair value* through Profit and Loss into 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 the reclassification operate prospectively from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is calculated based on its *fair value* at the reclassification date and this date is considered as the initial recognition date for allocation to the various stages of credit risk (stage assignment) for the purposes of impairment.

For further information on the criteria for the classification of financial instruments, reference should be made to the following chapter “Criteria for the classification of financial assets”.

Recognition criteria

Financial assets are initially recognised on the settlement date for debt and equity securities, on the disbursement date for loans and on the subscription date for derivatives.
Upon initial recognition, financial assets measured at *fair value* through Profit and Loss are recognised at *fair value*, without considering transaction costs or revenue directly attributable to the instrument itself.

Measurement criteria

Subsequent to initial recognition, financial assets measured at *fair value* through Profit and Loss are measured at *fair value*. The effects of applying this valuation criterion are charged to the Profit and Loss Account.

Market prices are used to determine the *fair value* of financial instruments listed on an active market. In the absence of an active market, commonly adopted estimation methods and valuation models are used, which take into account all the risk factors related to the instruments and which are based on market data such as: valuation of quoted instruments with similar characteristics, discounted cash flow calculations, option pricing models, values recorded in recent comparable transactions, etc. For equity securities and derivative instruments involving equity securities not listed on an active market, the cost criterion is used as a *fair value* estimate only in a residual way and limited to a few circumstances, i.e. in the case of non-applicability of all the valuation methods mentioned above, or in the presence of a wide range of possible *fair value* assessments, in which the cost represents the most significant estimate.

Derecognition criteria

Financial assets are derecognised only if the disposal has resulted in the substantial transfer of all the risks and rewards associated with the assets. On the other hand, if a significant portion of the risks and rewards relating to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of the assets has actually been transferred.

In the event that it is not possible to ascertain the substantial transfer of risks and rewards, financial assets are derecognised from the financial statements if no type of control has been retained over them. Otherwise, retention, even in part, of this control entails maintaining the assets in the financial statements to the extent of the residual involvement, measured by the exposure to changes in the value of the assets sold and to changes in the financial flows of the same.

Finally, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows are retained, with the simultaneous assumption of an obligation to pay those flows, and only they, without significant delay to other third parties.

A.2.2. *FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)*

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 target is achieved both through the collection of contractual cash flows and through the sale ("Hold to Collect and Sell" Business model), and
- the contractual terms of the financial asset provide, at certain dates, for cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (passing the so-called "SPPI test").

The item also includes equity instruments, not held for trading purposes, for which the option to be designated at *fair value* through other comprehensive income was exercised at the time of initial recognition.
In particular, this item includes the following:
- debt securities that are part of a "Hold to Collect and Sell" business model and passed the SPPI test;
- equity interests, not qualifying as controlling, related or jointly controlled, that are not held for trading purposes, for which the option to be designated at *fair value* through other comprehensive income has been exercised;
- loans that are linked to a "Hold to Collect and Sell" business model and that have passed the SPPI test, including the portions of syndicated loans subscribed to that, from the outset, are intended for sale and that are linked to a "Hold to Collect and Sell" business model.

Reclassifications to other categories of financial assets are allowed only if the entity changes its business model to manage the financial assets. In those cases, expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through other comprehensive income into 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 and Loss).

The transfer value is represented by the *fair value* at the time of reclassification and the effects of the reclassification operate prospectively from the date of reclassification. If the asset is reclassified from the category concerned to amortised cost, the *fair value* of the financial asset at the reclassification date is adjusted by the accumulated gain (loss) presented in the valuation reserve. In the case of reclassification to the *fair value* category through Profit and Loss, the accumulated profit (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss) for the year.

No reclassification is permitted for equity securities.

For further information on the criteria for the classification of financial instruments, reference should be made to the following chapter "Criteria for the classification of financial assets".

Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and equity securities and on the disbursement date for loans. On initial recognition, assets are recorded at *fair value*, including transaction costs or revenue directly attributable to the instrument itself.

Measurement criteria

Subsequent to initial recognition, assets classified at fair value through other comprehensive income, other than equity securities, are measured at *fair value*, with the impact of the application of amortised cost, the effects of impairment and any exchange rate effect recognised in the Profit and Loss Account, while other gains or losses arising from a change in *fair value* are recognised in a specific equity reserve until the financial asset is derecognised. Upon disposal, in whole or in part, the gain or loss accumulated in the valuation reserve is reversed, in whole or in part, to the Profit and Loss Account.

The equity instruments chosen for classification in this category are measured at *fair value* and the amounts recognised as a contra-entry to equity (Overall Revenue Statement) must not be subsequently transferred to the Profit and Loss Account, even in the event of disposal. The only component relating to the equity securities in question that is recognised in the Profit and Loss Account is the related dividends.

Fair value is calculated on the basis of the criteria already described for "Financial assets measured at *fair value* through Profit and Loss".

For equity securities included in this category, not listed on an active market, the cost criterion is used as a *fair value* estimate only to a residual extent and limited to a few circumstances, i.e. in the event of the non-applicability of all the valuation methods mentioned above, or in the presence of a wide range of possible *fair value* measurements, in which the cost represents the most significant estimate.

"Financial assets measured at *fair value* through other comprehensive income" - both in the form of debt securities and loans are subject to impairment testing, as is the case for Assets at amortised cost, with the consequent recognition in the Profit and Loss Account of an impairment loss to cover expected losses. More specifically, on instruments classified as stage 1 (i.e. on financial assets at the time of origination, if not impaired, and on instruments for which there has been no significant increase in credit risk compared to the initial recognition date), an expected loss of one year is recorded at the initial recognition date and at each subsequent reporting date. On the other hand, for instruments classified as stage 2 (performing instruments for which there has been a significant increase in credit risk since the date of initial recognition) and stage 3 (impaired exposures), an expected loss is recognised for the entire residual life of the financial instrument.

Conversely, equity securities are not subject to impairment.

Reference should be made to the following chapter "Impairment of financial assets" for further details.

Cancellation criteria

Financial assets are derecognised only if the disposal has resulted in the substantial transfer of all the risks and rewards associated with the assets. On the other hand, if a significant portion of the risks and rewards relating to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of the assets has actually been transferred.

In the event that it is not possible to ascertain the substantial transfer of risks and rewards, financial assets are derecognised from the financial statements if no type of control has been retained over them. Otherwise, retention, even in part, of this control entails maintaining the assets in the financial statements to the extent of the residual involvement, measured by the exposure to changes in the value of the assets sold and to changes in the financial flows of the same.

Finally, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows are retained, with the simultaneous assumption of an obligation to pay those flows, and only they, without significant delay to other third parties.

A.2.3. "FINANCIAL ASSETS AT AMORTISED COST

Classification criteria

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

- the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows ("*Hold to Collect*" Business Model), and
- the contractual terms of the financial asset provide, at certain dates, for cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (so-called "*SPPI test*").

More specifically, they are recognised under this heading:

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

This category also includes operating receivables associated with the provision of financial activities and services as defined by the Consolidated Banking Act (TUB) and the Consolidated Law on Finance (TUF) (for example for the distribution of financial products and servicing activities).

In accordance with the general rules provided for by IFRS 9 on the reclassification of financial assets, reclassifications to other financial assets categories are not permitted unless the entity changes its business model for the management of financial assets. In these cases, which are expected to be very infrequent, the financial assets may be reclassified from the category measured at amortised cost to one of the other two categories under IFRS 9 (Financial assets at*fair value* through other comprehensive income or Financial assets 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 the reclassification operate prospectively from the date of reclassification. Profits or losses resulting from the difference between the amortised cost of the financial asset and its *fair value* are recognised in the Profit and Loss Account in the case of reclassification to financial assets measured at *fair value* through profit or loss and to equity, in the appropriate valuation reserve, and in the case of reclassification to financial assets measured at *fair value* on comprehensive income.

For further information on the criteria for the classification of financial instruments, reference should be made to the following paragraph "Criteria for the classification of financial assets".

Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and on the disbursement date for loans. On initial recognition, assets are recorded at *fair value*, including transaction costs or revenue directly attributable to the instrument itself.

In particular, as far as credits are concerned, the date of disbursement normally coincides with the date the contract is signed. If such a coincidence does not occur, a commitment to disburse funds is recorded at the time of signing the contract, which closes on the date of disbursement of the loan. The receivable is recognised on the basis of its *fair value*, equal to the amount disbursed, or subscription price, including costs/revenue directly attributable to the individual receivable and determinable from the start of the transaction, even if settled at a later date.

Costs that, despite having the above characteristics, are subject to reimbursement by the debtor counterpart or are classifiable as normal internal administrative costs are excluded.

Measurement criteria

Subsequent to initial recognition, the financial assets in question are valued 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 initial recognition value less any capital repayments, plus or minus the cumulative amortisation (calculated using the above- mentioned effective interest rate method) of the difference between this initial amount and the amount at maturity (typically attributable to costs/revenue charged directly to the single asset) and adjusted by any provision to cover losses. The effective interest rate is determined by calculating the rate that equals the present value of the future flows of the asset, for principal and interest, to the amount disbursed including costs/revenue associated with the financial asset itself. This accounting method, using a financial logic, makes it possible to distribute the economic effect of costs/revenue directly attributable to a financial asset over its expected residual life.

The amortised cost method is not used for assets - valued at cost - whose short duration makes the effect of applying the discounting logic negligible, for those without a defined maturity and for revoked receivables.

The valuation criteria, as better indicated in the chapter "Impairment of financial assets", are closely linked to the inclusion of the instruments in question in one of the three stages (stages of credit risk) provided for by IFRS 9, the last of which (stage 3) includes impaired financial assets and the remaining (stages 1 and 2) performing financial assets.

With reference to accounting recognition of the above-mentioned valuation effects, the value adjustments referring to this type of asset are recorded in the Profit and Loss Account:

- at the time of initial recognition, for an amount equal to the expected loss at twelve months;
- at the time of the subsequent valuation of the asset, where the credit risk has not significantly increased with respect to the initial recognition, in relation to changes in the amount of value adjustments for losses expected in the following twelve months;
- at the time of the subsequent valuation of the asset, where the credit risk has significantly increased with respect to the initial recognition, in relation to the recognition of value adjustments for expected losses relating to the entire residual life of the asset as provided for in the contract;
- at the time of the subsequent valuation of the asset, where - after there was a significant increase in credit risk compared to the initial recognition - the "significance" of this increase ceased to exist, in relation to the adjustment of the cumulative value adjustments to take account of the transition from an expected loss over the entire residual life of the instrument ("lifetime") to one to twelve months.

If the financial assets in question are performing, they are valued in order to determine the value adjustments to be recognised in the financial statements at the level of the individual loan ratio (or "tranche" of the security), based on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD).

If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the book value of the asset - classified as "impaired", like all other transactions with the same counterpart - and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the loss, to be recorded in the Profit and Loss Account, is defined on the basis of an analytical valuation process or determined by homogeneous categories and, accordingly, analytically attributed to each position and takes into account, as detailed in the chapter "Impairment of financial assets", "*forward looking*" information and possible alternative recovery scenarios.

Impaired assets include financial instruments that have been granted the status of non-performing, probable default or past due/overdue by more than ninety days according to the rules of the Bank of Italy, consistent with the IAS/IFRS and European Supervision regulations.

The expected cash flows take into account the expected recovery time and the estimated realisable value of any guarantees.

The original effective rate of interest for each asset remains unchanged over time, even if the relationship has been restructured, resulting in a change in the contractual rate, and even if the relationship becomes, in practice, without contractual interest.

If the reasons for the loss in value are removed as a result of an event subsequent to recognition of the reduction in value, the value is reinstated and charged to the Profit and Loss Account. The write-back may not exceed the amortised cost that the financial instrument would have had in the absence of previous adjustments.

Reversals of write-backs related to the passage of time are recognised in net interest revenue.

In some cases, during the life of the financial assets in question and in particular of the receivables, the original contractual conditions are subject to subsequent change at the request of the contractual parties. When, over the life of an instrument, the contractual clauses are amended, it is necessary to check whether the original asset should continue to be recognised in the financial statements or, on the contrary, whether the original instrument should be derecognised and a new financial instrument recognised.

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

The analyses (qualitative-quantitative) define the "substantiality" of contractual changes made to a financial asset, will accordingly have to consider:

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty:
    a) the first, aimed at "retaining" the client, involves a debtor who is not in financial difficulty. This case includes all renegotiations to adjust the cost of debt to market conditions. These transactions involve a change in the original terms of the contract, usually requested by the debtor, which relates to aspects related to the cost of the debt, with a consequent economic benefit for the debtor. In general, it is considered that, whenever the Company renegotiates in order to avoid losing its customer, this renegotiation should be considered as substantial since, if not done, the customer could finance himself/herself from another intermediary and the Bank would suffer a decrease in expected future revenues;
    b) the latter, carried out for "credit risk reasons" (forbearance measures), are linked to the target of maximising the recovery of cash flows. As a rule, the underlying risks and rewards are not substantially transferred following the changes and, consequently, the accounting representation is based on the "modification accounting" which provides for the recording in the Profit and Loss Account of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate, without derecognition;
- the presence of specific target elements ("triggers") that affect the characteristics and/or contractual flows of the financial instrument (for example, a change in the currency or a change in the type of risk to which one is exposed, when correlated with equity and commodity parameters), which are deemed to entail derecognition in view of their impact (expected to be significant) on the original contractual flows.

Derecognition criteria

Financial assets are derecognised only if the disposal has resulted in the substantial transfer of all the risks and rewards associated with the assets. On the other hand, if a significant portion of the risks and rewards relating to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of the assets has actually been transferred.

In the event that it is not possible to ascertain the substantial transfer of risks and rewards, financial assets are derecognised from the financial statements if no type of control has been retained over them. Otherwise, retention, even in part, of this control entails maintaining the assets in the financial statements to the extent of the residual involvement, measured by the exposure to changes in the value of the assets sold and to changes in the financial flows of the same.

Finally, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows are retained, with the simultaneous assumption of an obligation to pay those flows, and only they, without significant delay to other third parties.

A.2.4. HEDGING TRANSACTIONS

The Company has no hedging transactions in place at the time. The choice made, for new hedging transactions, allowed when IFRS 9 was introduced, is 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 (for both specific hedges and macro hedges).

Classification criteria: type of hedge

The purpose of risk hedging transactions is to neutralise potential losses attributable to a given risk and recognised on a given element or group of elements, should that particular risk actually arise.
The types of hedging used are as follows:

- *fair value* hedge: the target is to hedge exposure to changes in *fair value* (attributable to different types of risk) of assets and liabilities recorded in the Balance Sheet or portions thereof, groups of assets/liabilities, irrevocable commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 approved by the European Commission. General *fair value* hedges (“macro hedges”) are designed to reduce fluctuations in *fair value*, attributable to interest rate risk, by a monetary amount deriving from a portfolio of assets or liabilities;
- cash flow hedges: these are designed to hedge exposure to changes in future cash flows attributable to particular risks associated with items in the financial statements. This type of hedge is used essentially to stabilise the flow of interest on variable-rate deposits to the extent that the latter finance fixed-rate loans. In some circumstances, similar transactions are carried out in relation to certain types of variable rate loans;
- hedging of an investment in foreign currency: this refers to the hedging of the risks of an investment in a foreign company expressed in foreign currency.

Given the choice made to make use of the possibility of continuing to fully apply the rules of IAS 39 for hedging relationships, it is not possible to designate equity instruments classified under Financial assets measured at *fair value* through other comprehensive income (FVOCI) as hedged items for price or exchange rate risk, since these instruments do not impact the Profit and Loss Account, even in the event of a sale (except for dividends which are recognised in the Profit and Loss Account).

Entry criteria

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

Measurement criteria

Hedging derivatives are measured at *fair value*. Specifically:

- in the case of a *fair value* hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This compensation is recognised through recognition in the Profit and Loss Account of the changes in value, referring both to the hedged item (as regards the changes produced by the underlying risk factor) and to the hedging instrument. Any difference, representing the partial ineffectiveness of the hedge, accordingly constitutes the net economic effect. In the case of generic *fair value* hedging transactions (“*macro hedges*”), changes in *fair value* with reference to the hedged risk of the hedged assets and liabilities are recorded in the Balance Sheet under item 60 of the assets “Value adjustment of financial assets subject to generic hedging" or 50 of the liabilities “Value adjustment of financial liabilities subject to generic hedging", respectively;

- in the case of cash flow hedges, changes in the *fair value* of the derivative are recognised in equity, for the effective portion of the hedge, and are recognised in the Profit and Loss Account only when, with reference to the hedged item, there is a change in the cash flows to be offset or if the hedge is ineffective;
- hedges of an investment in foreign currency are accounted for in the same way as cash flow hedges.

The derivative instrument is designated as a hedge if there is formal documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective at the time the hedge commences and, prospectively, throughout its life.

The effectiveness of the hedge depends on the extent to which the changes in the *fair value* of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Effectiveness is accordingly appreciated by comparing the above changes, taking into account the intention pursued by the company when the hedge was set up. It is effective when changes in the *fair value* (or cash flow) of the hedging instrument neutralise almost entirely, i.e. within the limits set by the range 80--125%, changes in the hedged instrument for the hedged risk element.

The evaluation of effectiveness is carried out at each Financial Statement or interim statement closing using:
- prospective tests, which justify the application of hedge accounting, as they demonstrate its expected effectiveness;
- retrospective tests, which show the degree of effectiveness of the hedge achieved in the period to which they refer, or rather, measure how far the actual results have deviated from the perfect hedge.

If the tests do not confirm the effectiveness of the hedge, from that moment on the hedge accounting, according to the above, is interrupted, the hedging derivative contract is reclassified among the trading instruments and the hedged financial instrument regains the valuation criterion corresponding to its classification in the financial statements.

In the event of the interruption of a generic *fair value* hedging relationship, the cumulative revaluations/write-downs recorded under item 60. "Value adjustment of financial assets subject to generic hedging" or 50. "Value adjustments of financial liabilities subject to generic hedging" are recorded in the Profit and Loss Account under interest revenue or expense over the remaining life of the original hedging relationship, subject to verification that the conditions are met.

A.2.5. EQUITY INVESTMENTS

Classification, recognition and measurement criteria

This item includes interests held in joint ventures and associates.

Joint ventures are entities for which, on a contractual basis, control is shared between the Bank and one or more other parties, or when decisions concerning significant activities require the unanimous consent of all parties sharing control.

Companies subject to significant influence ("associated companies") are those in which the Bank holds at least 20% of the voting rights (including "potential" voting rights) or in which - although with a lower percentage of voting rights - it has the power to participate in determining the financial and operating policies of the subsidiary by virtue of particular legal ties such as participation in shareholders" agreements.

Certain interests of more than 20%, in which the Bank only holds equity rights to a portion of the investment revenue, has no access to management policies and may exercise governance rights limited to the protection of equity interests, are not considered to be subject to significant influence.

If there is objective evidence that an equity investment may be impaired, the entity shall estimate its recoverable amount, taking into account, when available, the present value of the future cash flows that it could generate, including from its ultimate disposal.

If the recoverable amount is lower than the carrying amount, the difference is recognised in the Profit and Loss Account.

If the reasons for the loss in value are removed as a result of an event subsequent to recognition of the reduction in value, the value is reinstated and charged to the Profit and Loss Account.

Derecognition criteria

Equity investments are derecognised when the contractual rights to cash flows from the assets expire or when the investment is sold, essentially transferring all the risks and rewards associated with it.

A.2.6. TANGIBLE FIXED ASSETS

Classification criteria

Tangible fixed assets include land, buildings used for business purposes, investment property, valuable artistic assets, technical equipment, furniture and fittings, as well as equipment of any kind that is expected to be used for more than one period.

Tangible assets held for use in the production or supply of goods and services are classified as “assets for functional use” in accordance with IAS 16. Real estate held for investment purposes (in order to earn rent or for capital appreciation) is classified as “assets held for investment purposes” in accordance with IAS 40.

The item also includes tangible fixed assets classified in accordance with IAS 2 - Inventories, which refer both to assets deriving from the enforcement of guarantees or from the purchase at auction that the company intends to sell in the near future (normally on the basis of IFRS 5), without carrying out significant restructuring work, and which do not have the conditions to be classified in the previous categories, and to the real estate portfolio, including building land, real estate under construction, completed properties for sale and real estate development initiatives, held with a view to disposal.

Finally, assets used under financial lease contracts are recorded under tangible fixed assets, even though their legal ownership remains with the lease company.

Recognition criteria

Tangible fixed assets are initially recognised at cost, which includes, in addition to the purchase price, any additional charges directly attributable to the purchase and commissioning of the asset.

Extraordinary maintenance costs that increase future economic benefits are recognised as an increase in the value of assets, while other ordinary maintenance costs are recognised in the Profit and Loss Account.

Pursuant to IFRS 16, leases are recognised based on the “right of use” model. According to that, at the staring date, the lessee has a financial obligations yo make payments due to the lessor to offset its right of use the asset during the lease duration. When the asset is made available to the lessee to be used (initial date), the lessee recognises both the liability and the asset consisting in the right of use.

Measurement criteria

Tangible fixed assets are valued at cost, less any depreciation and impairment losses, with the exception of functional properties and fine art assets, which are valued using the revaluation method.

Real estate held for investment purposes is valued at cost.

In the case of tangible assets subject to valuation using the revaluation method:

- if the carrying amount of an asset is increased as a result of a revaluation, the increase will be recognised in other total revenue and accumulated in equity under the heading of revaluation surplus; instead; if the increase restores a decrease due to a revaluation of the same asset previously recognised in Profit or Loss, it will be recognised as revenue;
- if the carrying amount of an asset is decreased as a result of the revaluation, the decrease will be recognised in other total revenue as a reduction of the revaluation surplus to the extent that there are any credit balances in the revaluation surplus in respect of that asset; otherwise, that reduction will be recognised in Profit or Loss.

At the financial statement date, the Company holds no tangible assets subject to valuation using the revaluation method.

Tangible fixed assets are systematically depreciated using the constant percentage method as the amortisation criteria, over their useful lives. The depreciable amount is represented by the cost of the assets (or by the net re-determined value if the valuation method adopted is the re-determination of value) net of the residual value at the end of the depreciation process, if significant.

Properties are depreciated for a portion deemed appropriate in order to represent the deterioration of the 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 amortised:

- land, whether acquired individually or incorporated into the value of buildings, as it has an indefinite useful life;
- valuable artistic heritage, other historical, artistic and decorative assets because their useful life cannot be estimated and their value is normally destined to increase over time;
- investment properties for which the *fair value* method has been chosen, with a balancing entry in the Profit and Loss Account.

If there is any indication that a tangible asset measured at cost may have suffered a loss in value, the carrying amount of the asset is compared with its recoverable amount. Any adjustments are recognised in the Profit and Loss Account.

If reasons for the loss cease to exist, the value is written back, which may not exceed the value that the asset would have had, net of the calculated depreciation, in the absence of previous losses in value.

Derecognition criteria

A tangible asset is derecognised from the Balance Sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

A.2.7. INTANGIBLE FIXED ASSETS

Classification criteria

Intangible fixed assets are recognised as such if they are identifiable and originate from legal or contractual rights. Intangible fixed assets also include goodwill, which represents the positive difference between the purchase cost and the *fair value* of the assets and liabilities of an acquired company.

Recognition and measurement criteria

Intangible fixed assets are recognised at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the asset can be measured reliably. Otherwise, the cost of the intangible asset is recognised in the Profit and Loss Account in the year in which it is incurred.

For assets with a finite useful life, the cost is amortised on a linear basis or in decreasing amounts, determined on the basis of the inflow of economic benefits expected from the asset. Assets with an indefinite useful life are not amortised on a linear basis, but are tested periodically to determine whether their carrying amount is adequate.

If there is any indication that an asset may be impaired, its recoverable amount is estimated. The loss amount, recorded in the Profit and Loss Account, is equal to the difference between the book value of the asset and its recoverable value.

In particular, intangible fixed assets include:

- technology-based intangible fixed assets, such as application software, which are amortised on the basis of their expected technological obsolescence and in any case no longer than a maximum period of seven years. In particular, costs incurred internally for the development of software projects are intangible fixed assets and are recognised as assets only if all the following conditions are met: i) the cost attributable to the development activity is reliably determinable, ii) there is the intention, availability of financial resources and technical capacity to make the asset available for use or sale, iii) it is demonstrable that the activity is capable of producing future economic benefits. Capitalised software development costs include only those expenses incurred that can be attributed directly to the development process. Capitalised software development costs are systematically amortised over the estimated life of the related product/service to reflect the way in which the future economic benefits arising from the asset are expected to be consumed by the entity from the start of production over the estimated life of the product;
- intangible fixed assets linked to clients, represented by the valuation, on the occasion of aggregation transactions, of asset management relationships. These assets, with a finite life, are originally valued by discounting back, using a rate representing the time value of money and the risks specific to the asset, the cash flows representing profit margins over a period expressing the residual duration, contractual or estimated, of the relationships existing at the time of the combination. They are amortised, for asset management relationships, on a linear basis over the most significant inflow period of the expected economic benefits in the case of relationships not having a predetermined maturity and, for relationships linked to insurance contracts, in decreasing amounts corresponding to the duration period of the contracts in the case of relationships with a defined maturity (residual life of the policies);
- intangible fixed assets related to marketing, represented by the enhancement of the brand name, also registered on the occasion of aggregation operations. This asset is considered to have an indefinite life as it is believed that it can contribute for an indefinite period to the formation of revenue.

Finally, intangible fixed assets include goodwill.

Goodwill can be recognised as part of a business combination when the positive difference between the consideration transferred and any recognition at fair value of the assets acquired is representative of the future earnings capacity of the investment ("*goodwill*").

If this difference is negative ("*badwill*") or if the goodwill is not justified by the future earnings capacity of the investee company, the difference is recorded directly in the Profit and Loss Account.

A test to verify the adequacy of the value of goodwill is carried out annually (or whenever there is evidence of impairment). To this end, the cash-generating Unit to which goodwill is attributed is identified. In Volksbank, the cash-generating unit is the same as the entire business entity. The amount of any impairment is determined on the basis of the difference between the carrying amount of the goodwill and its recoverable amount, if lower. This recoverable amount is equal to the higher of the fair value of the cash-generating Unit, net of any selling costs, and its value in use. The resulting value adjustments are recognised in the Profit and Loss Account.

Cancellation criteria

An intangible asset is derecognised from the Balance Sheet at the time of disposal or when future economic benefits are no longer expected.

A.2.8. OTHER ASSETS

Other assets essentially include items awaiting settlement and items that do not relate to other Balance Sheet items, including receivables arising from the supply of non-financial goods and services, tax items other than those recognised under own account (for example, related to withholding tax), gold, silver and precious metals and accrued revenue other than those that should be capitalised on the related financial assets, including those arising from contracts with clients pursuant to IFRS 15, paragraphs 116 et seq.

A.2.9. NON-CURRENT ASSETS OR GROUPS OF ASSETS/LIABILITIES HELD FOR SALE

Non-current assets and disposal groups held for sale" and "Liabilities associated with assets held for sale" are classified under assets and liabilities as non-current assets or disposal groups for which a disposal process has been initiated and their sale is considered highly probable. These assets/liabilities are valued 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 application of IFRS 9) for which IFRS 5 specifically provides that the valuation criteria of the relevant accounting standard must be applied.

Revenue and expenses (net of the tax effect), relating to groups of assets being disposed of or recognised as such during the year, are shown in the Profit and Loss Account as a separate item.

A.2.10. CURRENT AND DEFERRED TAXES

Revenue taxes, calculated in compliance with national tax legislation, are recorded as costs on an accruals basis, in line with the method of recording the costs and revenues that generated them in the financial statements. They accordingly represent the balance of current and deferred taxes relating to revenue for the year. Current tax Assets and Liabilities include the net balance of the Company's tax positions with the Italian tax authorities. 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 burden due for the year, determined on the basis of current tax regulations, and current tax assets represented by advances and other tax credits for withholding tax incurred or other tax credits from previous years for which the Company has requested offsetting with taxes from subsequent years.

Current tax Assets also include tax credits for which the Company has requested a refund from the competent tax authorities, as well as amounts paid provisionally in the course of a dispute with the tax Authorities. The risk inherent in these proceedings, as well as the risks inherent in proceedings that did not require provisional payments, is assessed according to the logic of IAS 37 in relation to the probability of the use of economic resources for their fulfilment.

Taking into account the adoption of the national tax consolidation by the Company, the tax positions relating to the companies included in consolidation are managed in a separate way from an administrative point of view.

Deferred taxation is calculated on the basis of the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of assets and liabilities and their tax value, which will determine taxable or deductible amounts in future periods. For these purposes,“taxable temporary differences” are those that in future periods will determine taxable amounts and “deductible temporary differences” are those that in future years will determine deductible amounts.

Deferred taxes are calculated by applying the tax rates established by the laws in force to taxable temporary differences for which there is a reasonable probability that taxes will actually be borne and to deductible temporary differences for which there is a reasonable certainty that there will be future taxable amounts at the time when the related tax deductibility will become apparent (so-called probability test). Deferred tax assets and liabilities relating to the same tax and falling due in the same period are offset.

If the deferred tax assets and liabilities refer to items that have affected the Profit and Loss Account, the contra entry is represented by revenue taxes.

In cases where deferred tax assets and liabilities relate to transactions that directly affect equity without affecting the Profit and Loss Account (such as first-time adoption adjustments of IAS/IFRS, valuations of financial instruments recognised at fair value through other comprehensive income or derivative contracts hedging cash flows), they are recorded as a balancing entry in equity, involving specific reserves when required (e.g. valuation reserves).

Deferred taxes on balance sheet items suspended for tax purposes that are “taxable in any case of use” are entered in the financial statements as a reduction in equity. Deferred tax liabilities related to revaluation for conversion to the Euro, directly assigned to a specific Reserve pursuant to art. 21 of (It.) Legislative Decree 213/98 suspended for tax purposes, are recognised in financial statements by reducing the Reserve itself. Deferred taxes relating to balance sheet items suspended for tax purposes “taxable only in the event of distribution” are not recorded in the financial statements, since the amount of available reserves already subject to taxation makes it possible to believe that no transactions involving their taxation will be carried out.

Deferred taxes relating to companies included in the tax consolidation are recorded in the financial statements by the same, in application of the accrual basis of accounting and in consideration of the value of the tax consolidation limited to payment of current tax positions.

A.2.11. PROVISIONS FOR RISKS AND CHARGES

Provisions for pensions and similar obligations

Provisions for pensions are established in accordance with company agreements and qualify as defined-benefit plans. The liability relating to these plans and the related pension cost of current employment services are determined on the basis of actuarial assumptions applying the “Projected Unit Credit Method”, which provides for the projection of future disbursements on the basis of historical statistical analyses and the demographic curve and the financial discounting of these flows on the basis of a market interest rate. Contributions paid in each financial year are considered as separate units, recognised and valued individually to calculate the final obligation. The discount rate used is based on the market yields recorded at the valuation dates of primary company bonds, taking into account the average residual duration of the liability. The present value of the obligation at the Balance Sheet date is also adjusted by the *fair value* of any plan assets.

Actuarial gains and losses (i.e. changes in the present value of the obligation arising from changes in actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

Provisions for risks and charges against commitments and guarantees given

The sub-item "Provisions for risks and charges" includes the provisions for credit risk recognised for commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules on impairment in accordance with IFRS 9. In principle, the same methods of allocation between the three stages (credit risk stages) and calculation of the expected loss shown with reference to financial assets measured at amortised cost or at fair value with an impact on total revenue are adopted for these cases.

The aggregate also includes provisions for risks and charges set up to cover other types of commitments and guarantees given which, by virtue of their specific nature, do not fall within the scope of application of the impairment test pursuant to IFRS 9.

Other funds

Other provisions for risks and charges include provisions relating to legal obligations or those related to employment relationships or to disputes, including tax disputes, arising from a past event for which it is probable that economic resources will be disbursed to meet the obligations, provided that a reliable estimate can be made of the relative amount.

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 an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount resulting from fulfilment of the obligation.

The amount recognised as a provision represents the best estimate of the expenditure required to meet the obligation existing at the financial statement date and reflects the risks and uncertainties that inevitably characterise a number of facts and circumstances. Where the time element is significant, provisions are discounted using current market rates. Provisions and increases due to the time factor are recorded in the Profit and Loss Account.

The provision is reversed when use of resources that can produce economic benefits to fulfil the obligation becomes unlikely or when the obligation is extinguished.

The item also includes long-term employee benefits, the charges for which are determined using the same actuarial criteria as those described for the provision for pensions. Actuarial gains and losses are all recognised immediately in the Profit and Loss Account.

A.2.12. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

Classification criteria

Amounts due to banks, amounts due to clients and securities issued include the various forms of interbank and client funding, repurchase agreements and funding through certificates of deposit, bonds and other outstanding funding instruments, net of any amounts repurchased.

It also includes debts recorded by the company as a lessee under finance leases.

Recognition criteria

These financial liabilities are first recognised on the date the contract is signed, which normally coincides with the date of receipt of the sums collected or the issue of the debt securities.

Initial recognition is based on the *fair value* of the liabilities, normally equal to the amount received or the issue price, plus any additional costs/revenue directly attributable to the individual funding or issue transaction. Internal administrative costs are excluded.

Measurement criteria

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Exceptions are short-term liabilities, for which the time factor is negligible, which remain recorded at the value received.

Lease payables are revalued when there is a lease modification (e.g. a change to the scope of the contract), that is not recognised/considered as a separate contract.

Derecognition criteria

Financial liabilities are derecognised when they expire or are extinguished. Derecognition is also made when previously issued bonds are repurchased. The difference between the carrying amount of the liability and the amount paid to purchase it is recognised in the Profit and Loss Account.

Placement on the market of own securities after their repurchase is considered as a new issue with registration at the new placement price.

A.2.13. FINANCIAL LIABILITIES HELD FOR TRADING

Recognition criteria

These financial instruments 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 revenue directly attributable to the instruments themselves.

This liability category includes, in particular, trading derivatives with a negative *fair value* as well as embedded derivatives with a negative *fair value* that are present in complex contracts - where the primary contract is a financial liability - but not strictly related to them. It also includes liabilities arising from technical overdrafts generated by trading in securities and certificates.

Measurement criteria

All trading liabilities are measured at *fair value* with the measurement result recognised in the Profit and Loss Account.

Derecognition criteria

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

A.2.14. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

Classification criteria

This item recognises financial liabilities designated at *fair value* with a balancing entry in the Profit and Loss Account, on the basis of the option granted to companies (so-called “*fair value option*”) by IFRS 9 and in compliance with the cases envisaged by the relevant legislation.

Recognition criteria

These liabilities are recognised at the issue date at their *fair value*, including the value of any embedded derivative, net of placement fees paid.

Measurement criteria

These liabilities are measured at *fair value* and the result is recognised in accordance with the following rules set out in IFRS 9:

- changes in*fair value* that are attributable to changes in creditworthiness must be recognised in the Statement of comprehensive income (equity);
- the remaining changes in fair value must be recognised in the Profit and Loss Account.

The amounts recognised in the Statement of comprehensive income are not subsequently reclassified to the Profit and Loss Account. This method of accounting does not have to be applied when recognition of the effects of one's creditworthiness under equity leads to or accentuates an accounting mismatch in the Profit and Loss Account. In this case, the gains or losses linked to the liability, including those determined as a result of the change in its creditworthiness, must be recorded in the Profit and Loss Account.

Derecognition criteria

Financial liabilities measured at *fair value* are derecognised when the contractual rights to the related cash flows expire or when the financial liability is transferred with the substantial transfer of all the risks and rewards of ownership.

A.2.15. TRANSACTIONS IN CURRENCY

Initial recognition criteria

At initial recognition, foreign currency transactions are recognised in the money of account, applying the exchange rate at the date of the transaction.

Subsequent recognition criteria

At each Balance Sheet or interim reporting date, foreign currency Balance Sheet items are valued as follows:

- monetary items are converted at the exchange rate on the closing date;
- non-monetary items valued at historical cost are converted at the exchange rate in force at the date of the transaction;
- non-monetary items measured at *fair value* are translated using the exchange rates in force at the closing date.

Exchange differences arising from the settlement of monetary items or from the translation of monetary items at rates other than the initial conversion rate, or the conversion rate of the previous financial statements, are recognised in the Profit and Loss Account for the period in which they arise.

When a gain or loss on a non-monetary item is recognised in equity, the exchange difference relating to that item is also recognised in equity. Conversely, when a gain or loss is recognised in the Profit and Loss Account, the related exchange difference is also recognised in the Profit and Loss Account.

A.2.16. OTHER LIABILITIES

Other liabilities essentially include items awaiting settlement and those that do not relate to other balance sheet items.

A.2.17. Other information

Treasury shares

Any treasury shares held are deducted from shareholders' equity. Similarly, their original cost and the gains or losses from their subsequent sale are recognised as movements in shareholders' equity.

Accruals and deferrals

Accruals and deferrals that include revenue and expenses for the period accrued on assets and liabilities are recorded in the financial statements as an adjustment to the assets and liabilities to which they refer.

Leasehold improvements

Costs for the renovation of real estate not owned by the company are capitalised in view of the fact that, for the duration of the rental contract, the user company has control of the assets and can gain future economic benefits from them. These costs, classified as Other assets in accordance with Bank of Italy instructions, are amortised over a period not exceeding the duration of the lease agreement.

Employee severance indemnities

The provision for employee severance indemnities is classified as a "post-employment benefit":

- "defined-contribution plan" for employee severance indemnities accruing from 1st January 2007 (date of entry into force of the supplementary pension reform pursuant to (It.) Legislative Decree no. 252 of 5 December 2005, both in the case of an employee opting for supplementary pension schemes and in the case of allocation to the treasury fund at INPS. For these portions, the amount recorded under personnel costs is calculated on the basis of the contributions due without application of actuarial calculation methods;
- "defined-benefit plan" recorded on the basis of its actuarial value calculated using the "Projected Unit Credit Method", for the portion of employee severance indemnities accrued up to 31st December 2006.

These portions are recorded on the basis of their actuarial value determined using the projected unit credit method, without application of the pro-rata of the service provided, since the current service cost of the employee severance indemnity has almost entirely matured and its revaluation, for the years to come, is not considered to give rise to significant benefits for employees.

For discounting purposes, the rate used is determined with reference to the market yield on bonds of primary companies, 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, with respect to the total to be paid and advanced until the final extinction of the entire obligation.

Plan service costs are recognised as personnel costs, while actuarial gains and losses are recognised in the Statement of comprehensive income.

Share-based payments

Employee remuneration plans based on shares are recorded in the Profit and Loss Account, with a corresponding increase in equity, on the basis of the *fair value* of the financial instruments assigned at the assignment date, dividing the cost over the period envisaged by the plan.

In the presence of options, their *fair value* is calculated using a model that considers, in addition to information such as the exercise 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, also the specific characteristics of the existing plan. In the valuation model, the option and the probability of achieving the conditions on the basis of which the options were assigned are assessed separately.

The combination of the two values provides the *fair value* of the instrument assigned.

Any reduction in the number of financial instruments granted is accounted for as the cancellation of part of them.

Employee benefits

Employee benefits are all types of remuneration paid by the company in exchange for the work performed by employees. Employee benefits are divided between:

- short-term benefits (other than termination benefits and equity compensation) that are expected to be paid in full within twelve months of the end of the period in which the employees render the service and are recognised in full in the Profit and Loss Account at the time of vesting (for example, "extraordinary" wages, salaries and benefits fall into this category);
- post-employment benefits due after the end of the employment relationship which oblige the company to make future payments to employees. These include severance indemnities and pension funds, which in turn are divided into defined-contribution plans and defined-benefit plans or company pension funds;
- termination benefits, i.e. compensation that the company pays to employees as a counterpart to the termination of the employment relationship, following the company's decision to terminate the employment relationship before the normal retirement date;
- long-term benefits, other than the previous ones, which are not expected to be fully extinguished within the twelve months following the end of the financial year in which the employees worked.

Recognition of revenue and costs

Revenue can be recognised:

- at a specified time, when the entity fulfils its obligation to do so by transferring the promised good or service to the client, or
- over time, as the entity fulfils its obligation to do so by transferring the promised good or service to the client.

The asset is transferred when, or during the period in which, the client acquires control of it. Specifically:

- the interest payments are recognised pro rata temporis on the basis of the contractual interest rate or the effective interest rate if the amortised cost is applied. Interest revenue (or interest expense) also includes differentials or margins, positive (or negative), accrued up to the Balance Sheet date, relating to financial derivative contracts (i) hedging assets and liabilities that generate interest; (ii) classified in the Balance Sheet in the trading portfolio but linked to financial assets and/or liabilities measured at *fair value* (*fair value option*); (iii) linked to assets and liabilities classified in the trading portfolio that require the settlement of differentials or margins at more than one maturity;
- interest on arrears, which may be provided for by contract, is only recognised in the Profit and Loss Account when it is actually collected;
- dividends are recognised in the Profit and Loss Account 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 services were provided. The commission considered in the amortised cost to calculate the effective interest rate is recognised under interest;

- revenue from the sale of financial instruments, determined by the difference between the consideration paid or received for the transaction and the *fair value* of the instrument, are recognised in the Profit and Loss Account upon recognition of the transaction;
- profits and losses arising from trading in financial instruments are recognised in the Profit and Loss Account at the time of completion of the sale, on the basis of the difference between the consideration paid or received and the book value of the instruments themselves;
- revenues from the sale of non-financial assets are recognised when the sale is completed, or when the obligation to do so vis-a-vis the client is fulfilled.

Costs relating to the obtaining and fulfilment of contracts with clients are recorded in the Profit and Loss Account in the periods in which the related revenues are recorded.

Use of estimates and assumptions in the preparation of financial statements

The preparation of financial information also requires the use of estimates and assumptions that can have a significant effect on the values recorded in the Balance Sheet and the Income statement, as well as on the information relating to potential assets and liabilities recorded in the financial statements.

The preparation of such estimates involves the use of information available and adoption of subjective evaluations, also based on historical experience, used to formulate reasonable assumptions for the recognition of operating events. Due to their nature, the estimates and assumptions used may vary from year to year and, accordingly, it cannot be excluded that in subsequent years the values recorded in the financial statements may vary significantly as a result of changes in the subjective assessments used.

The main cases for which the use of subjective assessments by management is most required are:
- the quantification of impairment losses on loans, equity investments and, in general, other financial assets;
- the use of valuation models for recognition of the *fair value* of financial instruments not listed on active markets;
- the assessment of the fairness of the value of goodwill and other intangible fixed assets;
- quantification of the *fair value* of the properties and artistic heritage of value;
- the quantification of provisions for personnel and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets;
- the demographic (linked to the prospective mortality of the insured population) and financial (deriving from the possible evolution of the financial markets) assumptions used in structuring the insurance products and in defining the bases for calculating the supplementary reserves.

For some of the cases listed above, the main factors that are the subject of estimates can be identified and accordingly contribute to determining the book value of assets and liabilities in the financial statements. Without claiming to be exhaustive, it should be noted that:
- to calculate the *fair value* of financial instruments not listed on active markets, where it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on the one hand, development of future financial flows (or even revenue flows, in the case of shares), possibly subject to future events and, on the other, the level of certain input parameters not listed on active markets;
- for allocation of receivables and debt securities classified under Financial assets at amortised cost and Financial assets at *fair value* to the three credit risk stages envisaged by IFRS 9 through other comprehensive income and the calculation of the related expected losses, the main estimates concern:
    a) calculation of parameters for a significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of financial assets and at the financial statement date;
    b) the inclusion of forward looking factors, including macroeconomic factors, for the determination of the PD;
    c) the determination of the probability of sale of impaired financial assets, by realising the positions on the market;

- to determine estimates of future cash flows from impaired loans, certain elements are taken into consideration: the expected recovery time, the estimated realisable value of any guarantees as well as the costs that are expected to be incurred for the recovery of the credit exposure;
- to determine the value of use of intangible fixed assets with an indefinite life (goodwill, brand name, etc.) with reference to Cash Generating Units (CGUs), the future cash flows in the analytical forecast period and the flows used to determine the so-called “terminal value” generated by the CGU. The cost of capital is also included in the estimates;
- to determine the value in use of intangible fixed assets with a finite life (asset management and insurance portfolios) with reference to the CGUs, the useful life is estimated, on the one hand, and the future cash flows from the asset, on the other. In the case of intangible fixed assets with a finite useful life, the cost of capital is also included in the estimates;
- determination of the *fair value* of real estate and valuable artistic heritage is carried out through the preparation of special valuations by qualified and independent companies or through internal experts. For the preparation of valuations relating to properties, rental fees, sale prices, discount rates and capitalisation rates were estimated, while for preparation of valuations relating to the valuable artistic heritage, the estimate of the value was derived from the trend of exchanges of similar works (by technique, size, subject) by the same author, or of schools and regional movements next in style and technique;
- for quantification of provisions for pensions and similar obligations, the present value of obligations is estimated, taking into account the flows, suitably discounted, deriving from historical statistical analyses, and the demographic curve;
- for quantification of provisions for risks and charges, an estimate is made - where possible - of the amount of disbursements needed to meet the obligations, taking into account the actual probability of having to invest resources;
- for determination of the items relating to deferred taxation, the probability of future taxes effectively incurred (taxable temporary differences) is estimated and the degree of reasonable certainty - if any - of future taxable amounts at the time when the tax deductibility will become apparent (deductible temporary differences).

A.2.18. The criteria for classifying financial assets

The classification of financial assets in the three categories provided for by IFRS 9 depends on two classification criteria, or drivers: i) the business model with which the financial instruments are managed (or Business Model) and ii) the contractual characteristics of the financial flows of the financial assets (or SPPI Test).

The combined provisions of the two drivers mentioned above give rise to the classification of financial assets, as described below:

- Financial assets valued at amortised cost: assets that pass the SPPI test and fall within the Hold to collect (HTC) business model;
- Financial assets measured at *fair value* with impact on comprehensive income (FVOCI): assets that pass the SPPI test and fall within the Hold to collect and sell (HTCS) business model;
- Financial assets measured at *fair value* through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test on the characteristics of contractual flows (SPPI test not passed).

SPPI tests

In order for a financial asset to be classified at amortised cost or at FVOCI - in addition to the analysis relating to the business model - the contractual terms of the asset itself must provide, on certain dates, for cash flows represented solely by payments of principal and interest on the amount of capital to be repaid ("solely payment of principal and interest" - SPPI). This analysis must be carried out, in particular, for loans and debt securities.

The SPPI test must be carried out on each individual financial instrument at the time of budgeting.

After initial recognition, and as long as it is recognised in the financial statements, the asset is no longer subject to new valuations for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test on the new asset must be carried out.

To apply the SPPI test, the following definitions will apply:
- Capital: it is the fair value of the financial asset at the time of initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: is the consideration for the time value of money and for the credit risk associated with the outstanding principal in a particular period of time. It may also include remuneration for other basic risks and costs associated with lending and a profit margin.

When assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a "basic lending arrangement", which is independent of the legal form of the asset. When contractual clauses introduce exposure to risks or volatility of contractual cash flows that are not consistent with the definition of basic lending arrangements, such as exposure to changes in share or commodity prices, contractual flows do not meet the definition of SPPI. Application of the classification driver based on contractual cash flows sometimes requires subjective judgement and, accordingly, definition of internal application policies.

In cases where the time value of money is modified - for example, when the interest rate of the financial asset is periodically recalculated, but the frequency of restatement or the frequency of coupon payments does not reflect the nature of the interest rate (e.g. the interest rate is revised monthly on the basis of a one-year rate) or when the interest rate is periodically revised on the basis of an average of particular short or medium/long-term rates - it is assessed, using both quantitative and qualitative elements, whether the contractual flows still meet the definition of SPPI (c. the interest rate is adjusted to reflect the nature of the interest rate).d. benchmark cash flows test). If the test shows that the contractual cash flows (not discounted) are "significantly different" from the cash flows (also not discounted) of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered as meeting the definition of SPPI.

Special analyses (so-called "look through test") are required by the principle and are consequently also implemented for contractually linked instruments ("CLIs") that create concentrations of credit risk for debt settlement and for nonrecourse assets, for example in cases where the receivable can only be claimed in relation to certain assets of the debtor or to cash flows from certain assets.

The presence of contractual clauses that may change the frequency or amount of contractual cash flows must also be considered to assess whether these flows meet the requirements to be considered as SPPI (e.g. prepayment options, possibility of deferring contractual cash flows, instruments with embedded derivatives, subordinated instruments, etc.).

However, as required by IFRS 9, a feature of the contractual cash flows does not affect the classification of the financial asset if it can only have a de minimis effect on the contractual cash flows of the financial asset (in each period and cumulatively). Similarly, if a feature of the cash flows is unrealistic ("not genuine"), or if it affects the contractual cash flows of the instrument only on the occurrence of an extremely rare, very unusual and very unlikely event, it does not affect the classification of the financial asset.

In order to carry out the SPPI test, the Company makes use of the services provided by well-known info-providers for debt security transactions.

A tool based on an internally developed methodology (decision trees) has been developed for the SPPI test in the context of the credit granting processes. In particular, given the significant differences in characteristics, differentiated management is envisaged for products that can be traced back to a contractual standard (typically retail loan portfolio) and for "tailor made" loans (typically corporate loan portfolio).

For standard products, the SPPI test is carried out during structuring of the contractual standard and the result of the test is extended to all individual reports related to the same product. For "tailor made" products, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

Business model

As far as the business model is concerned, IFRS 9 identifies three cases in relation to the way in which cash flows and sales of financial assets are managed:

- Hold to Collect (HTC): this is a business model whose target is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated with it. Inclusion of a portfolio of financial assets in this business model does not necessarily mean that it is impossible to sell the instruments, even if it is necessary to consider the frequency, value and timing of sales in previous years, the reasons for sales and expectations regarding future sales;
- Hold to Collect and Sell (HTCS): is a mixed business model, whose target is achieved both through the collection of contractual cash flows from the financial assets in the portfolio and through a sales activity that is an integral part of the strategy. Both activities (collection of contractual flows and sale) are functional to achieving the business model target. Accordingly, sales are more frequent and significant than an HTC business model and are an integral part of the strategies pursued;
- Others/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that cannot be traced back to the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured at *fair value*.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management through the appropriate involvement of business units.

The business model is observed considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of financial assets or from both of these assets. Assessment is not made on the basis of scenarios which, according to reasonable forecasts of the entity, are not likely to occur, such as the so-called worst-case or stress-case scenarios. For example, if the entity expects to sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the assessment of the entity's business model for those assets if that scenario, based on the entity's reasonable expectations, is not expected to occur.

The business model does not depend on the intentions management has with reference to a single financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business target.

In summary, the business model:

- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, through the appropriate involvement of business structures;
- must be observable in view of the way in which financial activities are managed.

In operational terms, the assessment of the business model is carried out in accordance with the company organisation, the specialisation of the business functions, the risk model and the assignment of delegated powers (limits).

In relation to management purposes for which the financial assets are held, it should be noted that a specific document - approved by the competent levels of governance - defines and sets out the elements constituting the business model in relation to the financial assets included in the portfolios managed in the performance of operations on the business structures.

For the Hold to Collect portfolios, the Company has defined the eligibility thresholds for sales that do not affect the classification (frequent but not significant, individually and in aggregate, or infrequent even if of significant amount) and, at the same time, the parameters have been established to identify sales consistent with this business model as they are attributable to an increase in credit risk.

More specifically, sales are allowed under an HTC business model:

- - in the event of an increase in credit risk, which occurs:

a) for securities, when there is a downgrade of predetermined notches to the origination rating. The approach adopted envisages that the number of notches is differentiated according to the origination rating, in line with the methodology in use for the identification of "significant deterioration", i.e. for the staging transition;
    b) in the case of claims, in the case of assignments of impaired claims or of claims classified as stage 2 claims;

- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, frequency and significance thresholds have been defined:
    a) the frequency is defined as the percentage ratio between the number of positions sold (ISINs or ratios) during the observation period and the total number of positions in the portfolio during the observation period;
    b) significance is defined as the percentage ratio of the nominal value of sales to the total nominal value of the instruments in the portfolio over the period considered.

Where both frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (e.g. to assess whether sales are made close to maturity).

Methods of determining the amortised cost

The amortised cost of a financial asset or liability is the value at which, on initial recognition, the financial asset or liability was measured net of principal repayments, increased or decreased by the total amortisation calculated using the effective interest method, by the differences between the initial value and the maturity value and net of any loss in value.

The effective interest rate is the rate that equals the present value of a financial asset or financial liability to the contractual flow of future payments in cash or received until maturity or the next date of price recalculation. To calculate the present value, the effective interest rate is applied to the flow of future cash receipts or payments over the entire useful life of the financial asset or financial liability or for a shorter period under certain conditions (e.g. revision of market rates).

Subsequent to initial recognition, the amortised cost makes it possible to allocate revenues and costs deducted from or increased by the instrument over its expected life through the amortisation process. Calculation of the amortised cost differs according to whether the financial assets/liabilities being valued are at a fixed or variable rate and - in the latter case - according to whether the variability of the rate is known in advance or not. For fixed rate instruments or fixed rate ones by time band, future cash flows are quantified on the basis of the known interest rate (single or variable) over the life of the loan. For variable rate financial assets/liabilities, the variability of which is not known in advance (for example because it is linked to an index), cash flows are determined on the basis of the last known rate. At each rate revision date, the amortisation plan and the effective rate of return are recalculated over the entire useful life of the instrument, i.e. up to the expiry date. The adjustment is recognised as a cost or revenue in the Profit and Loss Account.

Amortised cost measurement is carried out for financial assets measured at amortised cost and for those measured at *fair value* through other comprehensive income, as well as for financial liabilities measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at their *fair value*, which normally corresponds to the amount disbursed or paid inclusive, since they are instruments valued at amortised cost, transaction costs and directly attributable commissions.

Transaction costs are marginal internal or external costs and revenue attributable to the issue, acquisition or disposal of a financial instrument and not chargeable back to the client. These fees, which must be directly attributable to the individual financial asset or liability, affect the original effective yield and make the effective interest rate associated with the transaction different from the contractual interest rate.

Costs/revenue relating indistinctly to several transactions and components related to events that may occur during the life of the financial instrument, but which are not certain at the time of the initial definition, such as, for example: commission for retrocession, for non-use, for early repayment, are excluded. Moreover, the amortised cost does not include costs that the company would have to bear independently of the transaction (e.g. administrative, stationery, communication costs), those that, although specifically attributable to the transaction, fall within the normal practice of managing the loan (e.g. activities aimed at disbursement of the credit), as well as commission for services collected following the performance of Structured Finance activities that would have been collected independently of the subsequent financing of the transaction (such as, for example, facility and arrangement commission).

With particular reference to loans, the following are considered costs attributable to the financial instrument: commission paid to distribution channels, fees paid for consultancy/assistance for the organisation of and/or holding in syndicated loans and, finally, up-front commissions related to loans granted at rates higher than market rates; while revenues considered in the calculation of the amortised cost are up-front commissions related to loans granted at rates lower than market rates, those for holding in syndicated transactions and brokerage commission linked to commission paid by brokerage firms.

With regard to securities not valued at *fair value* through Profit and Loss, transaction costs are considered to be commission for contracts with brokers operating on Italian stock markets, those disbursed to brokers operating on foreign stock markets and bonds defined on the basis of commission tables. Stamps are not considered to be attracted by the amortised cost, as they are not significant.

For the securities issued, commission on the placement of bonds paid to third parties, shares paid to stock exchanges and fees paid to auditors for the work carried out for each individual issue are considered in the calculation of the amortised cost, while commission paid to rating agencies, legal and advisory/revision fees for the annual updating of prospectuses, costs for the use of indices and commission originating during the life of the bond issued are not considered to be attracted by the amortised cost.

Amortised cost is also applied to the valuation of the loss in value of the financial instruments listed above and to the recognition of those issued or purchased at a value other than their *fair value*. The latter are recorded at *fair value*, rather than for the amount received or paid, calculated by discounting future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of creditworthiness, contractual maturities, currency, etc.), with simultaneous recognition in the Profit and Loss Account of a financial charge or revenue. Subsequent to initial valuation, they are valued at amortised cost, with actual interest greater or lesser than nominal interest. Finally, structured liabilities that are not measured at *fair value* are also measured at amortised cost and recognised in the Profit and Loss Account because the derivative contract embedded in the financial instrument has been separated and recognised separately.

As indicated by IFRS 9, in some cases, a financial asset is considered impaired at the time of initial recognition because the credit risk is very high and, in the case of purchase, is purchased with large discounts (compared to the initial disbursement value). If the financial assets in question, based on the application of the classification drivers (i.e. SPPI test and Business model), are classified as assets valued at amortised cost or fair value through other comprehensive income, they are classified as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to special treatment with regard to the impairment process. In addition, on financial assets classified as POCI, an effective interest rate adjusted for the loan is calculated at the date of initial recognition (so-called "credit-adjusted effective interest rate"), the identification of which must include, in the estimates of the cash flows, initial expected losses. For the application of the amortised cost, and consequent calculation of the interest, the effective interest rate corrected for the loan is applied.

The amortised cost method does not apply to hedged financial assets/liabilities for which changes in fair value relating to the risk hedged are recognised in the Profit and Loss Account. The financial instrument is, however, revalued at amortised cost in the event of termination of the hedge, at which point the previously recorded changes in *fair value* are amortised, calculating a new effective interest rate of return that considers the value of the loan adjusted by the *fair value* of the part subject to the hedge, until the expiry of the hedge originally envisaged. Moreover, as already mentioned in the paragraphs relating to financial assets and liabilities valued at amortised cost, valuation at amortised cost does not apply to financial assets/liabilities whose short duration makes the economic effect of discounting negligible, nor to receivables without a defined maturity or revoked.

A.2.19. METHODS OF DETERMINING IMPAIRMENT LOSSES

Impairment of financial assets

At each financial statement date, in accordance with IFRS 9, financial assets other than those measured at *fair value* through profit or loss are assessed to determine whether there is any evidence that the book value of the assets may not be fully recoverable. A similar analysis is also carried out for commitments to disburse funds and guarantees issued that fall within the scope of impairment pursuant to IFRS 9.

In the event that such evidence exists in accordance with the provisions of the Civil Code (so-called "evidence of impairment"), the financial assets in question - consistently, where they exist, with all the remaining assets pertaining to the same counterparty - are considered impaired and are included in stage 3. These exposures, represented by financial assets classified - in accordance with the provisions of Bank of Italy Circular 262/2005 - in the categories of non-performing loans, unlikely to pay and exposures past due by more than ninety days, must be subject to value adjustments equal to the expected losses relating to their entire residual life.

Impairment of performing financial assets

For financial assets for which there is no evidence of impairment (non-impaired financial instruments), it is necessary, instead, to verify whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition. The result of that audit implies classifying the instrument, based on the result, in two different categories (more correctly called "stages"):

- where the indicators exist, the financial asset is included in stage 2. In this case, the valuation, in accordance with international accounting standards and even in the absence of a manifest loss in value, provides for the recognition of value adjustments equal to the expected losses over the entire residual life of the financial instrument. These adjustments are reviewed at each subsequent reporting date both to periodically check their consistency with the constantly updated loss estimates and to take into account - in the event that the indicators of a "significantly increased" credit risk are no longer available - the changed forecast period for calculating the expected loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, the valuation, in accordance with the international accounting standards and even in the absence of a manifest loss of value, provides for the recognition of expected losses, for the specific financial instrument, over the following twelve months. Those adjustments are reviewed at each subsequent financial statement date both to periodically check their consistency with the constantly updated loss estimates, and to take into account - in the event of indicators of a "significantly increased" credit risk - the changed forecast period for calculating the expected loss.

With regard to the valuation of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being valued in stage 2), the elements that - pursuant to the principle and its operating articulation by the Company - constitute the main determinants to be taken into consideration are as follows:

- the change in the probability of lifetime default compared to the time of initial recognition of the financial instrument in the financial statements. It is, accordingly, an evaluation carried out by adopting a "relative" criterion, which is configured as the main "driver";
- the possible presence of an overdue one that - without prejudice to the thresholds of significance identified

by the regulations - is such as to be at least 30 days old. In this case, in other words, the credit risk of the exposure is presumed to be "significantly increased" and, accordingly, the "passage" in stage 2 follows (if the exposure was previously included in stage 1);
- the possible presence of forbearance measures, which - again on a presumption basis - entail the classification of exposures among those whose credit risk is "significantly increased" with respect to initial recognition;
- the presence, if any, of "observation" master notes, which classify exposures as "Watch lists" or those whose credit risk is "significantly increased" with respect to initial recognition.

The significant increase in credit risk ("SICR"), measured by the change in the probability of default lifetime, is calculated by comparing the relative change in the probability of default lifetime recorded between the date of first recognition of the report and the observation date (Delta PD Lifetime) with predetermined thresholds of significance. The assignment of a PD Lifetime to single relationships is carried out by bringing back the ratings for each segment both on the date of first registration and on observation. Ratings are determined on the basis of internal models, where available, or management models.

This "relative" change in PD is an indicator of the increase or decrease in credit risk during the reference period. In order to determine whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and accordingly involve the transition between stages), it is necessary to define specific thresholds. Lifetime PD increases below these thresholds are not considered significant and, consequently, do not involve the transfer of individual lines of credit/debit tranches from stage 1 to stage 2; such a transfer is, however, necessary in the presence of relative PD increases above the thresholds in question. The thresholds used were estimated on the basis of a process of simulations and optimization of predictive performance, developed using historical granular portfolio data. Specific thresholds are defined for Private, Small business and Corporate models.

The determination of the thresholds has been calibrated in order to find a correct balance between the performance indicators relating to the capacity of the thresholds themselves:
- intercept stage 2 positions before they move to default;
- identify the positions for which the return to stage 1 is synonymous with an effective improvement in creditworthiness.

Some peculiar considerations apply to the so-called "title staging. Unlike loans, in fact, for this type of exposure, buying and selling operations subsequent to the first purchase (carried out with reference to the same ISIN) can usually fall within the ordinary activity of managing positions (with the consequent need to identify a methodology to be adopted to identify sales and repayments in order to determine the residual quantities of single transactions to which to associate a credit quality/rating to the origination to be compared with that of the reporting date). In this context, it was considered that use of the "first-in-first-out" or "FIFO" method (for the reversal to the Profit and Loss Account of the ECL recorded, in the event of sales and refunds) contributes to more transparent management of the portfolio, also from the point of view of front office operators, allowing, at the same time, a continuous updating of the creditworthiness assessment on the basis of new purchases.

Once allocation of exposures to the various credit risk stages has been defined, expected losses (ECL) are calculated, at the level of single transactions or tranches of securities, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), on which appropriate corrective action is taken to ensure compliance with the specific requirements of IFRS 9.

The following definitions apply to PD, LGD and EAD:
- PD ("Probability of Default"): probability of going from performing to impaired credit status within a one-year time horizon. In models consistent with supervisory requirements, the PD factor is typically quantified through the rating. PD values are derived from the internal rating model where available, supplemented by external ratings or average segment/portfolio data;
- LGD ("Loss Given Default"): percentage of loss in the event of default, quantified through historical experience of recoveries discounted to present value on practices that have been transferred to impaired loans;
- EAD ("Exposure At Default") or credit equivalent: amount of the exposure at the time of default.

In relation to multi-period EAD, in line with the provisions of IFRS 9, reference is made to plans at amortised cost for both loans and debt securities, regardless of the related valuation methods (amortised cost or *fair value* through other comprehensive income). For commitments to disburse funds (margins), the EAD is, on the other hand, assumed to be the weighted nominal value for a specific Credit Conversion Factor (CCF).

The valuation of financial assets also reflects the best estimate of the effects of future conditions, especially economic conditions, on the basis of which PD forward looking is conditioned. In the context of IFRS 9, also on the basis of the indications of the international Regulators, information on future macroeconomic scenarios in which the Company may find itself operating and which influence the situation of debtors with reference to both the "riskiness" of migration of exposures to lower quality classes (accordingly concerning the "staging") and the recoverable amounts (accordingly concerning the determination of the expected loss on exposures) are of particular importance. The macroeconomic scenario is obtained from external info providers. Alternative improvement and worsening scenarios are determined by stressing variables in input to forecasting models.

Impairment of non-performing financial assets

Impaired loans classified as non-performing are subject to the following valuation methods:
- analytical-statistical assessment, which is adopted for exposures below certain thresholds, based on the application of specific LGD grids, to which an add-on may be added in order to take account of forward looking information, in particular that relating to the impact of future macroeconomic scenarios;
- analytical-specific valuation, which is adopted for clients with exposures above certain thresholds and is based on the depreciation percentages attributed by the manager, following specific analysis and valuation processes, to which an Add-On component can be added in order to take account of "forward looking" information, in particular that relating to the impacts of future macroeconomic scenarios (with the exception of non-performing loans with mortgage guarantees, for which the impacts of future scenarios are included through the methods of determining the "haircuts" at the value of the properties under warranty);
- inclusion of sales scenarios for assignable non-performing loans: regardless of the division of these exposures between those subject to analytical-statistical evaluation and those subject to analytical-specific evaluation (as identified above), the valuation of assignable non-performing loans also includes the additional components relating to future sales scenarios.

The assessment of unlikely to pay (UTP) defaults is also based on two different approaches:
- analytical-statistical evaluation, for cash exposures below certain thresholds, based on the application of specific statistical grids of LGD to which is added a component of Add-On in order to understand the impacts of future macroeconomic scenarios;
- analytical-specific assessment, for cash exposures above certain thresholds, based on the devaluation percentages attributed by the operator, plus an add-on component in order to take into account, also in this case, the impacts of future macroeconomic scenarios.

Impaired loans classified as past due and/or in excess of limits are, on the other hand, subject to analytical valuation on a statistical basis, regardless of the amount of cash exposure. Again, however, the adjustment defined on the basis of the LGD statistical grids is supplemented to take account of the Add-On component attributable to the effect of future macroeconomic scenarios.

Referred to the alternative recovery scenarios, related to objectives to reduce the non-performing stock held, included in business plans, and any commitments taken with Supervisory Bodies, also specifically referred to the so-called NPL Strategy, the Company considers the sale of certain portfolios is the strategy that can, under certain conditions, maximise the recovery of cash flows, also considering recovery times.

In particular, the Bank of Italy in the document "Guidelines for Italian Less Significant Banks in the Management of Impaired Loans", which refers to the document "Guidance to banks on non-performing loans" published by the SSM, asked Banks to define a strategy to achieve a progressive reduction of the same.

Further regulatory evolutions have been added to those initial indications, including the measures introduced by the European Union in the first part of the year to reduce risks connected with Non Performing Loans, aimed at calculating minimum prudential allocation levels for bad debts. Due to the overall context, the strategy to reduce aggregates through internal "work-out" had to be strengthened and flanked by other more effective measures, specifically through the sale of a bad debt unlikely to pay portfolio.

As a result, the "ordinary" scenario, which envisages a recovery strategy based on collecting the receivable typically through legal actions, mandates to recovery companies, and the realisation of mortgage guarantees, was accompanied - as a recovery strategy - by the scenario of the sale of the receivable itself. In light of this, for a defined perimeter of non-performing loans with the characteristics of assignability, in order to determine the overall expected loss of the exposures, the recoverable values based on the ordinary internal recovery process and the amounts recoverable from the sale, estimated on the basis of market valuations, have been weighted according to the share of the portfolio destined for sale, as envisaged by the NPL strategy, with respect to the total of the assignable portfolio.

In particular, the recoverable value of assignable non-performing loans was quantified as the average of (i) the "*fair value*" and (ii) the value in the event of recovery through an internal work-out - the "value in the event of collection".

It should be noted that the "collection hypothesis value" was determined according to the ordinary logic followed for the impairment of non-performing loans, i.e. on the basis of an analytical assessment for exposures above a defined threshold and on the basis of an analytical-statistical assessment for the others.

As already mentioned, it should also be noted that the financial assets purchased or originated already impaired (POCI) have particular characteristics with regard to impairment. In this regard, value adjustments equal to the ECL lifetime must be recorded for the instruments in question from the date of initial recognition and for their entire life. At each subsequent financial statement date, the amount of the lifetime ECL must accordingly be adjusted, recording in the Profit and Loss Account the amount of any change in expected losses over the life of the loan as a gain or loss due to impairment. In the light of the above, the POCI financial assets are initially entered in stage 3, without prejudice to the possibility of being subsequently moved to performing loans, on which, however, an expected loss equal to the ECL lifetime will continue to be recorded.

In addition, with regard to impaired loans, non-collectible accounting entries are derecognised/withdrawn and the remainder not yet adjusted is charged to losses, also taking into account the following cases:

- irrecoverability of the debt, resulting from certain and precise elements (such as, by way of example, unavailability and nullity of the debtor, failure to recover from securities and real estate executions, negative seizures, insolvency proceedings closed with no complete relief for the Bank, if there are no further guarantees usefully enforceable, etc.);
- assignment of credit;
- waiver of the claim, as a consequence of unilateral remission of the debt or residue against settlement contracts;
- without waiver of the receivable in the event of very marginal possibilities of recovery, even without any of the elements referred to in the previous points, in the presence of adequate valuation elements, it may be necessary to proceed with the full or partial write-off for non-recoverability of the receivable even without closure of the legal file, thus maintaining the full right to collection of the balances subject to cancellation. The write-off may only affect the portion of the credit covered by provisions.

Impairment of investments

At each financial statement date, investments are tested for impairment in order to determine whether there is objective evidence that the carrying amount of the assets in question may not be fully recoverable.

The impairment detection process involves verifying the presence of indicators of possible reductions in value and determining any write-downs. Impairment indicators can be divided into two main categories: qualitative indicators and quantitative indicators.

Among the qualitative ones, we would like to point out:

- the achievement of negative economic results or, in any case, a significant deviation from budget targets or those set out in long-term plans communicated to the market;
- the announcement/initiation of bankruptcy proceedings or restructuring plans;
- the downward revision of the rating of more than two classes;
- failure to meet the obligations of timely, full payment of the debt securities issued;
- the use of industrial policy instruments aimed at dealing with serious crises or at enabling companies to face restructuring/reorganisation processes.

Quantitative indicators include:

- the reduction of the *fair value* below the carrying amount by a significant difference percentage or on a lasting basis;
- market capitalisation lower than the book net equity of the company, in the case of securities listed on active markets, or by a book value of the investment in the separate financial statements higher than the book value in the consolidated financial statements of the net assets and goodwill of the subsidiary or by the distribution by the latter of a dividend higher than its total revenue.

The presence of impairment indicators entails the recognition of a write-down, to the extent that the recoverable value is lower than the book value, to be determined by means of a specific valuation.

The recoverable amount is the higher of *fair value* less costs of sale and value in use.

Value in use is the present value of the expected cash flows from the asset; it reflects an estimate of the expected cash flows from the asset, an estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the price that remunerates the riskiness of the asset and other factors that may influence the appreciation by market participants of the expected cash flows from the asset.

When calculating value in use, the future cash flow discounting method is used.

Impairment of other non-financial assets

Tangible fixed assets and intangible fixed assets with a finite useful life are subject to impairment testing if there is an indication that the book value of the asset can no longer be recovered. The recoverable value is determined by reference to the fair value of the tangible or intangible asset net of disposal costs or to the value in use if determinable and if it is higher than the *fair value*.

With regard to real estate, in order to verify the presence of impairment indicators, an analysis of the different scenarios of the real estate markets is carried out annually. If these analyses reveal indicators of impairment, an expert opinion is prepared on the properties for which this presence has been verified.

For other tangible and intangible fixed assets (other than those recorded as a result of aggregation transactions) it is assumed that the book value normally corresponds to the value in use, since it is determined by an amortisation process estimated on the basis of the actual contribution of the asset to the production process and the determination of a *fair value* is extremely uncertain. The two values differ, giving rise to impairment, in the event of damage, exit from the production process or other similar non-recurring circumstances.

Intangible fixed assets recognised as a result of acquisitions and in accordance with IFRS 3 at each financial statement date are subject to an impairment test, in order to verify whether there is objective evidence that the asset may be impaired.

Intangible fixed assets with a finite useful life are subject to a new valuation process to verify the recoverability of the values recorded in the financial statements if there are indicators of impairment. The recoverable value is determined on the basis of the value in use, or the present value, estimated using a rate representing the time value of money and the specific risks of the asset, the profit margins generated by the relationships existing at the valuation date over a time horizon expressing the expected residual duration of the same.

Intangible fixed assets with an indefinite life, represented by goodwill, which do not have independent cash flows, are subject to an annual assessment of the adequacy of the value recorded among the assets with reference to the Cash Generating Unit (CGU) to which the values were attributed during the business combination transactions. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and its recoverable amount, represented by the higher of its *fair value*, net of any costs of sale, and its value in use.

The value in use of a CGU is determined by estimating the present value of the future cash flows expected to be generated by the CGU. These cash flows are determined using the latest available public company plan or, failing that, through the formulation of an internal anticipatory plan by management or through other available external evidence. Normally, the analytical forecast period covers a maximum period of five years. The flow of the last analytical forecast year is projected in perpetuity, through an appropriate growth rate "g" for the purposes of the so-called "Terminal value". The "g" rate is determined assuming as growth factor the lower of the average growth rate recorded in the analytical forecast period and the average development rate of the Gross Domestic Product in the countries where the flows are generated.

In determining value in use, cash flows must be discounted at a rate that reflects current valuations of the time value of money and the risks specific to the asset. In particular, the discount rates used incorporate the risk free component and equity related risk premiums observed over a sufficiently long period of time to reflect different market conditions and economic cycles.

A.2.20. Business combinations

IFRS 3 is the accounting standard of reference for business combinations.

The transfer of control of a business (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 have been transferred when the investor is exposed to, or has rights over, variable returns arising from his relationship with the investee and at the same time has the ability to affect returns by exercising his power over that entity.

IFRS 3 requires a purchaser to be identified for all aggregation transactions. The latter will be identified as the entity that obtains control over another entity or group of activities. If it is not possible to identify a controlling party according to the definition of control described above, as for example in the case of transactions for the exchange of equity interests, the identification of the purchaser must be made using other factors such as: the entity whose *fair value* is significantly higher, the entity that may pay a cash consideration, the entity that issues the new shares.

The acquisition, and accordingly the first consolidation of the acquired entity, will be accounted for on the date on which the purchaser effectively obtains control over the acquired undertaking or assets. When the transaction takes place through a single exchange transaction, the exchange date normally coincides with the acquisition date. However, it is always necessary to check whether there are any agreements between the parties which 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 exchange, of the assets sold, the liabilities incurred or assumed and the equity instruments issued by the purchaser in exchange for control.

In transactions involving payment in cash (or when payment is envisaged by means of financial instruments similar to cash), the price is the agreed consideration, which may be discounted if an instalment payment is envisaged for a period longer than the short term; if payment is made by means of an instrument other than cash, i.e. by means of 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 capital issue transaction.

The consideration for the business combination at the acquisition date includes adjustments subject to future events, if provided for in the agreements and only when they are probable, can be reliably determined and are realised within twelve months of the date of acquisition of control, while compensation for reduction in the value of the assets used is not considered because it is already considered either in the fair value of the equity instruments or as a reduction in the premium or an increase in the discount on the initial issue in the case of the issue of debt instruments.

These include, for example, professional fees paid to auditors, experts, legal advisers, costs for valuations and auditing of accounts, preparation of information documents required by law, as well as consultancy fees incurred to identify potential targets to be acquired if it is contractually established that payment will be made only in the event of a positive outcome of the combination, and the costs of registering and issuing debt securities or shares.

The purchaser will account for acquisition-related costs as expenses in the periods in which those costs are incurred and the services are received, except for the costs of issuing equity or debt securities which will be recognised in accordance with IAS 32 and IFRS 9.

Business combinations are accounted for using the “acquisition method”, whereby the identifiable assets acquired (including any intangible fixed assets previously not recognised by the acquired company) and the identifiable liabilities assumed (including potential liabilities) are recognised at their fair values at the acquisition date.

In addition, for each business combination, any minority interests in the acquired company may be recorded at fair value (with a consequent increase in the consideration transferred) or in proportion to the share of the minority interest in the identifiable net assets of the acquired companies.

If control is achieved through subsequent purchases, the purchaser must recalculate its previous interest in the acquired company at its fair value at the acquisition date and recognise any difference from the previous carrying amount in the Profit and Loss Account.

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 purchaser), possibly integrated by the value of the minority interests (determined as above) and by the fair value of the interests already held by the purchaser, and the *fair value* of the assets and liabilities acquired must be recorded as goodwill; if, on the other hand, the latter are higher than the sum of the consideration, the minority interests and the fair value of the shares already held, the difference must be recorded in the Profit and Loss Account.

The accounting for the combination transaction may be provisionally completed by the end of the financial year in which the combination is realised and must be completed within twelve months of the acquisition date.

Entries of further shareholdings in companies already controlled are considered, in accordance with IFRS 10, as a capital transaction, i.e. transactions with shareholders acting in their capacity as shareholders. Accordingly, the differences between the acquisition costs and the book value of the acquired minority interests are entered in the equity; likewise, the sales of minority interests without loss of control do not generate profits/losses in the Profit and Loss Account but changes in the equity.

Transactions aimed at controlling one or more companies that do not constitute a business activity or at controlling on a transitory basis do not constitute business combinations, or, finally, if the business combination is carried out for reorganisation purposes, accordingly between two or more companies or business activities already controlled, and that does not involve a change in the control structures regardless of the percentage of third party rights before and after the transaction (so-called business combinations of companies subject to common control). These operations are considered to lack economic substance. Accordingly, in the absence of specific indications provided for by IAS/ IFRS and in compliance with the assumptions of IAS 8, which requires that - in the absence of a specific principle - the company must make use of its own judgement in applying an accounting principle that provides relevant, reliable and prudent information and that reflects the economic substance of the transaction, they are accounted for safeguarding the continuity of the values of the acquired in the financial statements of the purchaser.

Mergers are part of transactions between companies, representing the most complete form of business combination, as they involve both legal and economic unification of the parties involved.

Mergers, whether they be specific, i.e. by the creation of a new legal entity or by "incorporation" with the confluence of a company into another existing company, are treated according to the criteria set out above, in particular:

- if the transaction involves the transfer of control of an entity, it is treated as a combination transaction in accordance with 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.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

No reclassifications of financial assets were made in the financial year 2021.

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

No reclassifications of financial assets were made in the financial year 2021.

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

No reclassifications of financial assets were made in the financial year 2021.

A.4 FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

In terms of financial instrument classification and measurement rules, IFRS 9 indicates that an instrument is measured at *fair value* based on the business model adopted or if it, based on the contractual characteristics of its financial flows, does not pass the SPPI test (Solely Payment of Principal and Interest).

Paragraph 24 of IFRS 13 defines *fair value* as the amount that could be received to sell an asset, or paid to transfer a liability, in an ordinary transaction between market counterparts, in the principal market.

In the case of financial instruments listed on active markets, the *fair value* is determined on the basis of the official listings of the main market, or the most advantageous, to which the Bank has access ("Mark-to-Market"). A market is active if the transactions relating to the asset or liability occur with a frequency and volume sufficient to provide information useful for the determination of the price on an ongoing basis.

In the absence of a listing on an active market or in the absence of regular functioning of the market, i.e. when the market does not have a sufficient and continuous number of transactions, bid-ask spreads and volatility are not sufficiently contained, valuation models fed by market input are used, in particular:

- valuation of listed instruments with similar characteristics;
- discounted cash flow calculations;
- option pricing models, values recorded in recent comparable transactions, prudentially adjusted to take account of the illiquidity of certain market data and other risks associated with specific transactions (reputational, replacement, etc.).

In the absence of market input, valuation models will be based on data estimated internally.

The *fair value* is reported according to a hierarchy based on the quality of the input parameters used to determine it.

The *fair value* hierarchy, in line with IFRS 13 and repeated by Bank of Italy Circular no. 262, gives decreasing priority to valuations based on different market parameters: the highest priority (Level 1) is assigned to valuations based on prices quoted on an active market for identical assets or liabilities; the lowest priority (Level 3) is assigned to those deriving significantly from parameters that cannot be observed.

The *fair value* hierarchy level associated with assets and liabilities is defined as the minimum level of all significant inputs used. The following levels can be distinguished:

- Level 1: listings (unique and without adjustment) recorded on an active market for the single financial instrument being valued.
- Level 2: inputs other than the quoted prices referred to in the previous point, which are observable directly (prices) or indirectly (derived from prices) on the market. In this case, the *fair value* is measured through a comparable approach or through use of a pricing model that does not leave too large a margin of subjectivity and normally used by other financial operators.
- Level 3: significant inputs not observable on the market and/or complex pricing models. In this case, the *fair value* is determined on the assumption of future cash flows that could lead to different estimates for the same financial instrument between different valuers.

The Bank maximises the use of Level 1 market prices, or when not available, models with observable inputs (Level 2). In the case of Level 3 instruments, subjective parameters and judgements based on experience are used and consequently adjustments to the valuations may be made taking into account the bid-ask spread, liquidity or counterpart risk, as well as the type of valuation model adopted.

A.4.1 Fair Value Levels 2 and 3: measurement techniques and inputs used

For assets and liabilities measured at *fair value* on a recurring basis, for which prices directly observable on active markets are not available, fair value is determined on the basis of valuation models or on the basis of prices observed for financial instruments with similar characteristics. These instruments are those belonging to *fair value* classes 2 and 3.

To measure the fair value of level 2 instruments, a model for discounting expected future cash flows is used; this mainly uses the *risk-free* curve (in its various forms, i.e. based on swap rates versus Euribor 6 months or 3 months and other inputs such as swaps versus eonia with the same risk-free curve) directly observable on the market.

In particular, in the case of instruments denominated in euros, three risk-free curves are concretely: a curve for simple *discounting* (based in part on 3 months or on 3 months Euribor *futures*, in part on 6 months for medium-long maturities), and another 2 curves (one on 3 months and one on 6 months) for the calculation of forwards in securities with 3 months Euribor indexed rate or 6 months Euribor rate.

The discounting calculation also applies the credit spread, quantified on the basis of prices directly observable on the market (even if not on the stock exchange) and provided by external *contributors*. If no prices are available, it is quantified on the basis of comparables, i.e. by analogy with homogeneous securities in terms of duration and credit quality of the issuer, as well as the sector to which they belong.

The following table provides a summary of the main types of instruments in place, with evidence of the relative evaluation models and the main inputs:

Category of financial instruments	Product	Evaluation model	Input of measurement models
Debt securities	Government securities, corporate bonds	Discounting of flows expected using market parameters, corrected for the issuer risk. For structured securities the optional component is also measured.	Interest rate curves, credit spread communicated by contributors, credit spread from comparables
Unquoted equity securities	Holding fees	Method of transactions observed directly on the same instrument or, in the absence thereof, on similar instruments. Alternatively method of market multiples of comparable companies. In the alternative, financial, revenue and equity valuation methods.	Price data provided by contributors, latest available financial statements
Investments in UCIs	Hedge funds, private equity funds, real estate funds	NAV made available by the fund administrator or the management company.	n/a
OTC derivatives	Interest rate derivatives - SWAP	Discounting of expected flows	Interest rate curves
	Financial derivatives on interest rates - Cap-floor	Model of Black	Volatility matrices, risk free rates

Securities classified level 3 are typically structured securities; in the specific case of the portfolio owned by the institution, these are CMS indexed securities (“*constant maturity swap*”) or structured *inflation linked* securities or securities for which the quantification of the *credit spread* is not practicable with the qualitative level mentioned above.

In the case of CMS securities, it should be noted that, in theory, the *forward* rates themselves would be directly observable on the market (implicit in the valuations): however, it is considered that the quality of these *forward* rates cannot be compared with the quality of the 3-month or 6-month Euribor *forward* rate widely used by the market to price similar securities indexed to 3 or 6 months respectively.

In the pricing phase of CMS securities, accordingly, these *forwards* are used, despite the critical issues highlighted above, without the application of convexity *adjustment* and resorting for the rest (discounting curve and credit spread) to the same operating methods mentioned for Level 2 securities.

For structured, *inflation linked* securities indexed to the Euribor and inflation, *forward* curves are used for the Euribor as well as *forward* inflation curves based on the swap rate curves of the inflation itself.

For level 3 securities, the*credit spread* is defined on a case-by-case basis by referring to any external contributions or by converting the results of the creditworthiness analysis based on the latest available financial statements into credit spreads.

With reference to the calculation of the *Credit Value Adjustment* (“CVA"), it should be noted that the calculation determines the future credit exposure, taking into account the probability that in the future the current value of the contract, if positive, may increase or, if negative, may turn into a credit position. This probability is linked to the volatility of the underlying market factors and to the residual duration of the contract. Future credit exposure is determined with reference to all contracts, regardless of the portfolio to which they are allocated - with both positive and negative *fair values* - by multiplying the nominal value of each contract by a percentage determined on the basis of the type of contract and the residual duration of the transactions.

As at 31st December 2021, exposure at default (“EAD”) in derivatives was essentially nil. The derivative contracts in place are in fact very small: the only exposure in place relates to a cap contract on interest rates for a notional amount of only €20 million.

Measurement at *fair value* of loans is by calculating the current value of future expected cash flows using an appropriate credit spread, identified from the following sources:

- contribution funding on the market;
- rating/specific funding market sector curves;

- contribution securities of the same issuer;
- credit default swaps on the same reference entity.

In any case considering the different seniority of the instrument to be priced related to the issuer's debt structure.
In the loan pricing spread application stage, if the 'fair' credit curve estimated should not repeat the same characteristics as the instrument, corrective factors would be considered.
Moreover, if reference is made to curves created through bonds to calculate the loan credit spread, a Loan – Bond base will need to be applied, to capture any different market structure and the different technical form.
order to consider the premium requested by the market for illiquid and/or structured instruments, some adjustments are applied to the credit spread also based on specific debtor solvency information.
The *fair value* of real estate investments held for investment purposes is mainly determined by external valuations, the reference point for which is the current prices for similar assets (value per square metre, prices of similar transactions).
The *fair value* obtained is classified at level 3 in the *fair value* hierarchy.

A.4.2 Measurement processes and sensitivity

Valuation techniques are applied by the Risk Management Service.
The Risk Management Service, hierarchically independent of the *front-office* function, checks prices at least on a monthly basis.
The validation activity consists in verifying the theoretical correctness of the chosen evaluation model as well as the autonomous repricing of single instruments.
The Risk Management Service also validates the newly introduced valuation models, also in relation to acquisition of new financial instruments.
Among the tools used by the Risk Management Service is the ICVS function for the construction of risk-free curves. The Risk Management Service also validates, on a daily basis, similar curves adopted by the Investment Service.
In addition, the BVAL (Bloomberg Valuation) tool is used to directly validate the prices themselves. These Bloomberg prices have the following characteristics:

- - in the case of liquid securities, BVAL prices can be considered as a weighted average of the existing prices provided by the different *contributors* (in addition, of course, to the stock exchange itself, in the case of a security listed on a regulated market);
- in the cases in which the Stock is not liquid, Bloomberg provides to exploit the contained information in Stock of analogous characteristics, but liquid (and accordingly endowed with reliable prices), in order to correctly price the illiquid Stock. In fact, where existing, it uses the few "liquid" prices of the stock to compare the historical trend of the spread of the stock itself with the analogous of securities belonging to the same *peer group* (defined on a sector basis, duration and cds): by leveraging on simple linear regressions, it then reconstructs the spread and the price at the new date;
- when instead the security to be priced is completely, or almost, devoid of significant prices, then BVAL falls back on the direct use of credit proxies of the security to derive either a par coupon curve (using issues of identical creditworthiness) or a *spread curve* (using the data obtained in the previous step or, where possible, issues of the same issuer of the target security), with which then to price the bond.

In the presence of highly complex structured securities (e.g. "CMS delta"), in relation to which level 2 prices are not available (such as the prices offered by Bloomberg contributors), the Risk Management Service makes an estimate based on Monte Carlo simulations in order to provide adequate validation of these market values.
With regard to the sensitivity analysis to be carried out on the "not directly observable" inputs relating to the valuations of level 3 securities, given the above with regard to the CMS indexed securities and the small number of exposures to structured securities, sensitivity analyses were carried out on level 3 debt instruments issued by unlisted entities.
In the latter case, the impact of changes in the input not directly observable, represented by the issuer's credit spread, is quantified (which for securities of more "liquid" issuers, on the contrary, can be determined with reasonable effectiveness by using similar securities or *comparables* directly observable on the market).

A.4.3 Fair Value hierarchy

The main factors contributing to transfers between *fair value* levels include changes in market conditions, refinements in valuation models or unobservable inputs. The passage of an instrument from Level 1 to Level 2 and vice versa mainly results from the loss of significance of the price expressed by the active market of reference for the instrument.

The degree of significance of the input data, in particular of the weight that the non-observable ones assume with respect to the observable ones, determines instead the passage from Level 2 to Level 3 or vice versa. No instruments were reclassified during the year.

A.4.4 Other information

As at 31st December 2021, in relation to the requirements of IFRS 13, paragraphs 51, 93 (i) and 96, the following should be noted:

- recurring and non-recurring fair value valuations on the basis of maximum and best use relate to certain properties acquired and for which the Bank has not yet begun operations because, as a rule, the relative planning and operational valuations are still in progress;
- the possibility of measuring fair value at the level of total portfolio exposure was not used, in order to take into account the offsetting of credit risk and market risk of a given group of financial assets or liabilities.

QUANTITATIVE INFORMATION

A.4.5 Fair Value hierarchy

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

(thousands of €)		31.12.2021			31.12.2020		
Financial assets/liabilities measured at fair value		**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1.	Financial assets currency at fair value through profit or loss						
	a) financial assets held for trading	6	1,635	0	325	146	1
	b) financial assets designated at fair value	-	-	-	-	-	-
	c) other financial assets that must be measured at fair value	-	92,045	29,123	-	103,584	34,043
2.	Financial assets measured at fair value with impact on comprehensive income	459,588	210,557	10,776	422,871	165,511	9,091
3.	Hedging derivatives	-	-	-	-	-	-
4.	Tangible fixed assets	-	-	-	-	-	-
5.	Intangible fixed assets	-	-	-	-	-	-
	Total	**459,594**	**304,237**	**39,899**	**423,196**	**269,241**	**43,135**
1.	Financial liabilities held for trading	-	60	-	-	1,783	-
2.	Financial liabilities designated at fair value	-	-	-	-	-	-
3.	Hedging derivatives	-	-	-	-	-	-
	Total	**-**	**60**	**-**	**-**	**1,783**	**-**

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

Financial assets measured at fair value on a recurring basis

Financial assets valued on the basis of prices derived from active markets (Level 1) or determined on the basis of observable market parameters (Level 2) represent 95.0% of the carrying amount of financial assets measured at *fair value* on a recurring basis.

Instruments measured significantly on the basis of parameters that cannot be observed on the market (Level 3) represent a marginal share, equal to 5.0%, of total assets measured at *fair value* on a recurring basis, and are represented by a limited number of minority equity investments measured on the basis of internal models classified as financial assets measured at *fair value* through other comprehensive income and by loans classified at *fair value* through Profit and Loss that have not passed the SPPI test, for which *fair value* is measured using internal models.

Financial assets held for trading consist mainly of debt securities held for trading; these are over-the-counter (OTC) contracts whose valuation is carried out using valuation models that significantly use parameters that can be observed on the market or drawn from independent sources (Level 2).

Financial liabilities measured at fair value on a recurring basis

Financial liabilities held for trading are represented by derivative instruments mainly for trading purposes, the *fair value* of which is obtained through valuation techniques that use observable market parameters (Level 2).

Transfers between fair value levels (Level 1 and Level 2)

No transfers of assets or liabilities measured at *fair value* from level 2 to level 1 or transfers of financial assets or liabilities measured at *fair value* from level 1 to level 2 were recorded in 2021.

A.4.5.2. Annual changes in assets measured at fair value on a recurring basis (level 3)

		Financial assets at *fair value* with impact on total on Profit and loss							
		Total	of which: a) financial assets held for trading	of which: b) financial assets designat-ed as at *fair value*	of which: c) other financial assets that must be measured at *fair value*	financial assets desig-nated at *fair value* through other compre-hensive income	Hedging deriva-tives	Tangible fixed assets	Intangible assets
(thousands of €)									
1.	**Opening balance**	**34,044**	**1**	**-**	**34,043**	**9,091**	**-**	**-**	**-**
2.	**Increases**	**2,014**	**-**	**-**	**2,014**	**1,686**	**-**	**-**	**-**
2.1	Purchasing	905	-	-	905	9	-	-	-
2.2	Profits attributed to:	27	-	-	27	1,677	-	-	-
2.2.1	Profit and Loss Account	27	-	-	27	-	-	-	-
	- of which capital gains	27	-	-	27	-	-	-	-
2.2.2	Shareholders' Equity	-	X	X	X	1,677	-	-	-
2.3	Transfers from other levels	-	-	-	-	-	-	-	-
2.4	Other increases	1,082	-	-	1,082		-	-	-
3.	**Decreases**	**6,935**	**1**	**-**	**6,934**	**-**	**-**	**-**	**-**
3.1	Sales	653	-	-	653	-	-	-	-
3.2	Refunds	1,572	-	-	1,572	-	-	-	-
3.3	Losses attributed to:	4,129	-	-	4,129	-	-	-	-
3.3.1	Profit and Loss Account	4,129	-	-	4,129	-	-	-	-
	- of which capital losses	4,129	-	-	4,129	-	-	-	-
3.3.2	Shareholders' Equity	-	X	X	X	-	-	-	-
3.4	Transfers to other levels	-	-	-	-	-	-	-	-
3.5	Other decreases	581	1	-	580	-	-	-	-
4.	**Closing inventories**	**29,123**	**-**	**-**	**29,123**	**10,777**	**-**	**-**	**-**

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

At the financial statement date, there were no financial liabilities measured at level 3 *fair value* on a recurring basis.

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

(thousands of €)	31.12.2021				31.12.2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	11,934,943	2,765,343	149,878	9,075,151	10,327,114	2,311,547	72,930	8,553,331
2. Tangible assets held for investment purposes	11,197	-	-	16,218	13,514	-	-	18,365
3. Non-current assets and asset groups held for sale	4,408	-	-	-	15,544	-	-	-
Total	**11,950,548**	**2,765,343**	**149,878**	**9,091,369**	**10,356,172**	**2,311,547**	**72,930**	**8,571,696**
1. Financial liabilities valued at amortised cost	12,138,100	-	305,315	11,727,407	10,552,432	-	349,089	9,889,127
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**12,138,100**	**-**	**305,315**	**11,727,407**	**10,552,432**	**-**	**349,089**	**9,889,127**

Key		
BV	=	Book value
L1	=	Level 1
L2	=	Level 2
L3	=	Level 3

Assets and liabilities not measured at fair value

For "Non-current assets held for sale and disposal groups held for sale" and "Liabilities associated with assets held for sale", the *fair value* should only be indicated in cases where the amount of the valuation corresponds to the *fair value* or the *fair value* net of costs of sale (as it is lower than the cost).

Assets and liabilities measured at fair value on a non-recurring basis

For "Non-current assets held for sale and disposal groups held for sale" and "Liabilities associated with assets held for sale", the *fair value* should only be indicated in cases where the amount of the valuation corresponds to the *fair value* or the *fair value* net of costs of sale (as it is lower than the cost).

It should be noted that at 31st December 2021 there were assets measured at *fair value* on a non-recurring basis amounting to 4.4 million, relating to properties acquired as part of "foreclosure" transactions.

As at 31st December 2021 there were no liabilities measured at *fair value* on a non-recurring basis.

A.5 INFORMATION ON THE SO-CALLED "DAY ONE PROFIT/LOSS"

On the basis of IFRS 7, paragraph 28, we need to provide evidence of the amount of the "*Day One Profit or Loss*" recorded in the Profit and Loss Account as at 31st December 2021, as well as a reconciliation with the initial balance. "*Day One Profit or Loss*" means the difference between the *fair value*of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined at that date using a valuation technique.

In this regard, it should be noted that there are no cases that should be disclosed in this section.

PART B INFORMATION OF THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

(thousands of €)		31.12.2021	31.12.2020
a)	Cash	88,876	79,124
b)	Current accounts and on demand deposits at Central banks	0	0
b)	Current accounts and on demand deposits at banks	3,473	4,534
	Total	**92,349**	**83,658**

The item consists of cash and cash equivalents.

Section 2 FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON THE INCOME STATEMENT - ITEM 20

2.1 Financial assets held for trading: breakdown by type

(thousands of €)	31.12.2021			31.12.2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	**-**	**1,509**	**-**	**320**	**-**	**1**
1.1 Structured Securities	-	-	-	-	-	-
1.2 Other debt securities	-	1,509	-	320	-	1
2. Equity securities	6	-	-	5	-	-
3. UCI units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**6**	**1,509**	**-**	**325**	**-**	**1**
B. Derivative instruments						
1. Financial derivatives	-	126	-	-	146	-
1.1 held for trading	-	126	-	-	146	-
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**126**	**-**	**-**	**146**	**-**
Total (A+B)	**6**	**1,635**	**-**	**325**	**146**	**1**

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

(thousands of €)	31.12.2021	31.12.2020
A. CASH ASSETS		
1. Debt securities	**1,509**	**321**
a) Central Banks	-	-
b) Public Administration	-	320
c) Banks	-	-
d) Other finance companies	-	-
of which: insurance companies		
e) Non-finance companies	1,509	1
2. Equity securities	**6**	**5**
a) Banks	6	5
b) Other finance companies:	-	-
of which: insurance companies	-	-
c) Non-finance companies	-	-
d) Other issuers	-	-
3. UCI units	**-**	**-**
4. Financing	**-**	**-**
a) Central Banks	-	-
b) Public Administration	-	-
c) Banks	-	-
d) Other finance companies	-	-
of which: insurance companies	-	-
e) Non-finance companies	-	-
f) Households	-	-
Total A	**1,515**	**326**
B. DERIVATIVE INSTRUMENTS		
a) Central counterparts	-	-
b) Other	126	146
Total B	**126**	**146**
Total (A+B)	**1,641**	**472**

2.3 Financial assets measured at fair value: breakdown by type of product

At the reporting date there were no financial assets designated at *fair value*.

2.4 Financial assets measured at fair value: breakdown by debtor/issuer

At the reporting date there were no financial assets designated at *fair value*.

2.5 Other financial assets compulsorily measured at fair value: breakdown by type of product

(thousands of €)	31.12.2021			31.12.2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured securities	-	-		-	-	
1.2 Other debt securities	-	-	36	-	-	448
2. Equity securities	**-**	**-**	**-**	**-**	**-**	**-**
3. UCI units	**-**	**46,999**	**8**	**-**	**48,327**	**9**
4. Financing	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	45,046	29,079	-	55,257	33,586
Total A	**-**	**92,045**	**29,123**	**-**	**103,584**	**34,043**

2.6 Other financial assets compulsorily measured at fair value: breakdown by borrower/issuer

(thousands of €)	31.12.2021	31.12.2020
1. Equity securities	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-finance companies	-	-
2. Debt securities	**36**	**448**
a) Central banks	-	-
b) Public authorities:	-	-
c) Banks	-	-
d) Other finance companies	36	448
- of which: insurance companies	-	-
e) Non-finance companies	-	-
3. UCI units	**47,008**	**48,336**
4. Financing	**74,124**	**88,843**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other finance companies	45,045	55,257
- of which: insurance companies	45,045	55,257
e) Non-finance companies	28,445	32,954
f) Households	634	632
Total	**121,168**	**137,627**

Section 3 FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON COMPREHENSIVE INCOME - ITEM 30

3.1 Financial assets measured at fair value with impact on comprehensive income: breakdown by type of product

(thousands of €)	31.12.2021			31.12.2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**459,588**	**160,556**	**-**	**422,871**	**165,511**	**-**
1.1 Structured securities	-	20,702	-	-	17,836	-
1.2 Other debt securities	459,588	139,854	-	422,871	147,675	-
2. Equity securities	**-**	**50,000**	**10,777**	**-**	**-**	**9,091**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**
Total	**459,588**	**210,556**	**10,777**	**422,871**	**165,511**	**9,091**

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

(thousands of €)	31.12.2021	31.12.2020
1. Debt securities	**620,144**	**588,383**
a) Central Banks	-	-
b) Public administration	460,683	423,988
c) Banks	115,452	117,792
d) Other finance companies	36,566	43,047
- of which: insurance companies	-	-
d) Non-finance companies	7,443	3,556
2. Equity securities	**60,777**	**9,090**
a) Banks	54,196	2,519
b) Other issuers:	6,581	6,571
- other finance companies	2,865	2,856
of which insurance companies	1,155	1,155
- non-finance companies	3,548	3,548
- other	168	167
3. Financing	**-**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other finance companies	-	-
- of which insurance companies	-	-
e) Non-finance companies	-	-
f) Households	-	-
Total	**680,921**	**597,473**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total value adjustments

	Gross value				Overall value adjustments			
	First stage	of which: instru-ments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	**Overall partial write-offs ***
(thousands of €)								
Debt securities	620,144	-	-	-	(233)	-	-	-
Financing	-	-	-	-	-	-	-	-
Total as at 31.12.2021	**620,144**	**-**	**-**	**-**	**(233)**	**-**	**-**	**-**
Total as at 31.12.2020	**588,382**	**-**	**-**	**-**	**(28)**	**-**	**-**	**-**
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

3.3a Financial assets measured at fair value through other comprehensive income Covid-19 support: gross value and total value adjustments

At the balance sheet date, as well as at the date of the previous year's financial statements, there were no financial assets measured at *fair value* with an impact on overall profitability subject to Covid-19 support measures.

Section 4 FINANCIAL ASSETS AT AMORTISED COST - ITEM 40

4.1 Financial assets measured at amortised cost: breakdown of loans to banks by type

	Total as at 31.12.2021						Total as at 31.12.2020					
	Book value			Fair value			Book value			Fair value		
Transaction type/Values *(thousands of €)*	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. Loans to Central Banks	**1,597,646**	**-**	**-**	**-**	**-**	**1,597,646**	**690,133**	**-**	**-**	**-**	**-**	**690,133**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	1,597,646	-	-	X	X	X	690,133	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and advances to banks	**50,036**	**-**	**-**	**-**	**50,522**	**50**	**29,013**	**-**	**-**	**-**	**22,651**	**6,800**
1. Financing	50	-	-	-	-	50	6,800	-	-	-	-	6,800
1.1. Current accounts	-	-	-	X	X	X	6,750	-	-	X	X	X
1.2. Term deposits	50	-	-	X	X	X	50	-	-	X	X	X
1.3. Other loans:	-	-	-	X	X	X	-	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Loans for leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	-	-	-	X	X	X	-	-	-	X	X	X
2. Debt securities	49,986	-	-	-	50,522	-	22,213	-	-	-	22,651	-
2.1. Structured securities	1,000	-	-	-	996	-	-	-	-	-	-	-
2.2. Other debt securities	48,986	-	-	-	49,525	-	22,213	-	-	-	22,651	-
Total	**1,647,682**	**-**	**-**	**-**	**50,522**	**1,597,696**	**719,146**	**-**	**-**	**-**	**22,651**	**696,933**

Key

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

4.2 *Financial assets measured at amortised cost: breakdown of loans to customers by type*

Transaction type/Values	Total as at 31.12.2021						Total as at 31.12.2020					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or origi-nated	L1	L2	L3
(thousands of €)												
1. Financing	**7,178,554**	**205,937**	**-**	**-**	**-**	**7,384,492**	**7,063,681**	**217,739**	**304**	**-**	**-**	**7,755,908**
1.1. Current accounts	757,266	53,232	-	X	X	X	817,414	71,159	25	X	X	X
1.2. Asset repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	5,813,084	149,726	-	X	X	X	5,656,011	144,548	262	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	106,051	1,098	-	X	X	X	122,010	1,250	7	X	X	X
	-	-	-	X	X	X	-	-	-	X	X	X
1.5. Loans for leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	502,153	1,881	-	X	X	X	468,246	782	10	X	X	X
2. Debt securities	**2,902,770**	**-**	**-**	**2,765,343**	**99,356**	**92,964**	**2,326,548**	**-**	**-**	**2,311,547**	**50,279**	**100,490**
2.1. Structured securities	22,001	-	-	-	4,991	17,126	13,387	-	-	-	-	13,523
2.2. Other debt securities	2,880,769	-	-	2,765,343	94,365	75,838	2,313,161	-	-	2,311,547	50,279	86,967
Total	**10,081,324**	**205,937**	**-**	**2,765,343**	**99,356**	**7,477,456**	**9,390,229**	**217,739**	**304**	**2,311,547**	**50,279**	**7,856,398**

4.3 Financial assets measured at amortised cost: breakdown of loans debtor/issuer to customers

Transaction type/Values	Total as at 31.12.2021			Total as at 31.12.2020		
	First and second stage	Third stage	of which: impaired acquired or originated	First and second stage	Third stage	of which: impaired acquired or originated
(thousands of €)						
1. Debt securities	**2,902,770**	**-**	**-**	**2,326,547**	**-**	**-**
a) Public Administration	2,718,568	-	-	2,187,624	-	-
b) Other financial companies	89,102	-	-	43,374	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	95,100	-	-	95,549	-	-
2. Loans to:	**7,178,554**	**205,937**	**-**	**7,063,683**	**217,738**	**304**
a) Public Administration	23,839	-	-	26,619	-	-
b) Other financial companies	223,090	121	-	167,742	694	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	3,423,095	142,215	-	3,472,570	150,793	24
d) Households	3,508,530	63,601	-	3,396,752	66,251	280
Total	**10,081,324**	**205,937**	**-**	**9,390,230**	**217,738**	**304**

4.4 Financial assets measured at amortised cost: gross value and total adjustments

	Gross value					Overall value adjustments				**Overall partial write-offs ***
	First stage	of which: instru-ments with low credit risk	Second stage	Third stage	Impaired acquired or origi-nated	First stage	Second stage	Third stage	Impaired acquired or origi-nated	
(thousands of €)										
Debt securities	2,953,967	-	1,050	-	-	1,211	1,050	-	-	-
Financing	7,953,588	-	911,510	448,001	-	36,453	52,396	242,063	-	13,822
Total as at 31.12.2021	**10,907,555**	**-**	**912,560**	**448,001**	**-**	**37,664**	**53,446**	**242,063**	**-**	**13,822**
Total as at 31.12.2020	**8,153,613**	**-**	**795,679**	**555,044**	**-**	**25,531**	**33,884**	**295,455**	**-**	**18,286**
of which: impaired financial assets ac-quired or originated	X	X	-	-	-	X	-	-	-	-

4.4a Loans valued at amortised cost subject to Covid-19 support measures: gross value and total value adjustments

	Gross value					Overall value adjustments				
	First stage	of which: instruments with low credit risk	Second stage	Third stage	Impaired acquired or originated	First stage	Second stage	Third stage	Impaired acquired or originated	**Overall partial write-offs ***
(thousands of €)										
1. Loans subject to forbearance measures compliant with GL	52,762	-	15,872	421	-	303	638	112	-	-
2. Loans subject to moratorium measures in place which are no longer compliant with GL and not assessed as being granted	-	-	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-
4. New loans	601,475	-	45,211	5,873	-	4,026	2,547	1,645	-	-
Total as at 31.12.2021	**654,237**	**-**	**61,083**	**6,294**	**-**	**4,329**	**3,185**	**1,757**	**-**	**-**
Total as at 31.12.2020	**1,748,345**	**-**	**159,068**	**14,458**	**-**	**14,205**	**18,399**	**4,059**	**-**	**-**

Section 5 HEDGING DERIVATIVES - ITEM 50

5.1 Hedging derivatives: breakdown by type of hedge and levels

There were no hedging derivatives at the reporting date.

5.2 Hedging derivatives: breakdown by hedged portfolios and by type of hedge

There were no hedging derivatives at the reporting date.

Section 6 VALUE ADJUSTMENT OF MACRO-HEDGED FINANCIAL ASSETS - ITEM 60

6.1 Adjustments in value of the hedged assets: breakdown by hedged portfolios

At the reporting date there were no financial assets subject to macro hedging.

Section 7 EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on shareholdings

Name	Location	Investment %	Voting rights %
A. Wholly controlled subsidiaries			
1. Voba Invest S.r.l. in liquidation	Bolzano	100.00%	100.00%
2. Valpolicella Alta Società Agricola S.r.l.	Bolzano	100.00%	100.00%
3. Quartiere Brizzi S.r.l.	Chienes	100.00%	100.00%
B. Jointly controlled subsidiaries			
C. Companies subject to significant influence			
1. Casa di cura Villa S. Anna S.r.l.	Merano	35.00%	35.00%
2. Tre S.r.l.	Trento	30.00%	30.00%
3. Voba CB S.r.l.	Conegliano (TV)	60.00%	60.00%
4. Verona Green Living	Bolzano	49.00%	49.00%

7.2 Significant equity investments: book value, fair value and dividends received

The company had no significant interests at the reporting date.

7.3 Significant equity investments: accounting information

The company had no significant interests at the reporting date.

7.4 Non-significant equity investments: accounting information

Name	Book value of investments	Total assets	Total liabilities	Total revenues	Profit (Loss) from current operations after tax	Profit (Loss) of groups of assets held for sale after tax	Profit (Loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1)+(2)
(thousands of €)									
A. Wholly controlled subsidiaries									
1. Voba Invest S.r.l. in liquidation	2,080	2,137	57	123	13	-	13	-	13
2. Valpolicella Alta Società Agricola S.r.l.	2,209	2,936	2,391	216	51	-	51	-	51
3. Quartiere Brizzi S.r.l.	-	8,501	8,452	656	(32)	-	(32)	-	(32)
B. Jointly controlled subsidiaries									
C. Companies subject to significant influence									
1. Casa di cura Villa S. Anna (*)	813	9,232	6,475	8,329	218	-	218	-	218
2. Tre S.r.l. (*)	165	367	285	1	(2)	-	(2)	-	(2)
3. Voba CB S.r.l. (*)	6	61	51	60	-	-	-	-	-
4. Verona Green Living (*)	5	9,829	9,847	8,681	(18)	-	(18)	-	(18)

(*) The data on the investee companies refers to the last available financial statements.

7.5 Equity investments: annual changes

(thousands of €)	31.12.2021	31.12.2020
A. Opening balance	**5,168**	**5,407**
B. Increases	**145**	**72**
B.1 Purchasing	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	145	72
C. Decreases	**35**	**311**
C.1 Sales	-	-
C.2 Value adjustments	-	-
C.3 Write-downs	-	-
C.4 Other changes	35	311
D. Closing inventories	**5,278**	**5,168**
E. Total revaluations	**-**	**-**
F. Total adjustments	**-**	**-**

Items B.4 and C.4 "Other changes" are due to changes in the value of equity investments as a result of profits or losses recorded by investee companies and recognised in the net assets.

Results of *impairment tests* on equity investments

As described in "Part A - Accounting policies", equity investments are tested for *impairment* in order to assess the recoverability of the book value indicated in the financial statements.

On identifying signs of potential *impairment*, particular significance was attributed to the analysis of financial performance after the date of acquisition of control and, where available, the outlook for future income.

To reveal any situations of *impairment*, the book value of the investment was compared with its recoverable amount. Based on what is established by IAS 36, the recoverable amount is the higher between *fair value* less costs of sale and value in use.

On the basis of the above, the *impairment* test on the values as at 31st December 2021 did not result in a need to make value adjustments.

7.6 Commitments relating to equity investments in joint ventures

At the reporting date there were no commitments to equity investments in joint ventures.

7.7 Commitments referring to equity investments in companies subject to significant influence

At the reporting date there were no commitments to invest in companies subject to significant influence.

7.8 Significant restrictions

On the reporting date, there were no significant restrictions on equity investments.

7.9 Other information

For most equity investments, the closing times of the year-end financial statements are not compatible with the closing times of Volksbank's financial statements. Application of the equity method refers to the latest available accounting report, consisting in most cases of the half-yearly financial report or, if not available, the financial statements for the previous year.

If the accounting reports of the investee company used in the application of the equity method refer to a date other than the date of reference of the Volksbank financial statements, any adjustments made take into account the known effects of significant transactions or events that occurred between the date of the accounting statement and the date of reference of the financial statements..

Section 8 TANGIBLE FIXED ASSETS - ITEM 80

8.1 Physical assets for functional use: breakdown of assets measured at cost

(thousands of €)		31.12.2021	31.12.2020
1	**Owned assets**	**107,362**	**112,093**
	a) Land	38,955	35,019
	b) Buildings	57,705	65,702
	c) Furniture	2,041	2,305
	d) Electronic systems	5,774	6,191
	e) Other	2,887	2,876
2	**Rights of use acquired with leases**	**17,652**	**19,029**
	a) Land	-	-
	b) Buildings	17,643	19,012
	c) Furniture	-	-
	d) Electronic systems	-	-
	e) Other	9	17
	Total	**125,014**	**131,122**

8.2 Physical assets held for investment purposes: breakdown of assets measured at cost

Assets/Amounts		Total as at 31.12.2021				Total as at 31.12.2020			
(thousands of €)		BV	L1	L2	L3	BV	L1	L2	L3
1.	Owned assets	10,342	-	-	10,342	12,260	-	-	12,260
	a) Land	1,239	-	-	1,239	1,239	-	-	1,239
	b) Buildings	9,103	-	-	9,103	11,021	-	-	11,021
2.	Rights of use acquired with leases	-	-	-	-	-	-	-	-
	a) Land	-	-	-	-	-	-	-	-
	b) Buildings	-	-	-	-	-	-	-	-
	Total	**10,342**	**-**	**-**	**10,342**	**12,260**	**-**	**-**	**12,260**
	of which: obtained through enforcement of guarantees received	-	-	-	-	-	-	-	-

8.3 Physical assets for functional use: breakdown of revalued assets

At the reporting date there were no revalued tangible assets for functional use.

8.4 Physical assets held for investment purposes: breakdown of assets measured at fair value

At the reporting date there were no tangible assets held for investment purposes at *fair value*.

8.5 Inventories of tangible assets governed by IAS 2: breakdown

At the reporting date there were no inventories of tangible assets subject to IAS 2.

8.6 Physical assets for functional use: annual changes

(thousands of €)		Land	Buildings	Furniture	Electronic equipment	Other	Total
A.	**Gross opening balances**	**35,019**	**144,700**	**43,736**	**40,931**	**43,727**	**308,113**
	A.1 Total net impairment losses	-	59,986	41,431	34,740	40,834	176,991
	A.2 Net opening balances	35,019	84,714	2,305	6,191	2,893	131,122
B.	**Increases:**	**4,150**	**5,564**	**321**	**1,736**	**1,120**	**12,891**
	B.1 Purchasing	28	–	321	1,736	1,064	3,149
	B.2 Capitalised improvement costs	-	1,450	-	-	-	1,450
	B.3 Write-backs	-	-	-	-	-	-
	B.4 Fair value gains recognised in:	-	-	-	-	-	-
	a) Shareholders' equity	-	-	-	-	-	-
	b) Profit and Loss	-	-	-	-	-	-
	B.5 Exchange rate gains	-	-	-	-	-	-
	B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
	B.7 Other changes	4,122	4,114	-	-	56	8,292
C.	**Decreases**	**214**	**14,930**	**585**	**2,153**	**1,117**	**18,999**
	C.1 Sales	186	1,403	144	16	28	1,777
	C.2 Amortisation	-	7,723	441	2,137	1,089	11,390
	C.3 Impairment losses recognised in:	28	1,624	-	-	-	1,652
	a) shareholders' equity	-	-	-	-	-	-
	b) Profit and Loss	28	1,624	-	-	-	1,652
	C.4 Fair value losses recognised in:	-	-	-	-	-	-
	a) shareholders' equity	-	-	-	-	-	-
	b) Profit and Loss	-	-	-	-	-	-
	C.5 Exchange rate losses	-	-	-	-	-	-
	C.6 Transfers to:	-	-	-	-	-	-
	a) tangible assets held for investment purposes	-	-	X	X	X	-
	b) assets held for sale	-	-	-	-	-	-
	C.7 Other changes	-	4,180	-	-	-	4,180
D.	**Net closing balance**	**38,955**	**75,348**	**2,041**	**5,774**	**2,896**	**125,014**
	D.1 Total net depreciation and impairment losses	2,833	63,466	41,695	36,268	40,607	184,869
	D.2 Gross closing balances	41,788	138,814	43,736	42,042	43,503	309,883
E.	**Valuation at cost**	-	-	-	-	-	-

8.7 Physical assets held for investment purposes: annual changes

(thousands of €)		Land	Buildings
A.	**Opening balance**	**1,239**	**11,021**
B.	**Increases:**	**-**	**115**
	B.1 Purchasing	-	-
	B.2 Capitalised improvement costs	-	115
	B.3 Fair value gains	-	-
	B.4 Write-backs	-	-
	B.5 Exchange rate gains	-	-
	B.6 Transfers from properties for functional use	-	-
	B.7 Other changes	-	-
C.	**Decreases**	**-**	**2,033**
	C.1 Sales	-	-
	C.2 Amortisation	-	306
	C.3 Negative changes in fair value	-	1,727
	C.4 Impairment losses	-	-
	C.5 Negative foreign exchange differences	-	-
	C.6 Transfers to other asset portfolios	-	-
	a) properties for functional use	-	-
	b) Non-current assets held for sale	-	-
	C.7 Other changes	-	-
D.	**Closing inventories**	**1,239**	**9,103**
E.	**Measurement at fair value**	**-**	**-**

8.8 Commitments to acquire physical assets (IAS 16/74.c)

There were no commitments at the reporting date for the purchase of tangible assets.

Section 9 INTANGIBLE FIXED ASSETS - ITEM 90

9.1 Intangible fixed assets: breakdown by asset type

(thousands of €)	31.12.2021		31.12.2020	
	Finite life	**Indefinite life**	**Finite life**	**Indefinite life**
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	15,675	-	16,843	-
A.2.1 Assets measured at cost:	15,675	-	16,843	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	15,675	-	16,843	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**15,675**	**-**	**16,843**	**-**

Information on intangible fixed assets

Application of the accounting standard IFRS 3 when recognising acquisition transactions can imply recognition of intangible assets and goodwill in the financial statements. The merger by incorporation, which took place on 1st April 2015, of Banca Popolare di Marostica Group, which involved the accounting recognition of intangible assets, is relevant for Volksbank.

The following table sums up the values of intangible fixed assets entered in the financial statements, with relative dynamics, during the year, divided by Cash Generating Unit (CGU).

CGU	31.12.2020	Amortisation	Other changes	31.12.2021
(thousands of €)				
Client relationship former Popolare Marostica Group	16,500	(971)	-	15,529
Other	343	(267)	70	146
Total	**16,843**	**1,238**	**70**	**15,675**

For intangible assets with a defined useful life, constituted by Customer Relationship and software, the Profit and Loss account was attributed the amortisation quota for the year (included under item "190. Adjustments/net write-backs on intangible assets") for a total of €1.2 million gross of the tax effect. Please note that the client relationship entered as part of the incorporation of Banca Popolare di Marostica Group is amortised over a 23-year period (residue 16).

IAS 36 establishes that intangible assets with an indefinite useful life and goodwill be subjected to an impairment test at least once a year. Moreover, for intangible assets with a defined useful life the impairment test must be performed each time there is a loss indicator presence. The impairment test ascertains whether the recoverable value is the same or greater than the book value. IAS 36 specifies that the recoverable value is represented by the higher between use value and the *fair value*, net of sales costs.

IAS 36 also establishes that, when the use value of intangible assets subjected to the impairment test is calculated, reference must be made to cash flows related to the intangible asset in its current condition recognised at the impairment date, with no distinction between cash flows referred to the asset originally recognised when IFRS 3 was applied and those related to *assets* existing at the time of the impairment test, as it would be difficult, especially with extraordinary transactions between businesses or asset changes following significant turnovers of assets, customers, contracts, etc., to distinguish flows referred to the original asset from the others.

That concept can also be repeated for the calculation, for the impairment test purposes for goodwill, the CGU use Value, whose cash flows must be considered with reference to all assets and liabilities included in the CGU and not just for the assets and liabilities for which goodwill was recognised when IFRS 3 was applied.

With regard to the finite-life intangible asset "client relationship", the Bank did not detect any indicators of impairment.

Test of the possible presence of lasting losses in value (Impairment Test) of defined life intangible assets

Client relationship

The "*client relationship*" intangible assets recognised in the Volksbank financial statements due to incorporation of the Banca Popolare di Marostica Group occurring effectively on 1 April 2015, is considered "at defined life".

Customers considered to measure the *client relationship* only concerned those relationships established before the acquisition date. The *intangible asset* is therefore linked to the status quo before the acquisition date and its fair value is of a limited duration, following the duration observed for relationships between the company acquired and its customers. No value is given to the capacity to generate new relationships that cannot be separated and transferred to third parties, except by transferring the company as a whole. The *client relationship* was calculated by measuring the following components:

- indirect funding (funding managed net of own securities, funding managed, insurance funding);
- *core deposits* (ordinary free savings deposits, ordinary current accounts).

The *client relationship* was measured by discounting its net future economic flows.

The value of that asset was calculated with reference to 1 April 2015, effective merger date. The value calculation process for that asset was completed prior to the financial statement approval resolution.

The *impairment* tests related to that asset are mainly based on analysing the main value indicators of the asset itself (including, trend of *core deposits* and indirect funding assets, evolution of relationship closure probability ("*lifting curve*"), variations to profitability, operating expense level, cost of capital).

The checks carried out during 2021 did not reveal any elements that would require the *impairment* of the intangible *client relationship* asset.

9.2 Intangible assets: annual changes

(thousands of €)	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Gross opening balances	**-**	**-**	**-**	**24,296**	**-**	**24,296**
A.1 Total net impairment losses	-	-	-	7,453	-	7,453
A.2 Net opening balances	**-**	**-**	**-**	**16,843**	**-**	**16,843**
B. Increases	**-**	**-**	**-**	**71**	**-**	**71**
B.1 Purchasing	-	-	-	71	-	71
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Fair value gains	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to Profit and loss	X	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**1,239**	**-**	**1,239**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	1,239	-	1,239
- Amortisation expense	X	-	-	1,239	-	1,239
- Impairment	-	-	-	-	-	-
+ net equity	X	-	-	-	-	-
+ Profit or loss	-	-	-	-	-	-
C.3 Negative changes in fair value		-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to Profit and loss	X	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**-**	**-**	**-**	**15,675**	**-**	**15,675**
D.1 Total net value adjustments	-	-	-	8,691	-	8,691
E. Gross closing balance	**-**	**-**	**-**	**24,366**	**-**	**24,366**
F. Valuation at cost	-	-	-	-	-	-

Key

DEF. = with finite life

INDEF. = with indefinite life

9.3 Intangible fixed assets: Other information

At the financial statement date there are no commitments referred to intangible assets.

Section 10 TAX ASSETS AND TAX LIABILITIES - ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 Deferred tax assets: breakdown

IRES *(thousands of €)*	**31.12.2021**		**31.12.2020**	
	amount of temporary differences	**tax effect**	**amount of temporary differences**	**tax effect**
- Value adjustments to customer receivables (including signature credits)	167,574	46,083	196,517	54,042
- Provisions for risks and charges	13,744	3,780	11,152	3,067
- Administrative statutory/fiscal misalignment on tangible and intangible assets	-	-	251	69
- Banca di Treviso Goodwill (freed by BPM)	6,876	1,891	7,667	2,108
- BPM+BTV merger goodwill (freed by BPAA)	29,605	8,141	35,526	9,770
- “Mimosa” goodwill	8,667	2,383	10,834	2,979
- Client Relationship PPA merger BPM+BTV (freed by BPAA)	971	267	971	267
- IRES tax losses that can be carried forward (24%)	80	19	8,361	2,007
- IRES tax losses that can be carried forward (3.5%)	-	-	-	-
- ACE surpluses to be carried forward (3.5%)	-	-	2,140	75
- Real estate write-downs (buildings and land)	18,064	4,968	17,331	4,766
- Write-downs of bank receivables (item 40a BS)	112	31	58	16
- Write-downs of receivables at FVTPL	22,766	6,261	18,690	5,140
- Change to accounting criteria (adoption of IFRS 9)	40,364	11,100	46,130	12,686
- Other	560	154	486	134
- Negative OCI reserve measurement of security bonds FVOCI/HTCS	835	230	165	45
- Components entered in OCI table	2,185	601	2,185	601
Total	**312,403**	**85,909**	**358,464**	**97,772**

IRAP *(thousands of €)*	**31.12.2021**		**31.12.2020**	
	amount of temporary differences	**tax effect**	**amount of temporary differences**	**tax effect**
- Value adjustments to customer receivables (including signature credits)	87,038	4,428	103,617	5,308
- Provisions for risks and charges	13,744	699	11,152	571
- Banca di Treviso Goodwill (freed by BPM)	6,876	350	7,667	392
- BPM+BTV merger goodwill (freed by BPAA)	29,605	1,506	35,526	1,820
- “Mimosa” goodwill	8,667	441	10,834	555
- Client Relationship PPA merger BPM+BTV (freed by BPAA)	874	44	874	45
- Real estate write-downs (buildings and land)	1,968	100	1,968	101
- Change to accounting criteria (adoption of IFRS 9)	41,524	2,112	47,202	2,418
- Other	6,516	331	6,516	334
- Negative OCI reserve measurement of security bonds FVOCI/HTCS	835	42	165	8
- Negative OCI reserve measurement of investments FVOCI/HTCS	778	40	778	40
Total	**198,425**	**10,093**	**226,299**	**11,592**

Deferred tax assets ("DTA"), recognised referred to temporary deductible differences, amounted to 96 million of which 95 for taxes entered through profit and loss and 1 million for taxes entered through shareholders' equity.
The former mainly refer to the share not yet offset by benefits connected to deductibility in future years of adjustments on receivables from customers in prior years (before 2016), to depreciation of buildings, to amortisation of credits measured at *fair value*, to provisions to risks and charges, and the benefit resulting from alignment of the tax value of goodwill and other intangible fixed assets pursuant to art. 15, paragraph 10, of (It.) Legislative Decree n. 185/2008 and of Legislative Decree no. 98/2011.
We remind you that Law no. 145 of 30.12.2018 (2019 Budget Law) established that income components resulting solely from adoption of the recognition model for losses on receivables "IFRS 9", entered at first time adoption of that standard, are deductible based on taxable IRES and IRAP for 10% of their amount in the first IFRS 9 (2018) adoption tax period and for the remaining 90% in constant percentages in the nine following tax periods.
Deferred tax assets through equity refer almost solely to taxes allocated for severance indemnity entered in the statement of comprehensive income (OCI).

10.2 Deferred tax liabilities: breakdown

IRES	**31.12.2021**		**31.12.2020**	
(thousands of €)	**amount of temporary differences**	**tax effect**	**amount of temporary differences**	**tax effect**
- Depreciation of land	-	-	2,216	609
- Administrative statutory/fiscal misalignment on tangible and intangible assets	456	125	182	50
- Revaluation of property	-	-	47,514	13,066
- Capital gains by instalments from real estate sales	-	-	-	-
- Write-backs of receivables at FVTPL	2,630	723	2,603	716
- Write-backs of bank receivables (item 40a BS)	100	27	94	26
- Change to accounting criteria (adoption of IFRS 9)	-	-	-	-
- Other	-	-	-	-
- Positive OCI reserve measurement of security bonds FVOCI/HTCS	9,031	2,484	9,719	2,673
- Positive OCI reserve measurement of investments FVOCI/HTCS	84	23	-	-
Total	**12,301**	**3,382**	**62,328**	**17,140**

IRAP	**31.12.2021**		**31.12.2020**	
(thousands of €)	**amount of temporary differences**	**tax effect**	**amount of temporary differences**	**tax effect**
- Depreciation of land	-	-	2,216	114
- Administrative statutory/fiscal misalignment on tangible and intangible assets	-	-	-	-
- Revaluation of property	-	-	47,514	2,434
- Change to accounting criteria (adoption of IFRS 9)	1,452	74	1,452	74
- Other	-	-	-	-
- Negative OCI reserve measurement of security bonds FVOCI/HTCS (*)	9,031	459	9,719	498
- Negative OCI reserve measurement of investments FVOCI/HTCS (*)	1,677	85	-	-
Total	**12,160**	**618**	**60,901**	**3,120**

10.3 Changes in deferred tax assets (recognised through profit or loss)

(thousands of €)		IRES	IRAP	31.12.2021	31.12.2020
1.	**Opening amount**			**89,792**	**99,197**
2.	**Increases**	**5,125**	**277**	**5,402**	**6,236**
2.1	Deferred tax assets recognised in the year	4,856	227	5,083	4,399
	a) relative to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) write-backs	-	-	-	-
	d) Other	4,856	227	5,083	4,399
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	269	50	319	1,837
3.	**Decreases**	**17,173**	**1,809**	**18,982**	**15,641**
3.1	Deferred tax assets cancelled in the year	15,111	1,729	16,840	8,424
	a) Reversals	-	-	-	-
	b) impairment losses due to irrecoverability	-	-	-	-
	c) change in accounting standards	-	-	-	-
	d) Other	15,111	1,729	16,840	8,424
3.2	Reductions in tax rates	-	-	-	-
3.3	Other decreases	2,062	80	2,142	7,217
	a) conversion into tax credits as per (It.) Law 214/2011	-	-	-	7,031
	b) other	2,062	80	2,142	186
4.	**Closing balance**			**76,212**	**89,792**

10.3 bis Changes in deferred tax assets as per Italian Law 214/2011 (offset in the income statement)

(thousands of €)		IRES	IRAP	31.12.2021	31.12.2020
1.	**Opening amount**			**60,171**	**69,462**
2.	**Increases**	**-**	**-**	**-**	**13**
3.	**Decreases**	**8,595**	**923**	**9,518**	**9,304**
3.1	Reversals	8,595	884	9,479	2,273
3.2	Conversion in tax credits	-	-	-	7,031
	a) deriving from losses for the year	-	-	-	-
	b) deriving from tax losses	-	-	-	-
3.3	Other decreases	-	39	39	-
4.	**Closing balance**			**50,653**	**60,171**

The movement of prepaid taxes pursuant to (It.) Law 214/2011as a balancing entry in the income statement refers to the *reversals* relating to the franked goodwill and the value adjustments on loans to customers made up to 2015.

10.4 Changes in deferred tax liabilities (recognised through profit or loss)

(thousands of €)		IRES	IRAP	31.12.2021	31.12.2020
1.	**Opening amount**			**16,620**	**16,789**
2.	**Increases**	**84**	**-**	**84**	**462**
2.1	Deferred tax liabilities recognised in the year	84	-	84	462
	a) relative to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	84	-	84	462
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**13,676**	**2,548**	**16,224**	**631**
3.1	Deferred tax liabilities reversed during the year	13,676	2,545	16,221	631
	a) reversals	-	-	-	631
	b) due to change in accounting standards	-	-	-	-
	c) other	13,676	2,545	16,221	-
3.2	Reductions in tax rates	-	-	-	-
3.3	Other decreases	-	3	3	-
4.	**Closing balance**			**480**	**16,620**

10.5 Changes in deferred tax assets (recognised through shareholders' equity)

(thousands of €)		IRES	IRAP	31.12.2021	31.12.2020
1.	**Opening amount**			**694**	**904**
2.	**Increases**	**184**	**34**	**218**	**-**
2.1	Deferred tax assets recognised in the year	184	34	218	-
	a) relative to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	184	34	218	-
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**-**	**-**	**-**	**210**
3.1	Deferred tax assets cancelled in the year	-	-	-	210
	a) reversals	-	-	-	210
	b) impairment losses due to irrecoverability	-	-	-	-
	c) due to change in accounting standards	-	-	-	-
	d) other	-	-	-	-
3.2	Reductions in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Closing balance**			**912**	**694**

Movements of taxes recognised through equity mainly refer to recognition of the deferred taxes through the negative OCI reserve from measurement of investments and bonds at FVOCI.

10.6 Changes in deferred taxes (recognised through shareholders' equity)

(thousands of €)		IRES	IRAP	31.12.2021	31.12.2020
1.	**Opening amount**			**3,171**	**1,996**
2.	**Increases**	**23**	**85**	**108**	**1,175**
2.1	Deferred tax liabilities recognised in the year	23	85	108	1,174
	a) relative to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	23	85	108	1,174
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	1
3.	**Decreases**	**189**	**38**	**227**	**-**
3.1	Deferred tax liabilities reversed during the year	189	38	227	-
	a) reversals	189	38	227	-
	b) due to change in accounting standards	-	-	-	-
	c) other	-	-	-	-
3.2	Reductions in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Closing balance**			**3,052**	**3,171**

Movements of taxes recognised through equity mainly refer to recognition of the deferred taxes through the positive OCI reserve from measurement of investments and bonds at FVOCI.

10.7 Other information

Breakdown of the item "current tax assets"

(thousands of €)		31.12.2021	31.12.2020
1.	Assets for direct taxes (IRES - IRAP)	1,256	-
2.	Assets for indirect and other taxes	16,928	16,659
3.	Withheld taxes suffered	227	351
4.	Total current tax assets	35,217	45,382
	Total	**53,628**	**62,392**

Breakdown of the item "current tax liabilities"

(thousands of €)		31.12.2021	31.12.2020
1.	Liabilities for direct taxes	14,305	6,782
2.	Liabilities for indirect taxes	498	4
3.	Taxes withheld at source to be deposited	-	-
4.	Other current tax liabilities	-	-
	Total	**14,803**	**6,786**

Probability test on deferred taxes

The international accounting standard IAS 12 establishes that deferred tax assets and liabilities be recognised applying the following criteria:

- taxable temporary differences: a deferred tax liability must be recognised for all the taxable temporary differences;
- deductible temporary differences: a deferred tax asset must be recognised for all the deductible temporary differences, if a taxable income is probable for which the deductible temporary difference can be used. Deferred tax assets not recognised in the past – as there were no reasons for their recognition – must be entered in the year in which those requirements emerge.

The amount of deferred tax assets entered in the financial statements must therefore be tested every year, to check whether there is a reasonable certainty to earn taxable incomes in the future and therefore the possibility to recover the deferred tax assets.

Considering the amount of deferred tax assets entered, an analysis was carried out to check whether the future profitability forecasts are such as to guarantee re-absorption and justify recognition and maintenance in the financial statements (so-called "probability test").

In particular, for deferred tax assets from deductible temporary differences related to write downs and losses on credits ("qualified deferred tax assets" and "qualified temporary differences") it recognises the consideration that, starting from the tax period closed as at 31st December 2011, the conversion in tax credits of deferred tax assets (IRES) recognised in the financial statements against tax losses from deferred deduction of qualified temporary differences is established (art. 2, paragraph 56-bis, of (It.) Decree Law of 29 December 2010 no. 225, introduced by art. 9 of (It.) Decree Law of 6 December 2011 no. 201).

Starting from the 2013 tax period, a similar conversion is established if a negative net production value emerges from the IRAP returns, related to the deferred tax assets (IRAP) referring to qualified temporary differences that were part of calculation of the negative net production value (art. 2, paragraph 56-bis.1 of (It.) Decree Law of 29 December 2010 no. 225, introduced by (It.) Law no. 147/2013).

This convertibility - which is in addition to that which is already provided for in the event that the individual financial statements show a loss for the year (art. 2, paragraphs 55 and 56, Legislative Decree no. 225/2010, as most recently amended by Law no. 147/2013) - is appropriate to ensure the recovery of qualified deferred tax assets in all situations, regardless of the future profitability of the company. In fact, if in a certain year there should be qualified temporary difference surpluses compared to the taxable income of the net production value, recovery of the relative deferred tax assets would not be a reduction of current taxes but, through recognition of the deferred tax assets on the tax loss and on the negative net production value, would be convertible in tax credits pursuant to art. 2, paragraphs 56-bis and 56-bis.1, Legislative Decree no. 225/2010.

Please note that, following approval of (It.) Decree Law. 83/2015 which introduced for banks the immediate deductibility of losses and write-downs on customer receivables, the stock deferred tax assets transformable cannot be increased.

The convertibility of deferred tax assets on tax losses and negative net production value caused by qualified temporary differences is considered as a sufficient assumption for recognition in the financial statements of qualified deferred tax assets, making the relative probability test unnecessary.

This approach is also confirmed in the joint Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012 (issued as part of the coordination table on the application of IAS / IFRS), relating to the "Accounting treatment of prepaid taxes deriving from Law 214/2011", and in the subsequent IAS ABI document no. 112 of May 31, 2012 ("Tax credit deriving from the transformation of deferred tax assets: clarifications by the Bank of Italy, Consob and ISVAP on the application of IAS / IFRS").

The test therefore concerned:

- identification of the deferred tax assets, other then those related to write downs and losses on credits, goodwill and other indefinite life intangible assets ("non-qualified deferred tax assets"), recognised in the financial statements;

- analysis of those non qualified deferred tax assets and the deferred tax assets entered in the consolidated financial statements, distinguishing them by type of origin, therefore, foreseeable re-absorption timing;
- foreseeable quantification of future Bank profitability, to check the absorption capacity of deferred tax assets in point a) above.

The detailed analysis in points b) and c) was not necessary for the deferred tax assets (and, consequently, liabilities) recognised in the financial statements for IRAP purposes, as almost all of them had certain use prospects pursuant to art. 2, paragraph 56a.1, Decree-Law no. 225/2010 and as the "non qualified" deferred IRAP tax assets were for a negligible amount.

The analysis carried out highlighted an expected taxable base that was amply able to absorb deferred taxes recognised in the financial statements as at 31st December 2021.

Tax losses not used

The 2021 Financial Statements include recognition of deferred tax assets resulting from tax losses carried forward for about €80 thousand calculated with the percentage at 24%.
The analysis carried out related to revenue forecasts included in the 2021 - 2023 Business Plan confirm the capacity of the tax consolidation to use the losses for which the DTA were allocated.

Section 11 NON CURRENT ASSETS AND ASSET GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 Non-current assets and asset groups held for sale: breakdown by asset type

(thousands of €)	31.12.2021	31.12.2020
A. Assets held for sale		
A.1 Financial assets		
A.2 Investments		
A.3 Tangible assets	4,408	15,544
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets		
A.5 Other non current assets		
Total (A)	**4,408**	**15,544**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3	4,408	15,544
B. Operating activities terminated		
B.1 Financial assets at fair value with impact on Profit and loss	-	-
- financial assets held for trading		
- financial assets designated at fair value		
- other financial assets obligatorily measured at fair value		
B.2 Financial assets measured at fair value through other comprehensive income		
B.3 Financial assets valued at amortised cost		
B.4 Investments		
B.5 Tangible assets		
of which: obtained through enforcement of guarantees received		
B.6 Intangible assets		
B.7 Other assets		
Total (B)	**-**	**-**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
C. Liabilities associated with assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		
Total (C)	-	-
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
D. Liabilities associated with operating activities terminated		
D.1 Financial liabilities measured at amortised cost		
D.2 Financial liabilities held for trading		
D.3 Financial liabilities designated at fair value		
D.4 Funds		
D.5 Other liabilities		
Total (D)	**-**	**-**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		

11.2 Other information

At the financial statement date, there was no further information to be provided.

Section 12 OTHER ASSETS - ITEM 120

12.1 Other assets: breakdown

(thousands of €)		31.12.2021	31.12.2020
1.	Items travelling with branches	88	348
2.	Collateral	135	94
3.	Items being processed	116,475	95,165
4.	Sundry suspended (items awaiting final recognition)	4,848	17,309
5.	Revenues accrued and expired to be received	15,881	14,154
6.	Values held by the cashier	21	32
7.	Accruals and deferrals not attributable	513	861
8.	Expenses on leased assets	4,062	3,397
	Total	**142,023**	**131,360**

LIABILITIES

Section 1 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10

1.1 *Financial liabilities measured at amortised cost: breakdown of payables due to banks by type*

Transaction type/Values	31.12.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
(thousands of €)								
1. Due to Central banks	**2,476,363**	**X**	**X**	**X**	**1,746,544**	**X**	**X**	**X**
2. Payables to banks	**192,474**	**X**	**X**	**X**	**226,293**	**X**	**X**	**X**
2.1 Current accounts and on demand deposits	41,806	X	X	X	38,485	X	X	X
2.2 Fixed-term deposits	13,092	X	X	X	33,495	X	X	X
2.3 Loans	137,331	X	X	X	154,242	X	X	X
2.3.1 Repurchase agreement liabilities	-	X	X	X	-	X	X	X
2.3.2.Other	137,331	X	X	X	154,242	X	X	X
2.4 Payables for repurchase commitments of own equity instruments	-	X	X	X	-	X	X	X
2.5 Payables for leases	-	X	X	X	-	X	X	X
2.6 Other payables	245	X	X	X	71	X	X	X
Total	**2,668,837**	**-**	**2,668,837**	**-**	**1,972,837**	**-**	**1,972,837**	**-**

Repurchase agreement transaction liabilities against assets sold and not derecognised from the financial statements are detailed in Part E.

1.2 *Financial liabilities measured at amortised cost: breakdown of payables due to customers by type*

Transaction type/Values	31.12.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
(thousands of €)								
1. Current accounts and on demand deposits	7,803,636	X	X	X	6,759,403	X	X	X
2. Term deposits	339,642	X	X	X	436,645	X	X	X
3. Financing	694,460	X	X	X	-	X	X	X
3.1. Repurchase agreement liabilities	671,413	X	X	X	480,285	X	X	X
3.2. Other	23,047	X	X	X	22,842	X	X	X
4. Payables for repurchase commitments of own equity instruments	-	X	X	X	-	X	X	X
5. Payables for leases	17,615	X	X	X	19,072	X	X	X
6. Other payables	177,566	X	X	X	336,319	X	X	X
Total	**9,032,919**	**-**	**8,927,542**	**-**	**8,054,566**	**-**	**7,785,350**	**-**

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued by type

(thousands of €)	31.12.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
(thousands of €)								
A. Securities								
1. Bonds	436,343	-	305,315	131,028	525,029	-	394,081	130,940
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	436,343	-	305,315	131,028	525,029	-	394,081	130,940
2. Other securities	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-
Total	**436,343**	**-**	**305,315**	**131,028**	**525,029**	**-**	**394,081**	**130,940**

At the financial statement date, there were no structured amounts payable to banks.

1.4 Breakdown of subordinated debts/securities

Below please find the main characteristics of instruments existing as at 31st December 2020:

	Issue 01.08.2017	Issue 06.10.2017	Issue 03.10.2018
Level of Subordination	Subordinate liabilities qualified as Tier 2	Subordinate liabilities qualified as Tier 2	Subordinate liabilities qualified as Tier 2
ISIN	XS1663201942	XS1694763142	XS1885681228
Amount	5,000,000	100,000,000	25,000,000
Date of Issue	17.08.2017	06.10.2017	03.10.2018
Expiry Date	17.08.2029	06.10.2027	30.10.2028
Currency	EUR	EUR	EUR
Rate	5.625%	5.625% per annum, payable deferred until 06.10.2022 (equal to 5yr MS + 536.8 bps), then rate reset at fixing mid-swap + margin of 536.8 bps	6.000% per annum, payable in arrears until 03.10.2023 (equal to 5yr MS + 589.4 bps), then reset of the rate at the mid-swap fixing + margin of 589.4 bps
Price	99.25	99.56	97.717
Listing	Luxembourg Stock Exchange	Luxembourg Stock Exchange	No

1.5 Breakdown of structured debts

At the financial statement date, there were no structured debts.

1.6 Payables for leases

Payables for leases as at 31st December 2021 amounted to17.6 million, of which 0.9 expiring in 1 and 2 years, 8.6 million in between 3 and 5 years, 4.5 million between 6 and 8 years, and the remaining 3.6 million between 9 and 12 years.

Rents for a total of €4.9 million were paid in 2021.

Section 2 FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 Financial liabilities held for trading: breakdown by type

(thousands of €)	31.12.2021					31.12.2020				
	VN	FV			FV *	VN	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Payables to banks	-	-	-	-	-	-	-	-	-	-
2. Payables to clients	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	-	60	-	-	-	-	1,369	414	-	-
1.1 Held for trading	X	60	-	-	X	X	1,369	414	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**60**	**-**	**-**	**X**	**X**	**1,369**	**414**	**-**	**X**
Total (A+B)	**X**	**60**	**-**	**-**	**X**	**X**	**1,369**	**414**	**-**	**X**

Key
FV *fair value*
FV* *fair value calculated excluding changes in value due to changes in the issuer's creditworthiness compared to the date of issuance*
VN nominal or notional value
L1 Level 1
L2 Level 2
L3 Level 3

2.2 Breakdown of "Financial liabilities held for trading": subordinate liabilities

At the financial statement date, there were no subordinate financial liabilities held for trading.

2.3 Breakdown of "Financial liabilities held for trading": structured debts

At the financial statement date, there were no financial liabilities held for trading related to structured debts.

Section 3 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE - ITEM 30

3.1 Financial liabilities designated at fair value: breakdown by type of product

At the reporting date there were no financial liabilities designated at *fair value*.

3.2 Breakdown of "Financial liabilities measured at fair value": subordinate liabilities

At the reporting date there were no subordinate financial liabilities measured at *fair value*.

Section 4 HEDGING DERIVATIVES - ITEM 40

4.1 Hedging derivatives: breakdown by type of hedge and hierarchical levels

At the reporting date there were no hedging derivatives.

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

At the reporting date there were no hedging derivatives.

Section 5 VALUE ADJUSTMENT OF FINANCIAL LIABILITIES SUBJECT TO MACRO HEDGING - ITEM 50

5.1 Adjustment in value of hedged financial liabilities: breakdown by hedged portfolios

At the reporting date there were no financial liabilities subject to macro hedging.

Section 6 TAX LIABILITIES - ITEM 60

For the information in this section, please refer to what is stated in Section 10 of assets.

Section 7 LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE - ITEM 70.

For the information in this section, please refer to what is stated in Section 11 of assets.

Section 8 OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

(thousands of €)		31.12.2021	31.12.2020
1.	Adjustments to illiquid items related to the bills portfolio	104,300	85,842
2.	Items travelling with branches	0	-
3.	Different sums available (banks, suppliers etc.)	72,550	86,701
4.	Sums available to customers	55,796	54,630
5.	Items being processed (wire transfers, etc.)	7,408	6,654
6.	Other items for different creditors	4,105	1,988
7.	Accruals and deferrals not attributable	6	-
8.	Withheld taxes and taxes to be reversed	12,713	9,686
	Total	**256,878**	**245,501**

Section 9 EMPLOYEE SEVERANCE INDEMNITIES - ITEM 90

9.1 Employee severance indemnities: annual changes

(thousands of €)		31.12.2021	31.12.2020
A.	**Opening balance**	**16,802**	**18,619**
B.	**Increases**	**477**	**221**
	B.1. Allocations for the year	124	104
	B.2. Other changes	353	117
C.	**Decreases**	**1,115**	**2,038**
	C.1. Settlements made	1,115	2,038
	C.2. Other changes	-	-
D.	**Closing inventories**	**16,164**	**16,802**

9.2 Other information

As was described in Part A – Accounting policies, following the supplementary pension reform, the severance indemnity of personnel recognised in this financial statement item only refers to the share accrued since 31st December 2006.

The provision does not include the shares that due to the aforementioned reform are deposited as supplementary pension or with the INPS Treasury fund. In that case, the personnel severance indemnity accrued as of 1st January 2007 include a "defined contribution plan" and are recognised amongst personnel costs in the sub-item "severance indemnity", based on contribution owed without applying actuarial calculation methods, as a counter-item to recognition of the capital item "Other liabilities" or of a cash availability expense.

The TFR actuarial assessment was implemented applying the "benefits accrued" method in compliance with the *Projected Unit Credit criterion* regulated by paragraphs 70-74 and 75-98 of IAS 19, and is based on the following main demographic, economic and financial hypotheses:

Main demographic and actuarial assumptions for measuring the Severance Indemnity (TFR) fund	
Employee survival rate	RG48 survival table published by the General State Accountancy Office.
Frequency and amount of TFR advances	Calculated based on the historical experience through seniority of service. A 1.50% value was used for the current year.
Inability	INPS table by age and sex
Frequency of turnover	Calculated based on the historical experience for the company and similar companies by age and sex and equal to 2.00%.
Retirement probability	100% on reaching the retirement requirement set by the General Obligatory Insurance (AGO).
Annual discounting rate	it was deduced, consistently with par. 83 of IAS 19, from the Iboxx Corporate AA index with a duration of 7-10 recorded at the valuation date. For that purpose, the return with a duration comparable to the duration of the group of workers being assessed was chosen, of -0.44%.
Annual inflation rate	1.75% for the entire reference period
Annual employee severance indemnity increase rate	2.813% for the entire reference period

Other information	31.12.2021
Service cost pro future annual	0.00
Plan duration	9.1

Please note that the criteria underlying the above demographic and actuarial assumptions are essentially aligned with those used last year.

Considering IAS 19 and the absence of specific provisions from regulatory Bodies, it is felt that the identification and choice of the rate in question represents one of the numerous valuations and estimates that the IFRS accounting standards require when preparing the financial statements. In particular, the specific standard, that the discounting rate must be calculated with reference to market returns, at the year closure date, of the bonds of primary companies of the country the entity operates in ("*high quality corporate bond yield*") and, alternatively, as there is often no market for those bonds, referred to the market returns of government bonds.

For the 2021 financial year, the annual discount rate used to calculate the current value of the bond was assumed, consistently with par. 83 of IAS 19, from the Iboxx Corporate AA index with a duration of 7-10 recorded at the valuation date. For that purpose, the choice went to the return with a duration comparable to the duration of the group of workers being assessed.

Reference to the "AA" rating class is a result of clarifications provided by the IFRS Interpretations Committee, during the second half of 2013, based on which the "primary quality" must be considered in an absolute meaning so cannot change from one year to the next in order to consider all the companies belonging to the "*high quality corporate bond yield*" issuer pool.

Specifically, the IFRS Interpretations Committee specifies that the significance of the "*high quality corporate bond yield*" pool must be measured including bonds issued by companies from other countries, as long as denominated in the same currency as the one used to pay employee benefits.

Sensitivity analyses

In compliance with IAS 19, the following additional information is being provided:

- sensitivity analyses for each actuarial hypothesis relevant at year end, showing the effects that there would have been following variations to the actuarial hypotheses reasonably possible at that date, in absolute terms;
- indication of the contribution for the following year;
- indication of the average financial duration of the bond for the defined benefit plans.

Sensitivity analyses of the main measurement parameters on data as at 31.12.2021 (values represent the change generated on the IAS value of the plan)	Measurement parameters	DBO
(thousands of €)		
Turnover rate	+1.00%	15,973.0
Turnover rate	-1.00%	16,271.2
Inflation rate	+0.25%	16,328.9
Inflation rate	-0.25%	15,905.4
Discount rate	+0.25%	15,775.4
Discount rate	-0.25%	16,466.5

Section 10 PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

(thousands of €)		31.12.2021	31.12.2020
1.	Provisions for credit risk related to commitments and financial guarantees granted	7,631	6,109
2.	Provisions on other commitments and other guarantees granted	-	-
3.	Corporate provisions for pensions	-	-
4.	Other provisions for risks and charges	13,742	12,129
	4.1 legal and tax disputes	13,742	12,129
	4.2 personnel expenses	-	-
	4.3 Other	-	-
	Total	**21,373**	**18,238**

10.2 Provisions for risks and charges: annual changes

(thousands of €)		Provisions for pensions	Other provisions for risks and charges	Total
A.	**Opening balance**	**-**	**12,129**	**12,129**
B.	**Increases**	**-**	**4,471**	**4,471**
	B.1. Allocations for the year	-	4,404	4,404
	B.2. Changes due to the passage of time	-	-	-
	B.3. Changes due to changes in the discount rate	-	67	67
	B.4. Other changes	-		
C.	**Decreases**	**-**	**2,858**	**2,858**
	C.1. Use during the year	-	1,816	1,816
	C.2. Changes due to changes in the discount rate	-	-	-
	C.3. Other changes	-	1,042	1,042
D.	**Closing inventories**	**-**	**13,742**	**13,742**

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

	Provisions for credit risk related to commitments and financial guarantees granted				
	First stage	Second stage	Third stage	impaired acquired or originated	Total
(thousands of €)					
1. Loan commitments	344	201	2,942	-	3,487
2. Financial guarantees issued	887	779	2,478	-	4,144
Total	**1,231**	**980**	**5,420**	**-**	**7,631**

10.4 Provisions on other commitments and other guarantees granted

At the reporting date there are no provisions relating to other commitments and other guarantees granted.

10.5 Provisions for defined benefit plan pensions

At the financial statement date, there were no provisions for defined benefit pension funds.

10.6 Provisions for risks and charges - other provisions

The item "Provisions for risks and charges", sub-item "Other provisions for risks and charges", for 13.7 million, includes allocations for disputes in progress, including the related expenses.

Section 11 REDEEMABLE SHARES - ITEM 120

11.1 Redeemable shares: breakdown

There are no redeemable shares at the reporting date.

Section 12 COMPANY ASSETS - ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 Share capital and treasury shares: breakdown

	31.12.2021	**31.12.2020**
- Number of treasury shares or quotas	50,498,438	50,498,438
of which treasury shares in portfolio	2,167,877	1,910,165

As at 31st December 2021, the share capital amounts to €201,993,752 and consists of 50,498,438 ordinary shares, with no indication of par value. So the share capital referred to each share can be calculated by dividing the total share capital by the number of outstanding shares.

As at 31st December 2021, Volksbank holds 2,167,877 own shares in portfolio.

All the ordinary outstanding shares have been subscribed and fully paid in. The shares have no constraints or privileges and each share has the same rights in dividend collection and capital repayment terms. There are no other share categories besides ordinary shares.

12.2 Share capital - Number of shares: annual changes

		Ordinary	Other
A.	**Shares held at the beginning of the year**	**50,498,438**	**-**
	- fully paid-up	50,498,438	-
	- not fully paid-up	-	-
A.1	Own shares (-)	1,910,165	-
A.2	**Outstanding shares: opening balance**	**48,588,273**	**-**
B.	**Increases**	**-**	**-**
B.1	New issues	-	-
	for a fee:	-	-
	- business combination transactions	-	-
	- conversion of bonds	-	-
	- exercise of warrants	-	-
	- other	-	-
	free of charge:	-	-
	- in favour of employees	-	-
	- in favour of directors	-	-
	- other	-	-
B.2	Sale of treasury shares	-	-
B.3	Other changes	-	-
C.	**Decreases**	**257,712**	**-**
C.1	Cancellation	-	-
C.2	Purchase of treasury shares	257,712	-
C.3	Company transfer transactions	-	-
C.4	Other changes	-	-
D.	**Outstanding shares: closing balance**	**48,330,561**	**-**
D.1	Treasury shares (+)	2,167,877	-
D.2	Shares held at the end of the year	50,498,438	-
	- fully paid-up	50,498,438	-
	- not fully paid-up	-	-

12.3 Share capital: other information

At the financial statement date, there was no further information to be provided.

12.4 Profit reserves: other information

(thousands of €)		31.12.2021	31.12.2020
1.	Legal reserve	123,700	122,100
2.	Extraordinary reserve	169,309	155,227
3.	Purchase of treasury shares reserve	-	-
4.	Concentration reserve (Law 30.07.1990/218)	8,584	8,584
5.	Other reserves	(17,588)	(18,028)
	Total	**284,005**	**267,883**

Pursuant to art. 2427, paragraph 1, no. 7 bis of the (It.) Civil Code, we are providing the summary of Shareholders' Equity items divided by origin and indicating possible use and distribution and their use in the previous years.

Type/description *(thousands of €)*	**Amount**	**Possible use**	**Share available**	**Summary of use in the three previous years**	
				Loss coverage	**Other uses**
Capital	**201,994**	**-**	**-**		
Own shares	**(25,225)**	**-**	**-**		
Emission surcharges	**298,787**	**A,B,C**	**298,787**	**(84,372)**	
Earnings reserves					
- Legal reserve	123,700	A(2),B	83,301		
- Extraordinary reserve	169,309	A,B,C	169,309		
- Non-distributable reserve pursuant to art. 6 of (It.) Legislative Decree 38/2005	1,701	B, (*)	-		
- other:					
a) Special reserve pursuant to (It.) Law 218/90	8,584	A,B,C (3)	8,584		
b) Reserve from FTA	(16,384)	A,B,C	-		
c) Reserves from sale of equity securities measured at fair value with an impact on overall profitability	(3,011)	A,B,C	-		
d) IFRS 2 reserve for employee incentive plan	106	A,B,C	-		
Valuation reserves					
Equity securities designated as at fair value through other comprehensive income	234	(*)	-		
Financial assets (other than equity securities) measured at fair value through other comprehensive income	5,477	(*)	-		
Actuarial gains (losses) on defined-benefit pension plans	(3,336)	(*)	-		
Capital instruments	**-**		**-**		
Profits/Losses carried forward	**70,076**		**-**		
Total	**832,012**		**-**	**(84,372)**	**-**

A = for free increase in capital
B = to cover losses
C = for distribution to shareholders
(*) The reserve is non-distributable pursuant to Article 6 of (It.) Legislative Decree 38/2005
(1) The reserve may only be distributed for the sole part exceeding the amount needed for the legal reserve to reach one fifth of share capital (art. 2431 of the Civil Code).
(2) The reserve may only be used for the part that exceeds one fifth of share capital (art. 2430, paragraph 1 of the (It.) Civil Code;
(3) If not attributed to capital, the reserve may only be reduced in compliance with the provisions of the second and third paragraphs of art. 2445 of the Italian Civil Code If the loss coverage reserve is used, no profits may be distributed until the reserve has been integrated or reduced to the corresponding extent. The reduction may take place through extraordinary shareholders' meeting resolution, without compliance with the provisions in the second and third paragraphs of art. 2445 of the Italian Civil Code If it is distributed to shareholders it will be considered part of the company's taxable income.

12.5 Capital instruments: breakdown and annual changes

At the financial statement date, there were no capital instruments other than ordinary shares.

12.6 Other information

At the financial statement date, there was no further information to be provided.

OTHER INFORMATION

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

	Nominal amount of commitments and financial guarantees granted				31.12.2021	31.12.2020
	First stage	Second stage	Third stage	impaired acquired or originated		
(thousands of €)						
1. Loan commitments					**2,436,396**	**2,353,558**
a) Central Banks	-	-	-	-	-	-
b) Public Administration	214,685	-	-	-	214,685	149,713
c) Banks	15,689	-	-	-	15,689	14,199
d) Other financial companies	37,982	3,960	-	-	41,942	54,947
e) Non-financial companies	1,629,894	130,908	13,895	-	1,774,697	1,746,004
f) Households	359,465	28,364	1,556	-	389,384	388,695
2. Financial guarantees issued				**-**	**418,723**	**437,749**
a) Central Banks	-	-	-	-	-	-
b) Public Administration	220	6	-	-	226	235
c) Banks	596	-	22,022	-	22,618	21,539
d) Other financial companies	3,826	2	-	-	3,828	8,543
e) Non-financial companies	295,203	47,413	6,472	-	349,088	355,150
f) Households	35,335	7,402	226	-	42,963	52,282

Irrevocable commitments to allocate provisions for uncertain use to customers mainly refer to corporate customers.

2. Other commitments and other guarantees granted

At the reporting date there are no other commitments and other guarantees granted.

3. Assets used as collateral for own liabilities and commitments

(thousands of €)	**31.12.2021**	**31.12.2020**
1. Financial assets at fair value with impact on profit and loss	174,267	226,717
2. Financial assets measured at fair value with impact on comprehensive income	348,482	434,187
3. Financial assets measured at amortised cost	1,784,400	1,113,621
4. Tangible fixed assets	-	-
of which: property, plant and equipment qualifying as inventories	-	-

Assets used as collateral for own liabilities and commitments for repurchase agreement transactions collected amount to 503.0 million, whereas bonds as deposit and collateral for other transactions are entered for 1,304.5 million.

Please also note that at the reporting date there are bonds for 32.0 million not indicated in the table as those bonds, related to self-securitisation transactions, are not recognised in the balance Sheet assets. Those bonds are entirely constituted as collateral for the transactions with the Central Bank to sustain any cash needs.

4. Administration and mediation on behalf of third parties

Type of services *(thousands of €)*	Amount
1. Execution of orders on behalf of clients	**-**
a) Purchasing	-
1. Settled	-
2. Not settled	-
b) Sales	-
1. Settled	-
2. Not settled	-
2. individual portfolio management	**-**
3. Safekeeping and administration of securities	**5,978,163**
a) Third party securities in custody: associated with depositary bank services (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) Third party securities in custody (excluding portfolio management): other	62,167
1. securities issued by the reporting bank	-
2. other securities	62,167
c) Third party securities held with third parties	2,218,803
d) Own securities held with third parties	3,697,193
4. Other transactions	**-**

5. Financial assets offset in the financial statements or subject to offsetting framework or similar agreements

At the reporting date there are no financial assets offset in the financial statements or subject to offsetting framework or similar agreements to be reported.

6. Financial liabilities offset in the financial statements or subject to offsetting framework or similar agreements

At the reporting date there are no financial liabilities offset in the financial statements or subject to offsetting framework or similar agreements to be reported.

7. Bond loan transactions

At the reporting date, there were no bond loan transactions.

8. Disclosure of joint control activities

At the financial statement date, there were no joint control activities.

PART C INFORMATION ON THE INCOME STATEMENT

Section 1 INTEREST - ITEMS 10 AND 20

1.1 *Interest receivable and similar income: breakdown*

Items/Technical forms *(thousands of €)*	**Debt securities**	**Financing**	**Other operations**	**31.12.2021**	**31.12.2020**
1. Financial assets at fair value with impact on profit and loss:					
1.1 Financial assets held for trading	6	-	-	6	1
1.2. Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets obligatorily measured at fair value	749	675	-	1,424	1,763
2. Financial assets measured at fair value with impact on comprehensive income	6,662	10	-	6,672	3,461
3. Financial assets measured at amortised cost:					
3.1 Loans to banks	385	1,132	-	1,517	355
3.2 Loans to customers	19,920	145,821	-	165,740	183,851
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	140	140	-
6. Financial liabilities	X	X	X	20,616	6,939
Total	**27,722**	**147,637**	**140**	**196,115**	**196,370**
of which: interest receivable from impaired financial assets		8,197		8,197	10,022
of which: interest receivable from financial leases		-		-	-

The item also includes interest income on bonds the purpose of funding repurchase agreements.
The item interest receivable on loans to customers includes, for 1.1 million, the effects for amortisation, applying the effective interest rate method, of the *fair value* of the loans identified during the Purchase Price Allocation (PPA) process of the Banca Popolare di Marostica Group.

1.2 *Interest receivable and similar income: other information*

1.2.1 *Interest receivable on foreign currency financial assets*

(thousands of €)	**31.12.2021**	**31.12.2020**
a) on assets in currency	98	108

1.3 *Interest payable and similar expenses: breakdown*

Items/Technical forms *(thousands of €)*	**Payables**	**Securities**	**Other operations**	**31.12.2021**	**31.12.2020**
1. Financial liabilities valued at amortised cost					
1.1 Due to central banks	-	X	X	-	(25)
1.2 Due to banks	(1,187)	X	X	(1,187)	(4,187)
1.3 Due to customers	(6,699)	X	X	(6,699)	(9,469)
1.4 Debt securities issued	X	(9,497)	X	(9,497)	(10,026)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(2,212)	-
Total	**(7,886)**	**(9,497)**	**-**	**(19,595)**	**(23,707)**
of which: interest payable for lease debts	(134)	X	X	(134)	(153)

1.4 Interest payable and similar expenses: other information

1.4.1 Interest payable on foreign currency liabilities

(thousands of €)	31.12.2021	31.12.2020
a) on liabilities in currency	(296)	(863)

1.5 Differentials related to hedging transactions

During the year there were no differentials related to hedging transactions.

Section 2 COMMISSIONS - ITEMS 40 AND 50

2.1 Commission income: breakdown

Service type/Amounts *(thousands of €)*	31.12.2021	31.12.2020
a) Financial instruments	**2,683**	**2,193**
1. Securities placement	105	168
1.1 Underwritten and/or on an irrevocable commitment	105	168
1.2 Without irrevocable commitment	-	-
2. Receiving and transmitting orders and executing orders on behalf of clients	1,499	1,638
2.1 Reception and transmission of orders for one or more financial instruments	1,499	1,638
2.2 Execution of orders on behalf of clients	-	-
3. Other commissions related to financial instrument activities	1,079	387
of which: proprietary trading	688	-
of which: individual portfolio management	-	-
b) Corporate finance	**-**	**-**
1. Mergers and acquisitions consultancy	-	-
2. Treasury services	-	-
3. Other fees related to corporate finance services	-	-
c) Investment advisory services	**-**	**-**
d) Clearing and settlement	**-**	**-**
e) Custody and administration	**-**	**-**
1. Depository bank	-	-
2. Other fees related to custody and administration activities	-	-
f) Central administrative services for collective portfolio management	**-**	**-**
g) Fiduciary activity	**-**	**-**
h) Payment services	**46,540**	**42,395**
1. Current accounts	26,119	23,275
2. Credit Cards	3,991	2,990
3. Debit cards and other payment cards	9,452	9,330
4. Bank transfers and other payment orders	3,614	3,472
5. Other fees related to payment services	3,364	3,328
i) distribution of third-party services	**32,826**	**26,902**
1. Collective portfolio management	21,848	16,808
2. Insurance products	10,851	10,001
3. Other products	127	93
of which: individual portfolio management	-	-
j) Structured finance	**7**	**271**
k) Servicing activities for securitisation transactions	**-**	**-**
l) Loan commitments	**18,355**	**19,386**
m) Financial guarantees issued	**3,635**	**3,943**
of which: credit derivatives	-	-
n) Financing operations	**1,787**	**1,490**
of which: for factoring transactions	-	-
o) Currency trading	**621**	**646**
p) Goods	**-**	**-**
q) Other commission income	**616**	**684**
of which: for management of multi-lateral trading systems	-	-
of which: for management of organized trading systems	-	-
Total	**107,070**	**97,910**

2.2 Commission income: product and service distribution channels

Channels/Amounts *(thousands of €)*	31.12.2021	31.12.2020
a) C/o own counters:	**32,931**	**27,070**
1. asset management	-	-
2. placement of securities	105	168
3. third-party services and products	32,826	26,902
b) Off-site offer:	**1**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	1	-
c) Other distribution channels:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-

2.3 Commission payable: breakdown

Services/Amounts *(thousands of €)*	31.12.2021	31.12.2020
a) Financial instruments	**(1,532)**	**(2,615)**
of which: trading in financial instruments	(491)	(738)
of which: placement of financial instruments	(1,041)	(1,877)
of which: individual portfolio management	-	-
- Own assets	-	-
- Delegated to third parties	-	-
b) Clearing and settlement	**-**	**-**
c) Custody and administration	**(613)**	**(594)**
d) Collection and payment services	**(4,593)**	**(4,161)**
of which: credit cards, debit cards and other payment cards	(4,084)	(4,140)
e) Servicing activities for securitisation transactions	**-**	**-**
f) Commitments to receive funds	**-**	**-**
g) Financial guarantees received	**(3,738)**	**(1,752)**
of which: credit derivatives	-	-
h) off-site offer of financial instruments, services and products	**-**	**-**
i) Currency trading	**(110)**	**(128)**
l) Other commission expenses	**2,490**	**(4,128)**
internet banking	(1,610)	(2,024)
Other	(880)	(2,104)
Total	**(13,076)**	**(13,378)**

Section 3 DIVIDENDS AND SIMILAR REVENUE - ITEM 70

3.1 Dividends and similar revenue: breakdown

Items/Revenue *(thousands of €)*	31.12.2021		31.12.2020	
	Dividends	Similar revenue	Dividends	Similar revenue
A. Financial assets held for trading	-	-	-	-
B. Other financial assets obligatorily measured at fair value	-	1,198	-	881
C. Financial assets measured at fair value with impact on comprehensive income	2,360	-	-	-
D. Investments	-	-	-	-
Total	**2,360**	**1,198**	**-**	**881**

Section 4 NET PROFIT (LOSS) FROM TRADING - ITEM 80

4.1 Net profit (loss) from trading: breakdown

Transactions/Income components *(thousands of €)*	Capital gains (A)	Profit from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for Trading	**6**	**94,261**	**-**	**93,975**	**292**
1.1 Debt securities	6	54	-	27	33
1.2 Equity securities	-	-	-	-	-
1.3 UCI units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	94,207	-	93,948	259
2. Financial liabilities held for trading:	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities:					
exchange rate differences	**X**	**X**	**X**	**X**	**-**
4. Derivative instruments	**1,646**	**1,136**	**77**	**948**	**1,757**
4.1 Financial derivatives:	1,646	1,136	77	948	1,757
- on debt securities and interest rates	1,646	875	60	740	1,721
- on equity instruments and share indices	-	261	17	208	36
- on currencies and gold	X	X	X	X	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	**1,652**	**95,397**	**77**	**94,923**	**2,049**

The sub-item "Financial derivatives - on debt securities and interest rates", is related to margins and spreads on trading IRS, futures and options on securities and rates.
The column "Net result" includes, profits, losses, capital gains and losses from transactions on currencies and from derivatives on currencies and gold.

Section 5 NET PROFIT (LOSS) FROM HEDGING - ITEM 90

5.1 Net profit (loss) from hedging: breakdown

There were no hedging transactions during the year.

Section 6 PROFIT (LOSS) ON DISPOSAL/REPURCHASE - ITEM 100

6.1 Profit (loss) on disposal/repurchase

Items/Income components *(thousands of EUR)*	31.12.2021			31.12.2020		
	Profit	Losses	Net profit	Profit	Losses	Net profit
Financial assets						
1. Financial assets measured at amortised cost	40,623	(75)	40,548	6,413	(1,011)	5,402
1.1 Loans and advances to banks	-	-	-	-	-	-
1.2 Receivables from customers	40,623	(75)	40,548	6,413	(1,011)	5,402
2. Financial assets measured at fair value with impact on comprehensive income	5,726	(381)	5,345	3,609	(640)	2,969
2.1 Debt securities	5,726	(381)	5,345	3,609	(640)	2,969
2.2 Financing	-	-	-	-	-	-
Total assets	**46,349**	**(456)**	**45,893**	**10,022**	**(1,651)**	**8,371**
Financial liabilities						
1. Payables to banks	-	-	-	-	-	-
2. Payables to clients	-	-	-	-	-	-
3. Outstanding securities	7	-	7	79	-	79
Total liabilities	**7**	**-**	**7**	**79**	**-**	**79**

Section 7 NET PROFIT/LOSS FROM OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS - ITEM 110

7.1 Net change in the value of other financial assets and liabilities at fair value through profit or loss: breakdown of financial assets designated at fair value

Transactions/Income components *(thousands of €)*	Capital gains (A)	Gains on sale (B)	Capital losses (C)	Losses on sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables to banks	-	-	-	-	-
2.3 Payables to clients	-	-	-	-	-
3. Financial assets and liabilities in currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**-**	**-**	**-**	**-**	**-**

7.2 Net change in the value of other financial assets and liabilities at fair value through profit or loss: breakdown of financial assets obligatorily measured at fair value

Transactions/Income components *(thousands of €)*	Capital gains (A)	Gains on sale (B)	Capital losses (C)	Losses on sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**1,653**	**2,565**	**(7,091)**	**(10)**	**(2,883)**
1.1 Debt securities	**-**	**-**	**-**	**(10)**	**(10)**
1.2 Equity securities	-	-	-	-	-
1.3 UCI units	1,626	2,565	(3,014)	-	1,177
1.4 Financing	27	-	(4,077)	-	(4,050)
2. Financial assets in currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**1,653**	**2,565**	**(7,091)**	**(10)**	**(2,883)**

Section 8 NET IMPAIRMENT LOSSES / GAINS FOR CREDIT RISK-CAPTATION

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

Transactions/Income components *(thousands of €)*	**Value adjustments**						**Write-backs**				**Total 31.12.2021**	**Total 31.12.2020**
	First stage	Second stage	Third stage		Impaired acquired or originated		First stage	Second stage	Third stage	Impaired acquired or originated		
			Write-off	Other	Write-off	Other						
A. Loans and advances to banks	**(54)**	**-**	**-**	**-**	**-**	**-**	**6**	**-**	**-**	**-**	**(48)**	**(3)**
- Financing	(1)	-	-	-	-	-	2	-	-	-	1	41
- Debt securities	(53)	-	-	-	-	-	4	-	-	-	(49)	(44)
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
B. Receivables from customers	**(18,553)**	**(31,932)**	**(7,537)**	**(38,374)**	**-**	**-**	**34,364**	**12,919**	**(4,044)**	**-**	**(53,157)**	**(63,393)**
- Financing	(17,539)	(31,932)	(7,537)	(38,374)	-	-	33,747	12,919	(4,044)	-	(52,760)	(62,494)
- Debt securities	(1,014)	-	-	-			617	-	-	-	(397)	(899)
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
C. Total	**(18,607)**	**(31,932)**	**(7,537)**	**(38,374)**	**-**	**-**	**34,370**	**12,919**	**(4,044)**	**-**	**(53,205)**	**(63,396)**

8.1a Net value adjustments for credit risk relating to loans measured at amortised cost subject to Covid-19 support measures: breakdown

	Transactions/Income components *(thousands of €)*	**Value adjustments**				**Total 31.12.2021**	**Total 31.12.2020**
		First stage	Second stage	Third stage			
				Write-off	Other		
1.	Loans subject to forbearance measures compliant with GL	(277)	262	-	105	90	17,479
2.	Loans subject to moratorium measures in place which are no longer compliant with GL and not assessed as being granted	-	-	-	-	-	-
3.	Loans subject to other forbearance measures	-	-	-	-	-	-
4.	New loans	2,023	1,673	-	1,587	5,283	3,003
	Total	**1,746**	**1,935**	**-**	**1,692**	**5,373**	**20,482**

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

Transactions/Income components ***(thousands of €)***	**Value adjustments**						**Write-backs**				**Total 31.12.2021**	**Total 31.12.2020**
	First stage	Second stage	Third stage		Impaired acquired or originated		First stage	Second stage	Third stage	Impaired acquired or originated		
			Write-off	Other	Write-off	Other						
A. Debt securities	(112)	-	-	-	-	-	-	-	188	-	76	450
B. Financing	-	-	-	-	-	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(112)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**188**	**-**	**76**	**450**

8.2a *Net value adjustments for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown*

At the balance sheet date, as well as at the date of the previous financial statements, there are no financial assets measured at *fair value* with an impact on overall profitability subject to Covid-19 support measures.

Section 9 PROFITS/LOSSES FROM CONTRACTUAL AMENDMENTS WITHOUT WRITE-DOWNS - ITEM 140

9.1 *Profit (loss) from contractual amendments: breakdown*

This item includes the effect of changes in conditions applied to credit positions without this resulting in the cancellation of the original position.

Section 10 ADMINISTRATIVE EXPENSES - ITEM 160

10.1 Personnel expenses: breakdown

Type of Charges/Amounts ***(thousands of €)***	**31.12.2021**	**31.12.2020**
1) Employees	(99,776)	(91,563)
a) wages and salaries	(70,182)	(62,384)
b) social charges	(18,994)	(18,245)
c) severance indemnities	-	-
d) social security costs	-	-
e) Provision for employee severance indemnities	(2,991)	(2,871)
f) provision for retirement pensions and similar obligations:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external supplementary pension funds:	(4,198)	(4,076)
- defined contribution	(4,198)	(4,076)
- defined benefits	-	-
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(3,411)	(3,986)
2) Other personnel in service	(106)	-
3) Directors and Auditors	(1,501)	(1,437)
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	-	-
6) Reimbursement of expenses for third-party employees seconded to the company	-	-
Total	**(101,382)**	**(93,000)**

Item 3 "Directors and Auditors" includes remuneration paid to members of the company's Board of Directors and Board of Statutory Auditors.

10.2 Average number of employees by category

	31.12.2021	**31.12.2020**
1. Employees	**1,177**	**1,157**
a) Managers	34	35
b) Middle managers	517	514
c) Remaining personnel	626	608
2. Other personnel	**-**	**-**
Total	**1,177**	**1,157**

The average number of employees does not include directors and statutory auditors. Part-time employees are traditionally considered at 50%.

10.3 Provisions for defined benefit plan pensions: costs and revenue

There were no defined benefit pension provisions during the year.

10.4 Other employee benefits

Other employee benefits, the costs of which are shown in table 10.1 above, i)mainly include costs of 1.2 million for meal vouchers, personnel training expenses of 0.6 million and costs for insurance policies covering employees of 0.3 million.

10.5 Other administrative expenses: breakdown

(thousands of €)		31.12.2021	31.12.2020
1.	Machine and software rental fees	(2,662)	(2,275)
2.	Vehicle, food and travel expenses reimbursement	(1,193)	(1,193)
3.	Professional fees	(6,732)	(8,625)
4.	Membership fees	(825)	(715)
5.	AFAST management costs (data processing centre)	(17,261)	(16,060)
6.	Donations	(643)	(603)
7.	Building rental expenses	(367)	(317)
8.	Stamp duty and tax on stock exchange contracts	(14,344)	(13,100)
9.	Indirect taxes	(1,033)	(928)
10.	Insurance premiums	(765)	(707)
11.	Transport expenses	(788)	(828)
12.	Security expenses	(901)	(875)
13.	Electricity, heating and service charges	(1,931)	(2,030)
14.	Office material supply charges	(1,068)	(1,176)
15.	Information and title search costs	(1,658)	(2,132)
16.	Legal collection costs	(2,500)	(2,731)
17.	Property, furniture and plant maintenance expenses	(6,391)	(6,234)
18.	Advertising and entertainment expenses	(2,511)	(2,457)
19.	Cleaning costs	(1,118)	(1,400)
20.	Telephone, postal, data and telex charges	(2,746)	(2,377)
21.	Taxes and charges	(2,786)	(2,494)
22.	Treasury Consortium	(300)	(300)
23.	Levies and charges relating to the banking system	(13,528)	(11,806)
24.	Other expenses	(433)	(262)
Total		**(84,484)**	**(81,625)**

Section 11 NET PROVISIONS FOR RISKS AND CHARGES - ITEM 170

11.1 Net provisions for credit risk related to loan commitments and financial guarantees granted: breakdown

(thousands of €)		Total 31.12.2021	Total 31.12.2020
a)	Net provision for commitments to provide funds	(1,530)	(737)
b)	Net provision for financial guarantees issued	(236)	(317)
c)	Use for enforcement of guarantees	-	(3)
Total		**(1,766)**	**(1,057)**

11.2 Net provisions relating to other commitments and other guarantees issued: breakdown

At the reporting date there are no provisions relating to other commitments and other guarantees.

11.3 Net provisions for other provisions for risks and charges: breakdown

(thousands of €)	31.12.2021	31.12.2020
a) Provision for sundry civil suits, bankruptcy clawbacks and other charges	(4,302)	(2,736)
b) Net provisions for sundry personnel charge funds	-	-
c) Provisions for winding up	872	1,434
Total	**(3,430)**	**(1,302)**

Section 12 NET ADJUSTMENTS/WRITE-BACKS ON TANGIBLE ASSETS - ITEM 180

12.1 Net value adjustments to tangible assets: breakdown

Asset/income component *(thousands of €)*	Depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
A. Tangible fixed assets				
1 For functional use	(11,389)	(1,652)	-	(13,041)
- owned	(6,943)	(1,652)	-	(8,595)
- rights of use acquired with leases	(4,446)	-	-	(4,446)
2 Held for investment purposes	(306)	(1,727)	-	(2,033)
- owned	(306)	(1,727)	-	(2,033)
- rights of use acquired with leases	-			
3 Inventories	-	-	-	-
B. Assets held for sale	-	-		-
Total	**(11,695)**	**(3,379)**	**-**	**(15,074)**

Section 13 NET ADJUSTMENTS / WRITE-BACKS ON INTANGIBLE ASSETS - ITEM 190

13.1 Net value adjustments on intangible assets: breakdown

Asset/income component *(thousands of €)*	Depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
A. Intangible fixed assets				
A.1 Owned	(1,239)	-	-	(1,239)
- generated internally by the company	-	-	-	-
- Other	(1,239)	-	-	(1,239)
A.2 Rights of use acquired with leases	-	-	-	-
Total	**(1,239)**	**-**	**-**	**(1,239)**

Section 14 OTHER OPERATING EXPENSES AND INCOME - ITEM 200

14.1 Other operating expenses: breakdown

(thousands of €)	31.12.2021	31.12.2020
1. Cash differences, materiality and management	(51)	(30)
2. Losses for receivables from the Deposit Protection Fund	-	-
3. Other charges	(1,710)	(2,517)
Total	**(1,761)**	**(2,547)**

14.2 Other operating income: breakdown

(thousands of €)	31.12.2021	31.12.2020
1. Building rental income	844	825
2. Recovery of operating costs	1,397	2,058
3. Debited to third parties for sundry recoveries	17,083	15,807
4. Other income	2,464	3,088
Total	**21,788**	**21,778**

Section 15 PROFIT (LOSS) ON EQUITY INVESTMENTS - ITEM 220

15.1 Profits (losses) on equity investments: breakdown

Income Component/Amounts *(thousands of €)*	31.12.2021	31.12.2020
A. Income	140	79
1. Revaluations	-	-
2. Profits from disposal	-	7
3. Write-backs	140	72
4. Other income	-	-
B. Expenses	(40)	(363)
1. Write-downs	-	-
2. Value adjustments for deterioration	(40)	(363)
3. Losses on disposal	-	-
4. Other charges	-	-
Net profit	**100**	**(284)**

Section 16 NET RESULT OF MEASUREMENT AT FAIR VALUE OF TANGIBLE AND INTANGIBLE ASSETS - ITEM 230

16.1 Net result of the measurement at fair value (or at re-measured value) or presumed collection value for tangible and intangible assets: breakdown

During the year and in the last one there were no profits or losses from measurement at *fair value* of tangible and intangible assets.

Section 17 VALUE ADJUSTMENTS FOR GOODWILL - ITEM 240

17.1 Value adjustments for goodwill: breakdown

There were no value adjustments to goodwill during the year.

Section 18 PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - ITEM 250

18.1 Profits (losses) on disposal of investments: breakdown

Income Component/Amounts *(thousands of €)*	**31.12.2021**	**31.12.2020**
A. Mortgage	(91)	178
- Profits from disposal	805	178
- Losses on disposal	(896)	-
B. Other assets	(180)	9
- Profits from disposal	18	60
- Losses on disposal	(198)	(51)
Net profit	**(271)**	**187**

Section 19 INCOME TAXES FOR THE YEAR ON CURRENT OPERATIONS - ITEM 270

19.1 Income taxes for the year on current operations: breakdown

Income Component/Amounts *(thousands of €)*		**IRES**	**IRAP**	**31.12.2021**	**31.12.2020**
1.	Current tax expense (-)	(10,705)	(3,288)	(13,993)	(3,319)
2.	Change in current taxes over previous years (+/-)	258	-	258	139
3.	Reductions in current taxes for the year (+)	-	-	-	-
3 bis	Reduction of current taxes for the year for tax credits pursuant to (It.) Law 214/2011 (+)	-	-	-	7,031
4.	Changes in deferred tax assets (+/-)	(12,047)	(1,532)	(13,579)	(9,405)
5.	Changes in deferred tax liabilities (+/-)	13,591	2,547	16,138	170
5 bis.	Transfer from tax provision item 270 to tax provision item 60a SP	2,800	-	2,800	300
6.	Taxes for the year (-) (-1 +/- 2 + 3 + 3bis +/- 4 +/- 5)			**(8,376)**	**(5,084)**

19.2 Reconciliation between the theoretical tax charge and the actual tax charge in the financial statements

(thousands of €)	**TAXES**	*Incidence % on theoretical taxable profit*
Income tax - theoretical tax burden	**25,565**	**32.6%**
Increases in taxes	**5,090**	**6.5%**
Other non-deductible costs	3,197	4.1%
Substitute tax Realignment of property values	1,683	2.1%
Other	210	0.3%
Decrease in taxes	**(22,279)**	**-28.4%**
Effects of participation exemption	(38)	0.0%
Dividends	(1,204)	-1.5%
Realignment of property values	(16,221)	-20.7%
Other	(4,816)	-6.1%
Total changes in taxes	**(17,189)**	**-21.9%**
Effective tax charges for the year	**8,376**	**10.7%**

The main values subjected to substitute tax are considered as recognised fiscally from the start of the tax period during which the substitute tax was paid.

Section 20 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 Profit (loss) on discontinued operations after tax: breakdown

There were no profits or losses from discontinued operating activities after tax during the year for which breakdown should be reported.

20.2 Detail of income taxes relating to discontinued operations

No income taxes were levied on discontinued operations during the year.

Section 21 OTHER INFORMATION

21.1 Collection of receivables on behalf of third parties: adjustments to debit and credit

(thousands of €)	31.12.2021	31.12.2020
a) "Debit" adjustments	**765,802**	**660,142**
1. Current accounts	207,260	180,768
2. Central Portfolio	556,224	477,334
3. Cash	602	904
4. Other accounts	1,716	1,136
b) "Credit" adjustments	**870,102**	**745,984**
1. Current accounts	232,372	189,906
2. Assigned effects and documents	636,760	555,086
3. Other accounts	970	992

Section 22 EARNINGS PER SHARE

The methods used to calculate basic earnings per share are defined by IAS 33 - Earnings per Share. The basic earnings per share is established as the ratio between the economic result attributable to the owners of ordinary capital instruments and the weighted average of ordinary shares outstanding in the year.

The diluted earnings per share also considers the dilution effects resulting from the conversion of potential ordinary shares, established as financial instruments attributing the right to obtain ordinary shares to the owner. Accordingly, when calculating the account, the numerator and denominator of the ratio are adjusted to consider the effects of the additional shares that would have been outstanding if all potential ordinary shares with dilutive effects were converted..

	31.12.2021	31.12.2020
Basic earnings per share	1.45	0.33
Diluted earnings per share	1.45	0.33

"Earnings per Share" (or EPS) is a performance measure providing an indicator of shareholder participation in the result for the year and is obtained by comparing profit for the year with the weighted average of outstanding shares.

	31.12.2021	31.12.2020
Weighted average of ordinary shares	48,466,722	48,705,756
Adjustment for dilution effect	-	-
Weighted average of ordinary shares with diluted capital	48,466,722	48,705,756

At the reporting date there were no operations with dilutive effects.

22.1 Average number of ordinary shares with diluted capital

At the reporting date there were no transactions with dilutive effects on the number of shares.

22.2 Other information

There is no significant information other than that indicated in the preceding sections.

PART D COMPREHENSIVE INCOME

Analytical statement of comprehensive income

Items *(thousands of €)*		31.12.2021	31.12.2020
10.	**Profit (Loss) for the year**	**70,076**	**16,015**
	Other income not reversed to the income statement	1,246	(112)
20.	Equity securities designated at fair value through other comprehensive income:	1,677	-
	a) change in fair value	1,677	-
	b) transfers to other components of shareholders' equity	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in credit rating):	-	-
	a) change in fair value	-	-
	b) transfers to other components of shareholders' equity	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
	a) change in fair value (hedged instrument)	-	-
	b) change in fair value (hedging instrument)	-	-
50.	Tangible fixed assets	-	-
60.	Intangible fixed assets	-	-
70.	Defined benefit plans	(444)	(156)
80.	Non-current assets and asset groups held for sale	-	-
90.	Share of valuation reserves of equity accounted investments	-	-
100.	Income taxes relating to other income components not reversed to profit and loss	14	44
	Other income components reversed to profit and loss	(989)	2,410
110.	Foreign investment hedges:	-	-
	a) changes in fair value	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
120.	Exchange rate differences:	-	-
	a) value changes	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) changes in fair value	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	Hedging tools (Non-designated items):	-	-
	a) value changes	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	(1,434)	3,795
	a) changes in fair value	2,717	7,214
	b) reversal to profit and loss	(4,151)	(3,419)
	- adjustments for credit risk	(76)	(450)
	- profits / losses on disposal	(4,075)	(2,969)
	c) other changes	-	-
160.	Non-current assets and groups of assets held for sale:	-	-
	a) changes in fair value	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity accounted investments:	-	-
	a) changes in fair value	-	-
	b) reversal to profit and loss	-	-
	- adjustments from deterioration	-	-
	- profits / losses on disposal	-	-
	c) other changes	-	-
180.	Income tax on other income components reversed to profit and loss	445	(1,385)
190.	**Total other income components**	**257**	**2,298**
200.	**Comprehensive income (Item 10 + 190)**	**70,333**	**18,313**

PART E RISKS AND RELATED HEDGING POLICIES

Section 1 Credit risk

QUALITATIVE INFORMATION

1 General aspects

The Bank's lending activities are designed to support the development and consolidation of small and medium-sized enterprises and to accompany families in their financing requirements; with the dual objective of financially supporting the development of the local economies in the territories in which the Bank operates and establishing itself as a recognised, competent and lasting partner for its customers.

The Bank's credit policy has always been based on responding to requests for finance from private customers and businesses, always paying special attention to the risk/return ratio and the presence of adequate coverage with mortgage guarantees, in particular for medium/long-term exposures.

With regard to private customers, the Bank's activity focuses on mortgage and personal loans, for which it provides a broad, complete offer. It selects customers on the basis of reliability and the merit of the customer's specific financial requirements and objectives.

For small businesses, demand has mainly concentrated on short-term loans, characterised by a high risk spread; while for medium and large companies, the Bank sought to increase medium-term loans, paying special attention to loans secured by collateral.

Particular attention was paid to selecting economic sectors, with priority given to those deemed to be less risky. Support for businesses has been provided through special finance operations, such as property financing projects managed and monitored throughout their progress and redemption by use of a specific IT procedure.

In general, the loan portfolio is monitored in order to achieve broad diversification across sectors of economic activity and geographical areas (the provinces of Bolzano, Trento, Belluno, Vicenza, Padua, Treviso, Pordenone and Venice), in order to mitigate the effects of any crises. Careful, precise controls are imposed on the most significant exposures, taking account of all the legal and economic links between the counterparts, in order to maintain them within limits so as not to risk the Bank's financial and economic equilibrium.

In all cases, the credit policy is guided by a prudent approach and oriented towards establishing relationships with trusted customers based on mutual confidence and transparency with a view to fostering personalised, long-term relationships.

2. Credit risk management policies

2.1 Organisational aspects

The credit risk management process is based on the maximum involvement of all relevant departments, at the various structure levels, to reconcile the need for fast fulfilment of customer requests with an analytical assessment of the credit risk. The credit process stages are expressed in the planning of credit policies, in the investigation, allocation, periodical review, monitoring and management of "non-performing" loans.

The credit policy, implementing strategic guidelines set by company Bodies during planning and in complying with the maximum risk levels established by the RAF, establishes the size of the loans portfolio and the relative breakdown, in order to guarantee an adequate mix between the profile of the risk taken and return levels achieved. At company planning level, the guidelines become targets, for business structures, for the quality of the portfolio integrated with those of growth and profitability, to be achieved consistent with capital and risk constraints.

The deliberative autonomy system, ruled by the Board of Directors through the "cascade" delegation principle, foresees attributing limited rights to the peripheral structures, privileging control by specialised central units. Involving the various company bodies and departments in control of the credit process involves the entire company:

- The Board of Directors supervises and monitors correct allocation of resources, defines the strategic guidelines and credit policies, sets the criteria for the recognition, management and assessment of risks, approves delegation of powers and signature to be attributed to the Bodies and business Units for granting and reviewing credit lines. Checks that the structure of control functions is defined in compliance with strategic guidelines; that the latter have appropriate autonomy of judgement and adequate qualitative and quantitative resources;
- The internal credit Committee analyses and examines the credit risk management policies. Specifically, the Committee is informed of compliance with limits set in the annual "Credit strategy", examines the overall quality trend of the loans portfolio;
- General Management implements the strategies and policies established by the Board of Directors; in particular, it prepares rules, activities, procedures and organisational structures able to ensure adoption and maintenance of an efficient credit process and a solid risks control system, intervenes to eliminate any shortcomings and malfunctioning detected.
- Through the credit line Inquiry office, the Loans Department supports the decision-making bodies by receiving loans dossiers from peripheral offices, checks their formal correctness and completeness, finalisation of the inquiry.
- Branches manage the relationship with the customer, acquire documents, perform a first selection of applications, make decisions directly for the ones they are responsible for, monitor the credit ratio evolution daily, checking for any potential anomalous situations;
- Risk Management defines, develops and maintains the "models" underlying the rating system used for management purposes, checks the reliability and effectiveness of estimates it produces and possibly intervenes to improve it. Assesses, based on various analysis scales, loans portfolio riskiness, produces the relative information flows and makes them available for the bodies responsible and operating departments. The main Risk management responsibilities for correct credit risk management include defining and implementing the RAF, the ICAAP, stress tests and the remediation Plan; monitoring the activities performed by the Offices appointed to monitor and manage the credit risk, with special attention for how the rating system evolves; the planning, development and maintenance of the models and matrices adopted to measure the credit risk for management purposes; supervision of the programming of credit policies in line with the RAF and monitoring its punctual application; monitoring the overall quality of the loans portfolio through aggregated analyses and, where needed, single positions; assessment of the most important credit exposures in risk terms, preparing the relative analyses and performing controls on exceptions to rating judgements expressed by the operational units.

2.2 Management, measurement and control systems

Control of the credit risk is supported by a rating system developed by the IT services supplier, Afast srl.
The models cover the Corporate, Retail and Private management systems. Those models enable assigning a rating to each counterpart and an associated estimate of the probability of default (PD); the latter estimates the probability that an entrepreneur becomes insolvent within a year. The rating depends solely on counterpart characteristics and is, therefore, independent of any guarantees acquired. Rating assessments, produced by statistic models, are divided into 14 classes, related to the "performing" counterparts, and a class related to non-performing ones.

The rating is used in the credit process stages going from planning credit policies to monitoring trends. The rating is calculated monthly with reference to the entire population involved.

Operationally, the rating system is integrated by the loss rate with default (LGD "Loss Given Default") and by the exposure estimated at the time of default (EAD "Exposure at Default"). Estimates, specifically at single relationship level, also result from models and are influenced by the presence and type of guarantees acquired, and by the technical forms through which the loan is allocated.

The availability of that information, updated every month, provides better assessment of the risk profile, helping to improve the information capital supporting the credit allocation and monitoring process. The PD, LGD, EAD values enable calculation of the Expected Loss, representing the estimate of presumable loss associated with the credit exposure, and which provides, being a cost element, support with deciding provisions for financial statement purposes.

The impaired position classes include bad debts, unlikely to pay and loans expired and/or over the limits to a relevant extent and exceeding 90 days. The ratings released by independent agencies are used to calculate the capital requirements for the credit and counterpart risk, with the bank adopting the "standardised" assessment approach, which implies attributing weighting ratios for exposures based, where possible, on the rating assigned to each counterpart by a specialised company (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, DBRS, Cerved Group).

For the counterpart risk, besides continually monitoring the main credit groups assigned, a specific analysis of each position taken is performed periodically, mainly through the joint consideration of several indicators, including the rating judgement, data from accounting information, market data. At the loans portfolio level, riskiness is assessed based on several types of analysis, including distribution of the counterparts over time by rating classes and economic and production sector.

Those assessments support formulating credit policy guidelines and enable adopting suitable management measures and providing operational guidelines to the central and peripheral departments involved.

For what concerns the credit risk and extension of the use of its measurements to the various management areas, for some time now the Bank has introduced expected loss control targets (cost of the credit risk) when preparing the annual branch budgets. Deciding the spread and margins on loans discounts a correction factor for the credit risk based on PD and LGD parameters. This in order to guarantee greater correlation between profit performances assigned to the single production units and the effective capacity to take on and manage the risk; hence drawing growth paths for loans that are as effective as possible in risk-return terms. The credit process also foresees, in its single stages, a number of risk mitigation controls.

The inquiry stage, to ascertain presumed reliability by assessing the credit merit of applicants, foresees examining the consistency of the transaction characteristics with the funding purpose, control of the suitability of any collateral hedging the non-repayment risk, the cost-effectiveness of the credit action. In that area, the judgement expressed by the internal rating system, when available, and the associated default estimates are duly considered, as essential, indispensable elements for a full assessment of the customer.

The decision to grant the loan is made by the decision-making bodies responsible, at the time of allocation, carefully assessing all the information gathered during the inquiry, and any further opinion element possibly available. In order to guarantee greater control of the credit risk, the mechanism setting the autonomy limits for the decision-making bodies at the base of the hierarchical scale flanks the transaction's nominal value with a delegation system, also considering an objective counterpart credit riskiness measure expressed by the internal rating .

The credit lines then become operational and are then only made available to the borrower when what is foreseen in the decision has been finalised; with specific attention for acquiring guarantees, controls and assessment that they can limit the credit risk.

After granting, exposures are reviewed periodically, or revised, to ascertain that the conditions found during the inquiry and considered to allocate the funding are still applicable.

The revision can also take place automatically, with reference to positions presenting limited riskiness levels, ascertained with a rigorous examination of suitable, pre-set indicators. Credit and guarantees are monitored by continuously observing counterpart reliability and with a periodical control that general and specific requirements still exist and with the value of protections acquired; in order to guarantee full, effective enforceability if the debtor should become insolvent.

Monitoring, performed in compliance with formalised organisational procedures, is conducted so as to establish early whether any negative symptoms have arisen and promptly, effectively take the actions needed to prevent the situation getting worse. Related to that, an important role is assigned to the branches holding the credit positions because, through relations with customers, they can immediately perceive any signs of anomaly.

Specific head office departments are dedicated to analysing all the information available to continually assess the credit merit of each exposure and identify those with a greater exposure to risk.

The bank also has an identification, decision-making and monitoring process for the so-called forborne position (that is credit exposures for which changes to contractual conditions or refinancing have been granted due to the debtor's financial problems).

Varied information of a guiding type is also produced periodically to support monitoring, based on relevant analysis routes, of how the credit portfolio risk is evolving. Related to the monitoring of credits displaying anomalies, it also identifies the specific analysis of overflowing, in order to intervene promptly on problematic positions.

The anomalous credits analysis service, in the Workout Department, using measurement and trend control methods that consider internal and system data, jointly, when available, for the judgement assigned by the rating system, identifies potentially problematic counterparts and promotes actions to mitigate the credit risk. Those positions are subjected to suitable analysis and, when concrete signs of tension are detected, classify them as "non-performing" based on their gravity.

Within Risk management, a specific unit identifies the "performing" customers displaying signs of difficulty and the first relationship anomalies, as well as counterparts persistently overdrawn. In order to intervene fast on worsening relationships and effectively control the overall credit quality of the loans portfolio, monitoring processes are adopted that, supported by specific instruments, promote actions to regularise the relationships. During the inquiry, allocation, revision and monitoring stages in-depth controls on the concentration of risks for significant exposures with single counterparts or groups of counterparts with legal and/or economic connections are carried out.

For dossiers qualified as of greater important ("OMR"), based on the amount of exposure and the amount of a new loan request, a specific procedure takes place, compliant with regulations applicable. Specifically, those dossiers, integrated by the credit line investigation report, are transmitted to Risk management responsible for assessing transaction consistency with the risk target system identified in the RAF (Risk Appetite Framework).

2.3 Methods used to measure expected losses

In order to calculate the impairment of an exposure, IFRS 9 envisages:

- for performing exposures that do not present a significant increase in credit risk compared to origination, an estimate of the expected loss at 12 months, to include losses arising from default events that may occur within one year;
- for performing exposures presenting a significant increase in credit risk compared to origination, the estimated expected loss over the lifetime horizon, taking account of all losses arising from default events that may occur during the residual life of the instrument;
- for non-performing positions, cash flows discounted at the effective interest rate of the loan are considered.

The Bank has developed a position allocation model that reflects the various ways of calculating expected loss. In particular, each relationship is assigned according to a system of assignment stages, which identifies:

- stage 1: as *performing* exposures that have not suffered a significant increase in credit risk since origination;
- stage 2: performing exposures for which there has been a significant increase of the credit risk (*Significant Increase of Credit Risk* – "SICR") between the origination and reporting dates;
- stage 3 as non-performing exposures which are therefore classified as *non-performing* on the reporting date, according to the definition of default adopted by the Bank.

The criteria applied by the Bank to recognise a significant increase in credit risk (and therefore forming the basis for stage 2 classification) can be grouped into two types:

- qualitative criteria, which identify a set of indicators which when present are assumed to significantly increase risk. Three criteria can be distinguished:
  - the presence of forbearance measures (i.e. special concessions, such as amendments to existing contractual terms or refinancing following a substantial change in the economic situation of the counterpart);
  - the so-called rebuttable presumption, i.e. the presence of a continuous overrun or expired over 30 days;
  - the presence of the position on the Bank's watch list.
- the quantitative criterion, based on calculation of the lifetime PD ratio (LtPDR), which is a measure of the increase in the lifetime riskiness of a position at the reporting date compared to the origination date; stage 2 classification of a position based on the quantitative criterion occurs by comparing the LtPDR with a significance level estimated statistically.

The *lifetime* PD model developed by Volksbank plays a decisive role in calculation of the ECL and in the stage allocation of individual credit exposures. In particular, the value of MPD (*marginal* PD) at time t is used to obtain the expected loss of ECL_t at any time t<T until maturity *T*; for stage allocation, on the other hand, the level of risk expressed by the PD over the residual life of an instrument is used to identify positions that show a significant increase in credit risk, and which are consequently classified in stage 2.

The selected estimation method focuses on the estimation of *lifetime* PD curves with a Weibull function, following the derivation of the *Cumulative Default Rates* by means of Kaplan-Meier survival analysis. The reasoning behind the choice of this methodology is based on the model's greater flexibility, the theoretical soundness of the approach and the defined implementation effort, consistent with the size, internal organisational structure and the nature, scope and complexity of the Bank's business and credit portfolio.

With reference to the logic of defining impairment for exposures classified as past due or likely to default, the ECL is equal to *EAD•LGD*. In particular, the formula applied is as follows:

$$IMPAIRMENT = EAD * CCF * \left\{1 - \left(\frac{(1 - LGD)}{(1 + EIR)^{TTR}}\right)\right\}$$

where:

$$LGD = \frac{EAD - PREVISIONE\_REC\_OK}{EAD}$$

$$PREVISIONE\_REC\_OK = \min\{EAD; PREVISIONE\_DI\_RECUPERO\}$$

For positions classified as "Non-performing", the loss expected amounts to:

$$IMPAIRMENT = SVAL\_SPECIFICHE$$

In particular, the value of exposures classified as impaired is equal to the estimate of the present value of the cash flows expected to be obtained. For secured positions, the value of the cash flows that the Bank expects to recover coincides with the value of the flows deriving from completion of the process of recovering the value of each guarantee, net of costs incurred, and not contingent on the probability that the enforcement action has been taken. The TTR (recovery time) and the discount rate are necessary to estimate the present value of the cash flows.

With regard to application of sale scenarios, please see the contents of Chapter A "Accounting Policies" of the explanatory notes.

In the context of risk management for the Abnormal Loan Analysis Service, the Workout Department is responsible for ensuring:

- credit control and the management and monitoring of positions, liaising with the branch and area offices responsible for customer relations;
- the proposal, on its own initiative, of rules for the management of positions within the scope of its competence, including with reference to specific dedicated units;
- a contribution to the implementation and maintenance of an information base that enables the assessment and performance control of individual positions and the customer's overall exposure to the Bank;
- guarantee correct management of positions, providing the necessary assistance and advice to the units responsible for the customer relationship;
- systematic monitoring of the evolution of performing positions with the tools available, also referring to the *Early Warning* model, and promptly identification of positions showing signs of deterioration and which risk slipping into Stage 2;
- implementation of measures to reduce and/or contain risk exposure for those positions identified by the *Early Warning* engine in which there is a real risk of slipping into Stage 2.

For risk management purposes, it should be noted that the model adopted by the Bank provides for an *Early Warning* process based on SICR measurement methods developed during the implementation of IFRS 9. In particular, development of an*Early Warning* methodology consistent with IFRS 9 methods appears necessary in order to harmonise risk management tools with the accounting framework and consistently integrate the stage allocation process with the credit risk management practices and the way in which these practices are managed for the purposes of recognition and assessment of expected credit losses.

The natural evolution of the *Early Warning* system is to play a complementary role to stage 2, in which it plays the role of preventing the occurrence of a significant increase in risk.

The *Early Warning* mechanism minimises stage 2 migration, reducing the impact on capital and regulatory ratios, and allows for an enrichment of the tools available for credit risk management. In particular, this methodology involves identification of a *threshold* of significance ("SICR") estimated by means of a statistical model of quantile *regression* that defines the discriminatory level of risk as an estimate of the quantile of the distribution of LtPDRs that optimises the forecast of credit deterioration. In order to ensure that deterioration phenomena are captured sufficiently in advance, the *Early Warning* model is developed by extrapolating the SICR thresholds downwards, so that positions are identified that are closest to the discriminating SICR threshold for stage 2 classification in terms of*lifetime* PD variation (ΔPD).

The development of this methodology makes it possible to achieve a double benefit:

- it enables integration of the two stage allocation and *Early Warning* systems, without overlaps, resulting in harmonious functioning in two operating environments;
- it implements a methodology that is consistent across its classification accounting assessment and its credit risk management aspects. In particular, focus of the *Early Warning* model on the LtPDR (that is on the variation of the lifetime PD) bases the risk management model on the *lifetime* PD model adopted for accounting purposes, which refers to the rating system, of which it adopts and reflects the implicit risk profile estimates.

Lastly, related to use of future provisions containing *forward looking* elements, in particular *scenario-dependent*, the model defining the macroeconomic scenarios, suitably parametrized and based on specific rules defining the "transmission model" of evolutionary trends in the *scenario-dependent* structures, helps determine the risk parameters as part of the ECL calculation process. Three different macro-scenarios are adopted enabling implementation, in compliance with what is required by the standard, a sufficiently structured, punctual forecasting estimate, yet suitable for Bank size, structure and complexity. The baseline scenario, based on the "central" evolutionary trend of the macroeconomic variables compared to their value observed when the estimate is first made, which therefore constitutes the one whose implementation is generally considered as the most probable, is flanked by an adverse scenario which presents an unfavourable yet plausible evolution of the macroeconomic context and a moderately favourable scenario which presents a favourable, realistic evolution compared to the situation observed when the estimate took place.

For that purpose, the bank uses an external supplier with acknowledged competences in forecasting scenarios and a consolidated national reputation. The latter has been supporting the banking system for some time supplying macroeconomic, financial and banking variable forecasts, for activities assuming, in a forecasting, simulative way, future occurrences happening, for both strategic and healthy, prudent management purposes.

Credit risk mitigation techniques

In order to mitigate credit risk, the Bank uses all the main forms of collateral typical of the banking business, both real and personal. The main collateral acquired consist of:
- mortgages on properties;
- pledges on money and various types of securities (government securities, bonds, mutual funds, asset management, insurance policies, certificates of deposit, foreign securities, shares, etc.).

With regard to the management methods, these guarantees are acquired with a regular pledge agreement and by a notarial deed (for mortgages) and are entered into the "Loans and Guarantees" electronic procedure which enables the management, control and monitoring of such guarantees.
Personal guarantees are mainly issued by:
- natural persons in favour of companies of which they are shareholders and/or directors;
- natural persons in favour of other natural persons to whom they are linked by family relationships;
- consortia in favour of individual companies/firms associated with them (following agreements stipulated with the Bank).

To a limited extent, personal guarantees are also provided by companies in favour of other subsidiaries/associates and financial institutions in favour of companies.

An analysis of the characteristics of the guarantees provided does not reveal a particular degree of concentration in the various forms of coverage/guarantee, since the guarantees acquired, except in particular cases, can essentially be considered "specific" to each individual position. Furthermore, in general terms, no contractual constraints are in place that could undermine their legal validity.

Lastly, to check the legal and operational effectiveness of the guarantees an information / organisational / legal system (electronic credit line folder) is used and prepares texts and IT supports of the various guarantees, including:
- the regulatory operating processes of internal regulations, foreseeing and establishing rules on the values to be attributed to guarantees acquired (estimate opinions, confirmation/control/monitoring of events with cadastral preliminary enquiries, IT assessments in real time of the values of listed securities, etc.)
- verification of the authenticity of the signatures on the various guarantees (verification of company documents, witnessing in the presence of our operators, notarial authentication, etc.).

With specific reference to mortgages, reliable principles and standards are adopted to value the properties and obtain realistic, detailed estimates of the value of assets used as collateral. The Bank is also equipped with a process that can ensure efficient management and specific assessment of constrained properties in real time, through the census of assets and filing of estimates in a specific IT procedure. Furthermore, in order to fulfil supervisory provisions, to supervise the value of property, both residential and commercial/industrial, they are periodically revalued. The existence of specific requirements on properties, needed to mitigate the credit risk (regardless of the property’s value, the counterpart’s credit value, independence of repayment from financial flows from the asset and direct use of the property or its rental), it is checked by the departments appointed and made clear in the electronic credit line folders for the subsequent control of investigators and decision-making bodies.

The value of the real guarantees on financial instruments, listed on regulated markets, is automatically reviewed on a daily basis and based on list prices, in order to check, compared to the loan granted, that the initial coverage continues and permit, if that is not the case, prompt examination by managers.

3. Non-performing loan exposures

3.1 Management strategies and policies

The specific, transversal competences in the management of problematic and/or non-performing loans (“NPL”) are concentrated in the Workout Department, divided into three Business Units:

- the Abnormal Loan Analysis Service;
- the Bad Debts Service;
- the Portfolio Management/BO Reporting Service.

The organisational structure is designed to ensure hierarchical independence between the Workout Department and the structures responsible for granting credit, as well as second-level controls, in accordance with the wishes of the Supervisory Authority.

The organisational model described above involves management in activities for the recovery of positions in difficulty up to those concerning the management of positions classified as non-performing.

The central role of Management, also in support of the strategic decisions of the office responsible for strategic supervision, can be identified as its methodological, monitoring, and process management, designed and constantly maintained in order to promote active management of the items for which it is responsible.

Loans for which there are particularly severe stress signals are classified as "*Non-Performing Exposures*" in accordance with the "Guidelines on the Application of the Definition of Default under Art. 178 of Regulation (EU) no. 575/2013 "(EBA / GL / 2016/07) and the" Regulatory technical standards relating to the materiality threshold of overdue credit obligations "and related Delegated Regulation (EU) 171/2018 of the European Commission of 19 October 2017 (EBA / RTS / 2016/06), which are in turn implemented at national level by the Bank of Italy (the so-called "new DoD" discipline).

Based on how serious the anomaly is, they are divided into the following categories:

- bad debts, total existing exposures with insolvent subjects or essentially equivalent situations regardless of their guarantees and/or any expected losses;
- unlikely to pay, total exposures with debtors who, in the Bank’s opinion, are unlikely, without the use of actions such as enforcing the guarantees, to fully fulfil (capital and/or interest) their debt obligations (“unlikely to pay”). That assessment is performed regardless of the presence of any amounts (or instalments) that have expired and were not paid;
- exposures expired and/or impaired past due exposures, cash exposures, other than those classified amongst the bad debts and unlikely to pay, that have expired or been overdrawn by more than 90 days according to regulations in force.

Management of “non-performing” loans involves taking actions consistent with how serious the situation is in order to return it to normal or, if that is impossible, to implement a suitable recovery procedure. More specifically, in the presence of positions:

- non-performing, suitable credit recovery procedures are implemented; if circumstances permit it, repayment plans and/or amicable transaction proposals are prepared aimed at final closure of relationships;

- unlikely to pay, the probability is assessed as to whether the debtor is able to fulfil its contractual obligations in full in order to restore the original reliability and economic conditions of the relationship or, if that solution is assessed as impossible, everything is done for the step towards a non-performing position. The unlikely to pay for which there are restructuring agreements are checked continuously to make sure they comply with conditions agreed;
- expired and/or impaired past due, the trend is monitored and prompt actions are taken to return them to normal; having checked the debtor's effective state of financial difficulty and if the conditions exist, everything is prepared for the step to unlike to pay or non-performing.

From the bad debt management method point of view, the NPL Management Strategy is of specific importance, as required by the Bank of Italy with its "Guidelines for the Less Significant Italian Banks on the management of non-performing loans" published on 30 January 2018. In particular, in the context of the definition of the NPL management strategy, the forecast values of NPL are calculated as the evolution of 2 separate portfolios:
- the stock of loans already disbursed by the Bank and amortised;
- the stock of future loans to be disbursed by the Bank.

The above two portfolios are further divided into 3 sub-portfolios:
- guaranteed by residential properties;
- guaranteed by non-residential properties;
- not guaranteed by the properties.

The model developed by the Bank used as input data:
- analytical forecasts for the stock of *non-performing* exposures ("NPEs") developed by the Bank as at 31st December 2021. The analytical forecasts were used as the basis for the development of the forecast management model;
- the transition matrices recorded by the Bank over the last two years, adjusted on the basis of internal valuation elements and with reference to the macroeconomic context. The matrices were used to estimate percentage point rate of passage between risk classes;
- the percentages of collections and cancellations calculated from the financial statements for the last three years;
- the new stock of loans that the Bank intends to grant in the three-year planning period in accordance with the business plan in place on the date the strategy was approved;
- the amortisation plan for the stock of existing loans and the newly-disbursed loans;
- the amount of "item 130 a) Net adjustments/write-backs on credit risk of financial assets valued at amortised cost" for the period 2019-2023 as included in the business plan. These values, which constitute model input data, were used to estimate the maximum applicable prospective coverage.

Transfers between the various risk classes are calculated by applying a specific approach to the individual exposure classes:
- Performing: *default*rate registered;
- Past Due and UTPs: *danger rates and care rates*;
- Bad debts: *cure rate*.

In addition, with regard to loans classified as non-performing positions, other sources of stock reduction have been modelled such as:
- percentages of historical collections recorded by the Bank for the individual risk classes;
- percentages of historical write-offs recorded by the Bank for the individual risk classes;
- extraordinary cancellations entered as input data in a timely manner;
- sales of NPL portfolios specifically included in a timely manner;

Further source of a decrease in loan stock classified as Performing are the specific amortisation plans.

3.2 Write-off

IFRS 9 states that "an entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectation of recovery of all or a portion of it. A write-off constitutes a derecognition event".

The "guidance for banks on NPLs" published by the European Central Bank in March 2017 specifies that "the reduction in the gross book value of a financial asset corresponds to the value of the write-off".

It goes on to state that, "the derecognition of a financial asset, even a partial one, should be made by the Bank in the year in which the loan or part of it was considered non-recoverable". It follows that "the derecognition can take place before the final judicial action taken against the debtor to recover the debt has concluded. Derecognition does not imply a waiver by the Bank of its legal right to recover the debt".

Finally,"once derecognised, an amount may not be reinstated, unlike provisions, the value of which may be reinstated in the profit and loss account if there are changes in the estimate. Derecognition should not be restored and if cash flows or other assets are recovered as a last resort, their value should be recognised in the income statement as part of the income statement."

Bank of Italy Circular No. 262/2005, in its current version, establishes that a *write-off* may concern the entire amount of a financial asset or a portion thereof and corresponds to:
- the reversal of total value adjustments, as a balancing entry to the gross value of the financial asset, and
- for the part exceeding the amount of the total value adjustments, to the loss in value of the financial asset recognised directly in the Income statement.

Any recoveries from collections subsequent to the write-off are recognised in the income statement under write-backs. The term "total *write-offs*" refers to the cumulative amounts of partial and total *write-offs* on financial assets".

As part of the new provisions implementation process, the scope of positions to be written-off is defined by the positions, measured at amortised cost and belonging to the *Hold To Collect* Business Model, which are classified as doubtful or unlikely to pay and are subject to analytical loss projections.

Performing positions, whether in Stage 1 or Stage 2, and positions measured at *fair value* are therefore excluded from the *write-off*.

3.3 Impaired financial assets acquired or originated

At the balance sheet date, no impaired or originated financial assets had been acquired.

4. Financial assets subject to business renegotiations and exposures of concessions

Exposures subject to forbearance or '*forborne* exposures' are exposures subject to tolerance measures in which the Bank grants amendments to the original contractual conditions in the face of a state of ascertained or presumed financial difficulty of the debtor as a result of which it is considered unlikely that the debtor will be able to fully and regularly meet its credit obligations.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Non-performing and performing exposures: amounts, impairment losses, trend, and economic breakdown

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality *(thousands of €)*	**Bad debts**	**Unlikely to pay**	**Past due non-performing exposures**	**Past due performing exposures**	**Other performing exposures**	**Total**
1. Financial assets measured at amortised cost	72,742	126,410	6,785	64,774	11,664,232	11,934,943
2. Financial assets measured at fair value with impact on comprehensive income	-	-	-	-	620,144	620,144
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets obligatorily measured at fair value	3,366	15,022	-	-	55,772	74,160
5. Financial assets under disposal	-	-	-	-	-	-
Total as at 31.12.2021	**76,108**	**141,432**	**6,785**	**64,774**	**12,340,148**	**12,629,247**
Total as at 31.12.2020	**105,685**	**131,440**	**2,433**	**53,462**	**10,711,768**	**11,004,788**

Financial assets measured at amortised cost include non-performing exposures subject to forbearance of 438.4 million, of which 18.4 are due to bad debts and 71.6 are due to unlikely to pay positions, and non-performing exposures subject to forbearance of 348.4 million.

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

Portfolio/Quality (thousands of €)	Non-performing assets				Unimpaired assets			Total (net exposures)
	Exposure value	Value adjustments overall	Net exposure	Overall partial write-offs *	Gross exposure	Value adjustments overall	Net exposure	
1. Financial assets measured at amortised cost	448,001	242,063	205,937	13,822	11,820,115	91,110	11,729,005	11,934,943
2. Financial assets measured at fair value with impact on comprehensive income	-	-	-	-	620,144	-	620,144	620,144
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-
4. Other financial assets obligatorily measured at fair value	18,388	-	18,388	-	X	X	55,772	74,160
5. Financial assets under disposal	-	-	-	-	-	-	-	-
Total as at 31.12.2021	**466,389**	**242,063**	**224,325**	**13,822**	**12,440,259**	**91,110**	**12,404,921**	**12,629,247**
Total as at 31.12.2020	**512,901**	**273,343**	**239,558**	**10,077**	**10,840,681**	**75,451**	**10,765,230**	**11,004,788**

* value to be indicated for information purposes

Portfolio/Quality (thousands of €)	Assets of evidently poor credit quality		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	1,635
2. Hedging derivatives	-	-	-
Total as at 31.12.2021	**-**	**-**	**1,635**
Total as at 31.12.2020	**-**	**-**	**467**

A.1.3 Distribution of financial assets by past-due segment (book values)

Risk portfolios/stages	First stage			Second stage			Third stage			Impaired acquired or originated		
(thousands of €)	From 1 day to 30 days	More than 30 days up to 90 days	More than 90 days	From 1 day to 30 days	Between 30 days and 90 days	More than 90 days	From 1 day to 30 days	Between 30 days and 90 days	More than 90 days	From 1 day to 30 days	Between 30 days and 90 days	More than 90 days
1. Financial assets measured at amortised cost	31,144	-	-	18,840	12,752	2,038	4,122	2,851	110,064	-	-	-
2. Financial assets measured at fair value with impact on comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets under disposal	-	-	-	-	-	-	-	-	-	-	-	-
Total as at 31.12.2021	**31,144**	**-**	**-**	**18,840**	**12,752**	**2,038**	**4,122**	**2,851**	**110,064**	**-**	**-**	**-**
Total as at 31.12.2020	**23,879**	**-**	**-**	**12,117**	**14,743**	**2,723**	**8,224**	**1,991**	**147,189**	**-**	**-**	**-**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions

Grounds/ Stages of risk	Overall value adjustments																							**Overall Provisions on Loan commitments and financial guarantees issued**		
	Activities in the first stage						Activities in the second stage						Activities in the third stage						Impaired financial assets acquired or originated							
(thousands of €)	Loans to Central Banks and on demand central banks	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on comprehensive income	Assets held for sale	of which: individual impairment	of which: collective impairment	Loans to Central Banks and on demand central banks	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on comprehensive income	Assets held for sale	of which: individual impairment	of which: collective impairment	Loans to banks and on demand central banks	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on comprehensive income	Assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on comprehensive income	Assets held for sale	of which: individual impairment	of which: collective impairment	Stage 1	Stage 2	Stage 3
Opening balance	**4**	**40,048**	**310**	**-**	**2,374**	**37,987**	**-**	**34,069**	**-**	**-**	**-**	**34,069**	**-**	**273,343**	**-**	**-**	**70,934**	**202,409**	**-**	**-**	**-**	**-**	**-**	**1,217**	**1,311**	**3,581**
Increases from purchased or originated financial assets	-	10,307	144	-	514	9,937	-	6,678	-	-	-	6,678	-	28,981	-	-	6,417	22,564	-	-	-	-	-	664	147	1,076
Derecognitions other than write-offs	(1)	(6,326)	(197)	-	(447)	(6,077)	-	(6,037)	-	-	-	(6,037)	-	(87,405)	-	-	(21,216)	(66,189)	-	-	-	-	-	(512)	(302)	(2,492)
Net adjustments/write-backs on credit risk (+/-)	(1)	(6,365)	(23)	-	37	(6,426)	-	18,735	-	-	1,050	17,685	-	31,203	-	-	28,890	2,313	-	-	-	-	-	(138)	(176)	3,255
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	4,058	-	-	-	4,058	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing inventories	**2**	**37,664**	**234**	**-**	**2,478**	**35,421**	**-**	**53,445**	**-**	**-**	**1,050**	**52,395**	**-**	**242,064**	**-**	**-**	**85,025**	**157,039**	**-**	**-**	**-**	**-**	**-**	**1,231**	**980**	**5,420**
Reversals from collections on financial assets written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, loan commitments and financial guarantees granted: transfers between different credit risk stages (gross and nominal amounts)

Risk portfolios/stages	Gross value/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
(thousands of €)	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
1. Financial assets measured at amortised cost	571,816	102,097	33,424	8,042	54,634	775
2. Financial assets measured at fair value with impact on comprehensive income	-	-	-	-	-	-
3. Financial assets under disposal	-	-	-	-	-	-
3. Loan commitments and financial guarantees granted	24,946	7,971	294	13	3,072	4
Total as at 31.12.2021	**596,763**	**110,068**	**33,718**	**8,055**	**57,706**	**779**
Total as at 31.12.2020	**308,091**	**403,474**	**41,928**	**14,063**	**23,360**	**840**

A.1.5a Loans subject to Covid-19 support measures: transfers between the different stages of credit risk (gross values)

Risk portfolios/stages	Gross value/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
(thousands of €)	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
A Loans valued at amortised cost						
A.1 subject to forbearance measures compliant with GL	12,663	1,063	45	17	336	-
A.2 subject to moratorium measures in place which are no longer compliant with GL and not assessed as being granted	-	-	-	-	-	-
A.3 Subject to other forbearance measures	-	-	-	-	-	-
A.4 new loans	17,999	1,240	324	137	1,387	-
B Financial assets measured at fair value with impact on comprehensive income						
B.1 subject to forbearance measures compliant with GL	-	-	-	-	-	-
B.2 subject to moratorium measures in place which are no longer compliant with GL and not assessed as being granted	-	-	-	-	-	-
B.3 Subject to other forbearance measures	-	-	-	-	-	-
B.4 new loans	-	-	-	-	-	-
Total as at 31.12.2021	**30,662**	**2,303**	**369**	**154**	**1,723**	**-**
Total as at 31.12.2020	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

A.1.6 On- and off-balance-sheet exposures to banks: gross and net amounts

Types of exposure/Values	**Gross exposure**					**Overall value adjustments and total provisions**						
(thousands of €)		**First stage**	**Second stage**	**Third stage**	**Impaired acquired or originated**		**First stage**	**Second stage**	**Third stage**	**Impaired acquired or originat-ed**	**Net exposure**	**Overall partial overall ***
A. ON-BALANCE-SHEET EXPOSURES												
A1. On demand												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
a) Performing	3,475	3,475	-	-	-	(2)	(2)	-	-	-	3,473	-
A2. OTHER												
a) Bad debts	-	X	-	-	-	-	X	-	-	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	-	X	-	-	-	-	X	-	-	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
c) Past due non-performing exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
d) Past due performing exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: exposures subject to forbearance	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	1,763,227	1,763,227	-	X	-	(93)	(93)	-	X	-	1,763,134	-
- of which: exposures subject to forbearance	-		-	X	-	-	-	-	X	-	-	-
TOTAL A	**1,766,702**	**1,766,702**	**-**	**-**	**-**	**(95)**	**(95)**	**-**	**-**	**-**	**1,766,607**	**-**
B. OFF-BALANCE-SHEET LOAN EXPOSURES												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	38,432	38,432	-	X	-	(1)	(1)	-	X	-	38,432	-
TOTAL B	**38,432**	**38,432**	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**-**	**-**	**38,432**	**-**
TOTAL A+B	**1,805,134**	**1,805,134**	**-**	**-**	**-**	**(96)**	**(96)**	**-**	**-**	**-**	**1,805,039**	**-**

On-balance-sheet exposures include all cash financial assets due from banks, regardless of their accounting portfolio allocation.
"Off-balance-sheet" exposures include all financial transactions other than sheet exposures (guarantees granted, commitments, derivatives, etc.) involving assumption of a loan risk, whatever the purpose of those transactions (trading, hedging, etc.).

A.1.7 On-balance-sheet and off-balance-sheet credit exposures to clients: gross and net values

Types of exposure/Values	Gross exposure					Overall value adjustments and total provisions						
(thousands of €)		First stage	Second stage	Third stage	Impaired acquired or originated		First stage	Second stage	Third stage	Impaired acquired or originated	Net exposure	Overall partial overall *
A. CASH CREDIT EXPOSURES												
a) Bad debts	229,128	X	-	229,128	-	(153,020)	X	-	(153,020)	-	76,108	13,822
- of which: exposures subject to forbearance	52,718	X	-	52,718	-	(34,368)	X	-	(34,368)	-	18,350	4,113
b) Unlikely to pay	228,004	X	-	228,004	-	(86,572)	X	-	(86,572)	-	141,432	-
- of which: exposures subject to forbearance	115,006	X	-	115,006	-	(43,390)	X	-	(43,390)	-	71,616	-
c) Past due non-performing exposures	9,256	X	-	9,256	-	(2,472)	X	-	(2,472)	-	6,784	-
- of which: exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
d) Past due performing exposures	68,300	31,495	36,805	X	-	(3,526)	(351)	(3,175)	X	-	64,774	-
- of which: exposures subject to forbearance	10,582	-	10,582	X	-	(878)	-	(878)	X	-	9,704	-
e) Other performing exposures	10,666,014	9,790,259	875,755	X	-	(87,491)	(37,220)	(50,271)	X	-	10,578,523	-
- of which: exposures subject to forbearance	352,197	-	352,197	X	-	(13,509)	-	(13,509)	X	-	338,688	-
TOTAL A	**11,200,702**	**9,821,754**	**912,560**	**466,388**	**-**	**(333,081)**	**(37,571)**	**(53,446)**	**(242,064)**	**-**	**10,867,621**	**13,822**
B. OFF-BALANCE-SHEET LOAN EXPOSURES												
a) Non-performing	20,832	X	X	20,832	-	(5,420)	X	-	(5,420)	-	15,412	-
b) Performing	3,458,170	2,578,156	218,054	X	-	(2,210)	(1,230)	(980)	X	-	3,455,960	-
TOTAL B	**3,479,002**	**2,578,156**	**218,054**	**20,832**	**-**	**(7,630)**	**(1,230)**	**(980)**	**(5,420)**	**-**	**3,471,372**	**-**
TOTAL A+B	**14,679,704**	**12,399,910**	**1,130,614**	**487,220**	**-**	**(340,711)**	**(38,801)**	**(54,426)**	**(247,484)**	**-**	**14,338,993**	**13,822**

* Value to be indicated for information purposes

On-balance-sheet exposures include all cash financial assets due from clients, regardless of their accounting portfolio allocation.

"Off-balance-sheet" exposures include all financial transactions other than sheet exposures (guarantees granted, commitments, derivatives, etc.) involving assumption of a loan risk, whatever the purpose of those transactions (trading, hedging, etc.).

A.1.7a On-balance-sheet credit exposures to customers subject to Covid-19 support measures: gross and net amounts

Types of exposure/Values	Exposure					Overall value adjustments						
(thousands of €)		First stage	Second stage	Third stage	Impaired acquired or origi-nated		First stage	Second stage	Third stage	Impaired acquired or origi-nated	Net exposure	Overall partial overall *
A. Non-performing loans:												
a) subject to forbearance measures compliant with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) subject to moratorium measures in place which are no longer compliant with GL and not assessed as being granted	-	-	-	-	-	-	-	-	-	-	-	-
c) subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
B. Financing unlikely to pay:	**6,051**	**-**	**-**	**6,051**	**-**	**1,693**	**-**	**-**	**1,693**	**-**	**4,358**	**-**
a) subject to forbearance measures compliant with GL	421	-	-	421	-	112	-	-	112	-	309	-
b) subject to moratorium measures in place which are no longer compliant with GL and not assessed as being granted	-	-	-	-	-	-	-	-	-	-	-	-
c) subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	5,630	-	-	5,630	-	1,581	-	-	1,581	-	4,049	-
C. Non-performing overdue loans:	**242**	**-**	**-**	**242**	**-**	**63**	**-**	**-**	**63**	**-**	**179**	**-**
a) subject to forbearance measures compliant with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) subject to moratorium measures in place which are no longer compliant with GL and not assessed as being granted	-	-	-	-	-	-	-	-	-	-	-	-
c) subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	242	-	-	242	-	63	-	-	63	-	179	-
D. Other non-performing overdue loans:	**886**	**565**	**321**	**-**	**-**	**43**	**9**	**34**	**-**	**-**	**843**	**-**
a) subject to forbearance measures compliant with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) subject to moratorium measures in place which are no longer compliant with GL and not assessed as being granted	-	-	-	-	-	-	-	-	-	-	-	-
c) subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	886	565	321	-	-	43	9	34	-	-	843	-
E. Other non-performing loans:	**714,435**	**653,672**	**60,762**	**-**	**-**	**7,472**	**4,320**	**3,151**	**-**	**-**	**706,963**	**-**
a) subject to forbearance measures compliant with GL	68,634	52,762	15,872	-	-	941	303	638	-	-	67,693	-
b) subject to moratorium measures in place which are no longer compliant with GL and not assessed as being granted	-	-	-	-	-	-	-	-	-	-	-	-
c) subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	645,801	600,910	44,890	-	-	6,531	4,017	2,513	-	-	639,270	-
Total (A + B + C + D + E)	**69,055**	**52,762**	**15,872**	**421**	**-**	**1,053**	**303**	**638**	**112**	**-**	**68,002**	**-**

A.1.8 On-balance-sheet credit exposures to banks: trends of gross impaired exposures

At that date, there were no impaired exposures to banks.

A.1.8bis On-balance-sheet exposures to banks: trends in gross forborne exposures broken down by credit quality

At that date, there were no impaired exposures to banks.

A.1.9 On-balance-sheet credit exposures to clients: changes in gross impaired exposures

Causes/Categories *(thousands of €)*		**Bad debts**	**Unlikely to pay**	**Past due non-performing exposures**
A.	**Initial gross exposure**	**302,222**	**207,465**	**3,214**
	of which: exposures transferred but not derecognised	9,230	13,296	283
B.	**Increases**	**31,915**	**90,012**	**9,864**
	B.1 inflows from performing exposures	6,538	82,704	9,614
	B.2 inflows from impaired financial assets acquired or originated	-	-	-
	B.3. transfers from other categories of impaired exposures	22,799	1,176	27
	B.4 contractual changes without derecognition	-	-	-
	B.5 other increases	2,578	6,132	223
C.	**Decreases**	**(105,009)**	**(69,472)**	**(3,823)**
	B.1 outflows to performing exposures	-	(8,460)	(55)
	C.2 write-offs	(34,076)	(11,763)	(1,039)
	C.3 collections	(1,587)	(2,869)	(349)
	C.4 proceeds from disposals	(38,363)	(2,629)	-
	C.5 losses on disposal	(75)	-	-
	C.6 transfers to other categories of impaired exposures	-	(22,375)	(1,627)
	C.7 contractual changes without derecognition	-	-	-
	C.8 other decreases	(30,908)	(21,376)	(753)
D.	**Final gross exposure**	**229,128**	**228,005**	**9,255**
	of which: exposures transferred but not derecognised	1,081	6,634	317

A.1.9bis On-balance-sheet exposures to customers: trends in gross forborne exposures broken down by credit quality

Causes/Categories *(thousands of €)*		Forborne impaired exposures	Forborne exposures: performing
A.	**Initial gross exposure**	**145,872**	**46,832**
	of which: exposures transferred but not derecognised	4,697	7,555
B.	**Increases**	**73,975**	**337,993**
	B.1 inflows from non-forborne performing exposures	46,815	331,704
	B.2 inflows from performing forborne exposures	6,920	X
	B.3 inflows from non-performing forborne exposures	X	6,244
	B.4 inflows from non-forborne non-performing exposures	19,376	-
	B.5 other increases	864	45
C.	**Decreases**	**(52,123)**	**(22,047)**
	C.1 outflows to non-forborne performing exposures	X	(6,628)
	C.2 outflows to performing forborne exposures	(6,244)	X
	C.3 outflows to non-performing forborne exposures	X	(6,920)
	C.4 write-offs	(8,852)	(117)
	C.5 collections	(13,150)	(6,239)
	C.6 proceeds of disposals	-	-
	C.7 losses on disposal	-	-
	C.8 other decreases	(23,877)	(2,143)
D.	**Final gross exposure**	**167,724**	**362,778**
	of which: exposures transferred but not derecognised	4,558	126,255

A.1.10 On-balance-sheet exposures to banks: trends in overall value adjustments

Causes/Categories		Bad debts		Unlikely to pay		Past due non-performing exposures	
(thousands of €)		Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A.	**Total initial adjustments**	**-**	**-**	**-**	**-**	**-**	**-**
	of which: exposures transferred but not derecognised	-	-	-	-	-	-
B.	**Increases**	**-**	**-**	**-**	**-**	**-**	**-**
	B.1 value adjustments from impaired financial assets	-	X	-	X	-	X
	acquired or originated	-	-	-	-	-	-
	B.2. other value adjustments	-	-	-	-	-	-
	B.3 losses on disposal	-	-	-	-	-	-
	B.4 transfers from other categories of impaired exposures	-	-	-	-	-	-
	B.5 contractual modifications without derecognition	-	X	-	X	-	X
	B.6 other increases	-	-	-	-	-	-
C.	**Decreases**	**-**	**-**	**-**	**-**	**-**	**-**
	C.1 impairment reversals from measurement	-	-	-	-	-	-
	C.2 value recoveries from collection	-	-	-	-	-	-
	C.3 gains on disposal	-	-	-	-	-	-
	C.4 write-offs	-	-	-	-	-	-
	C.5 transfers to other non-performing loan categories	-	-	-	-	-	-
	C.6 contractual modifications without derecognition	-	X	-	X	-	X
	C.7 other decreases	-	-	-	-	-	-
D.	**Total final corrections**	**-**	**-**	**-**	**-**	**-**	**-**
	of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.11 On-balance-sheet exposures to customers: trends in overall value adjustments

Causes/Categories		Bad debts		Unlikely to pay		Past due non-performing exposures	
(thousands of €)		Total	Of which: forborne expo-sures	Total	Of which: forborne expo-sures	Total	Of which: forborne expo-sures
A.	**Total initial adjustments**	**211,941**	**38,283**	**89,072**	**33,924**	**781**	**-**
	of which: exposures transferred but not derecognised	5,341	100	6,160	1,819	67	-
B.	**Increases**	**32,433**	**11,527**	**38,599**	**23,315**	**2,458**	**-**
	B.1 value adjustments from impaired financial assets acquired or originated	-	X	-	X	-	X
	B.2. other value adjustments	20,258	11,527	35,075	14,253	2,005	-
	B.3 losses on disposal	75	-	-	-	-	-
	B.4 transfers from other categories of impaired exposures	12,100	-	279	-	12	-
	B.5 contractual modifications without derecognition	-	X	-	X	-	X
	B.6 other increases	-	-	3,245	9,062	441	-
C.	**Decreases**	**(85,872)**	**(15,443)**	**(24,167)**	**(13,791)**	**(767)**	**-**
	C.1 impairment reversals from measurement	(4,197)	(7,401)	(3,904)	(12,477)	(35)	-
	C.2 value recoveries from collection	(13,715)	(55)	(609)	(331)	(87)	-
	C.3 gains on disposal	-	-	(848)	(294)	-	-
	C.4 write-offs	(67,885)	(7,987)	(6,940)	(689)	(247)	-
	C.5 transfers to other non-performing loan categories	-	-	(11,458)	-	(396)	-
	C.6 contractual modifications without derecognition	-	X	-	X	-	X
	C.7 other decreases	(75)	-	(408)	-	(2)	-
D.	**Total final corrections**	**158,502**	**34,367**	**103,504**	**43,448**	**2,472**	**-**
	of which: exposures transferred but not derecognised	369	14	2,130	-	83	-

Transactions for the conversion of receivables into equity instruments

During the year, in the context of agreements to restructure impaired positions, no operations to convert receivables into equity instruments were completed.

A.2 Classification of financial assets, loan commitments and financial guarantees granted based on external and internal rating

A.2.1 Breakdown of financial assets, loan commitments and financial guarantees granted by external rating class (gross amounts)

Considering the breakdown of loan portfolios, mainly including exposures with small and medium-sized enterprises, family companies and craftsmen, professionals and consumer families, distribution of on-balance-sheet and "off-balance-sheet" exposures for external rating classes is not significant.
For prudential purposes, credit risks are measured using the standardised method. Rating judgements generated internally are not relevant for prudential purposes.

A.3 Distribution of guaranteed exposures by guarantee type

A.3.1 On- and off-balance-sheet credit exposures to guaranteed banks

At the Balance Sheet date, there were no secured bank exposures.

A.3.2 On- and off-balance-sheet credit exposures to secured clients

(thousands of €)	Gross exposure amount	Net exposure amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other derivatives								
			Property Mortgages	Property loans for leases	Securities	Other collateral guarantees	CLN	Central counterpart	Banks	Other finance companies	Other entities	Public administration	Banks	Other finance companies	Other entities	
1. Guaranteed on-balance-sheet exposures:	**6,508,151**	**6,256,240**	**4,499,206**	**-**	**17,120**	**24,881**	**-**	**-**	**-**	**-**	**-**	**798,850**	**2,245**	**40,164**	**622,616**	**6,005,082**
1.1 totally guaranteed	5,629,742	5,432,876	4,440,611	-	9,376	16,170	-	-	-	-	-	359,524	921	31,377	574,896	5,432,875
- of which non-performing	306,334	183,665	162,767	-	84	410	-	-	-	-	-	3,140	-	801	16,461	183,663
1.2 partially guaranteed	878,409	823,364	58,595	-	7,744	8,711	-	-	-	-	-	439,326	1,324	8,787	47,720	572,207
- of which non-performing	79,442	32,316	15,687	-	508	197	-	-	-	-	-	3,525	-	257	1,302	21,476
2. Guaranteed off-balance-sheet exposures:	**493,947**	**492,877**	**25,288**	**-**	**2,090**	**12,248**	**-**	**-**	**-**	**-**	**-**	**28,355**	**929**	**11,690**	**381,620**	**462,220**
2.1 totally guaranteed	423,242	422,225	25,120	-	1,805	8,441	-	-	-	-	-	9,623	929	10,513	366,304	422,735
- of which non-performing	6,033	5,593	956	-	-	321	-	-	-	-	-	268	-	606	3,945	6,096
2.2 partially guaranteed	70,705	70,652	168	-	285	3,807	-	-	-	-	-	18,732	-	1,177	15,316	39,485
- of which non-performing	1,061	1,045	-	-	-	24	-	-	-	-	-	-	-	-	28	52

A .4 Financial and non-financial assets obtained by enforcing guarantees received

At the reporting date there were no assets obtained through the enforcement of guarantees received.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Sectoral breakdown of on- and off-balance-sheet credit exposures to customers

Exposures/counterparts	Public administration		Other public bodies		Financial corporations		Insurance companies		Non-financial corporations	
(thousands of €)	Net exposure	Total value adjustments overall	Net exposure	Total value adjustments overall	Net exposure	Total value adjustments overall	Net exposure	Total value adjustments overall	Net exposure	Total value adjustments overall
A. Cash credit exposures										
A.1 Bad debts	-	-	107	4,049	-	-	49,451	116,588	26,550	32,382
of which: forborne exposures	-	-	61	3,164	-	-	11,946	24,143	6,342	7,062
A.2 Unlikely to pay	-	-	-	-	-	-	108,839	74,181	32,594	12,391
of which: forborne exposures	-	-	-	-	-	-	53,486	37,454	18,130	5,936
A.3 Past due non-performing exposures	-	-	14	5	-	-	2,313	848	4,457	1,619
of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,203,089	637	393,839	1,041	45,045	-	3,537,204	59,034	3,509,165	30,305
of which: forborne exposures	-	-	632	6	-	-	225,182	9,012	122,578	5,369
Total A	**3,203,089**	**637**	**393,960**	**5,095**	**45,045**	**-**	**3,697,807**	**250,651**	**3,572,766**	**76,697**
B. "Off-balance-sheet" credit exposures										
B. 1 Non-performing exposures	-	-	-	-	-	-	14,834	5,156	577	264
B.2 Performing exposures	214,910	-	45,760	10	50	-	2,101,916	1,878	431,413	322
Total B	**214,910**	**-**	**45,760**	**10**	**50**	**-**	**2,116,750**	**7,034**	**431,990**	**586**
Total as at 31.12.2021	**3,417,999**	**637**	**439,720**	**5,105**	**45,095**	**-**	**5,814,557**	**257,685**	**4,004,756**	**77,283**
Total as at 31.12.2020	**2,788,499**	**710**	**374,037**	**6,861**	**55,307**	**-**	**5,851,089**	**268,616**	**3,904,332**	**78,660**

B.2 Geographical distribution of on- and off-balance-sheet credit exposures to clients

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
(thousands of €)	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. Cash credit exposures										
A.1 Bad debts	75,883	(152,672)	225	(343)	-	(4)	-	-	-	-
A.2 Unlikely to pay	141,151	(86,535)	41	(31)	-	-	240	(6)	-	-
A.3 Past due non-performing exposures	6,784	(2,471)	-	-	-	-	-	-	-	-
A.4 Performing exposures	10,557,596	(90,516)	75,277	(498)	8,809	-	1,395	(2)	220	(1)
Total A:	**10,781,414**	**(332,194)**	**75,543**	**(872)**	**8,809**	**(4)**	**1,635**	**(8)**	**220**	**(1)**
B. "Off-balance-sheet" credit exposures										
B.1 Non-performing exposures	15,412	(5,420)	-	-	-	-	-	-	-	-
B.2 Performing exposures	2,783,653	(2,198)	10,336	(13)	6	-	3	-	-	-
Total B:	**2,799,065**	**(7,618)**	**10,336**	**(13)**	**6**	**-**	**3**	**-**	**-**	**-**
Total as at 31.12.2021	**13,580,479**	**(339,812)**	**85,879**	**(885)**	**8,815**	**(4)**	**1,638**	**(8)**	**220**	**(1)**
Total as at 31.12.2020	**12,772,927**	**(354,090)**	**125,271**	**(741)**	**12,778**	**(13)**	**6,581**	**(3)**	**399**	**(1)**

Exposures/Geographical areas	ITALY NORTHWEST		ITALY NORTHEAST		ITALY CENTRE		SOUTH ITALY AND ISLANDS	
(thousands of €)	Exposure net	Overall impairment losses/reversals	Exposure net	Overall impairment losses/reversals	Exposure net	Overall impairment losses/reversals	Exposure net	Overall impairment losses/reversals
A. Cash credit exposures								
A.1 Bad debts	943	(3,787)	74,421	(147,826)	391	(375)	127	(684)
A.2 Unlikely to pay	6,302	(7,991)	134,607	(78,465)	242	(78)	-	-
A.3 Past due non-performing exposures	43	(15)	6,645	(2,422)	-	-	97	(34)
A.4 Performing exposures	214,567	(5,333)	6,947,902	(83,503)	3,366,608	(1,200)	28,518	(480)
Total A:	**221,855**	**(17,126)**	**7,163,575**	**(312,216)**	**3,367,241**	**(1,653)**	**28,742**	**(1,198)**
B. "Off-balance-sheet" credit exposures								
B.1 Non-performing exposures	1,040	(41)	14,367	(5,377)	5	(2)	-	-
B.2 Performing exposures	64,241	(86)	2,695,335	(2,105)	21,910	(4)	2,167	(2)
Total B:	**65,281**	**(127)**	**2,709,702**	**(7,482)**	**21,915**	**(6)**	**2,167**	**(2)**
Total as at 31.12.2021	**287,136**	**(17,253)**	**9,873,277**	**(319,698)**	**3,389,156**	**(1,659)**	**30,909**	**(1,200)**
Total as at 31.12.2020	**317,018**	**(17,611)**	**9,673,809**	**(333,770)**	**2,747,432**	**(1,927)**	**34,666**	**(782)**

B.3 Geographical distribution of on- and off-balance-sheet credit exposures to banks

Exposures/Geographical areas (thousands of €)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Exposure net	Overall impairment losses/ reversals	Exposure net	Overall impairment losses/ reversals	Exposure net	Overall impairment losses/ reversals	Exposure net	Overall impairment losses/ reversals	Exposure net	Overall impairment losses/ reversals
A. Cash credit exposures										
A.1 Bad debts	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	1,738,623	(93)	24,512	-	-	-	-	-	-	-
Total A:	**1,738,623**	**(93)**	**24,512**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. "Off-balance-sheet" credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	22,022	-	16,209	(1)	-	-	200	-	-	-
Total B:	**22,022**	**-**	**16,209**	**(1)**	**-**	**-**	**200**	**-**	**-**	**-**
Total as at 31.12.2021	**1,760,645**	**(93)**	**40,721**	**(1)**	**-**	**-**	**200**	**-**	**-**	**-**
Total as at 31.12.2020	**833,007**	**(37)**	**39,293**	**(3)**	**267**	**-**	**133**	**-**	**-**	**-**

Exposures/Geographical areas (thousands of €)	ITALY NORTHWEST		ITALY NORTHEAST		ITALY CENTRE		SOUTH ITALY AND ISLANDS	
	Exposure net	Overall impairment losses/ reversals	Exposure net	Overall impairment losses/ reversals	Exposure net	Overall impairment losses/ reversals	Exposure net	Overall impairment losses/ reversals
A. Cash credit exposures								
A.1 Bad debts	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Past due non-performing exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	100,294	(62)	1,620,995	(6)	17,333	(25)	-	-
Total A:	**100,294**	**(62)**	**1,620,995**	**(6)**	**17,333**	**(25)**	**-**	**-**
B. "Off-balance-sheet" credit exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	22,022	-	-	-
Total B:	**-**	**-**	**-**	**-**	**22,022**	**-**	**-**	**-**
Total as at 31.12.2021	**100,294**	**(62)**	**1,620,995**	**(6)**	**39,355**	**(25)**	**-**	**-**
Total as at 31.12.2020	**90,339**	**(16)**	**707,620**	**(2)**	**35,048**	**(19)**	**-**	**-**

B.4 Large exposures

	Number of large exposures	Credit exposure *(thousands of €)*	Weighted exposure amount for large exposures *(thousands of €)*
31.12.2021	8	6,871,327	286,216
31.12.2020	6	4,276,774	152,319

The number of large exposures entered in the table is decided with reference to the non-weighted "exposures" exceeding 10% of capital allowable, as set forth in EU Regulation 575/2013 (so-called CRR), where "exposures" are intended as the sum of on-balance and off-balance-sheet risk assets (excluding those deducted from capital) with a client, or a group of connected clients, without applying the weighting factor.

The Balance Sheet table for large exposures also includes entities which - although 0% risk-weighted - have a non-weighted exposure of more than 10% of the eligible capital for the purposes of large risks.

As at 31st December 2021, exposures (market risks and included) exceeding 10% of the Supervisory Capital concerned 8 client groups with a gross exposure of 6.9 billion. In detail, the positions concern 1 belonging to the central administrations and central banks portfolio, two belonging to the public sector body portfolio, two belonging to the financial sector and 2 belonging to the company sector.

C. SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

Securitisation of residential mortgage loans - S.P.V. VOBA n. 3 S.r.l. (September 2011)

Issue characteristics

In September 2011, Volksbank completed a securitisation transaction through the sale of performing mortgage loans, for a value of approximately 400 million, to the special purpose vehicle Voba n. . 3 s.r.l., which financed the purchase by issuing bonds The transaction was completed on 1 September 2011 with the signing of contracts for the sale without recourse of the mortgage portfolio and subsequently with the issue of bonds. Volksbank acts as a portfolio servicer in the context of the securitisation transaction.
The portfolio sold had the following characteristics:

Vehicle company:	**VOBA n. 3 S.r.l.**
- Company interest in the vehicle company	0%
- Date of assignment of receivables	01.09.2011
- Type of receivables assigned	Mortgage loans
- Quality of receivables assigned	Performing
- Guarantees on receivables assigned	Mortgage Level I. legal
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	Individuals and companies
- Number of receivables assigned	3,188
- Price of receivables assigned	€ 387,269,164.82
- Nominal value of receivables assigned	€ 387,269,164.82

The characteristics of the securities issued are as follows:

Tranche	**S&P/Moody's Rating**	**Percentage**	**Amount (in euro)**
Class A1	AAA/Aaa	25.73%	102,500,000
Class A2	AA/Aa3	59.28%	236,100,000
Class C	-	14.99%	59,700,000
Total		**100.00%**	**398,300,000**

The securitisation was closed on 01/12/2021.

Residential mortgage securitisation - S.P.V. VOBA no. 5 S.r.l. (February 2014)

Issue characteristics

The Board of Directors resolved to perform a securitisation of a loans portfolio consisting of performing mortgages and unsecured loans granted to small and medium-sized enterprises (SMEs) called VOBA n. 5 S.r.l..

The transaction involved the sale of no. 4,164 transactions for a total value of €479,791,803.44.

As in the case of previous securitisation operations, the purpose of the securitisation is to obtain eligible instruments for refinancing operations with the ECB in support of liquidity requirements.

Vehicle company:	**VOBA n. 5 S.r.l.**
- Company interest in the vehicle company	0%
- Date of assignment of receivables	01.02.2014
- Type of receivables assigned	Residential mortgage loans
- Quality of receivables assigned	Performing
- Guarantees on receivables assigned	Mortgages
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	SAE 600, 614, 615
- Number of receivables assigned	4,164
- Price of receivables assigned	€ 479,791,803.44
- Nominal value including accrued interest on receivables assigned	€ 479,791,803.44

The characteristics of the securities issued are as follows:

Tranche	DBRS/Fitch Rating	Percentage	Amount (in euro)
Class A1	AAA/AA	41.11%	201,400,000
Class A2	AAA/AA	40.62%	199,000,000
Junior Class	NR	18.26%	89,450,000
Total		**100.00%**	**489,850,000**

The securitisation was closed on 01/12/2021.

Residential mortgage securitisation - S.P.V. VOBA no. 6 S.r.l. (September 2016)

Issue characteristics

The Board of Directors resolved to perform a securitisation of a loans portfolio consisting of performing mortgages and unsecured loans granted to small and medium-sized enterprises (SMEs) called VOBA n. 6 S.r.l..

The transaction involved the sale of no. 4,014 transactions for a total value of €529.5 million.

As in the case of previous securitisation operations, the purpose of the securitisation is to obtain eligible instruments for refinancing operations with the ECB in support of liquidity requirements.

Vehicle company:	VOBA N.6 S.r.l.
- Company interest in the vehicle company	0%
- Date of assignment of receivables	01/09/2016
- Type of receivables assigned	SME mortgages
- Quality of receivables assigned	Performing
- Guarantees on receivables assigned	Mortgage and unsecured loans
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	Private subjects
- Number of receivables assigned	4,014
- Price of receivables assigned	€ 529,495,061.41
- Nominal value of receivables assigned	€ 528,611,984.61

The characteristics of the securities issued and listed on the Dublin Stock Exchange are as follows:

Tranche	DBRS/Moody's rating	Percentage	Amount (in euro)
Class A1	AAA/Aa2	18.47%	100,000,000
Class A2	AA/Aa3	47.53%	257,400,000
Class B	A/A1	11.01%	59,600,000
Junior Class	NR	23.00%	124,545,000
Total		**100.00%**	**541,545,000**

The securitisation was closed on 01/06/2021.

Securitisation of residential mortgage loans - S.P.V. VOBA n. 7 S.r.l. (May 2018)

Issue characteristics

The Board of Directors resolved to perform a securitisation of a loans portfolio consisting of performing mortgages and unsecured loans granted to small and medium-sized enterprises (SMEs) called VOBA n. 7 S.r.l..

The transaction involved the sale of no. 4,473 transactions for a total value of €750.5 million.

As in the case of previous securitisation operations, the purpose of the securitisation is to obtain eligible instruments for refinancing operations with the ECB in support of liquidity requirements.

Vehicle company:	VOBA N.7 S.r.l.
- Company interest in the vehicle company	0%
- Date of assignment of receivables	01/05/2018
- Type of receivables assigned	SME mortgages
- Quality of receivables assigned	Performing
- Guarantees on receivables assigned	Mortgage and unsecured loans
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	
- Number of receivables assigned	4,473
- Price of receivables assigned	€ 750,469,537.60
- Nominal value of receivables assigned	€ 750,470,731.39

The characteristics of the securities issued and listed on the Dublin Stock Exchange are as follows:

Tranche	S&P/Moody's Rating	Percentage	Amount (in euro)
Class A1	AA/Aa3	18.45%	141,000,000
Class A2	AA/Aa3	46.05%	352,000,000
Class B	A+/Baa1	19.63%	150,000,000
Junior Class	NR	15.87%	121,319,000
Total		**100.00%**	**764,319,000**

Class A1, A2, B and Junior securities have been fully subscribed by the Company. A total of 88.7 million class A2, 150.0 million class B and 121.3 million Junior class remain.

Securitisation transaction backed by a State guarantee on liabilities issued, December 2021 (GACS III)

In December 2021, a securitisation transaction was completed involving a large number of loan portfolios deriving from mortgage or unsecured loans due by debtors classified as non-performing (the "Transaction"), within which it is envisaged that the transferring banks submit to the Ministry of Economy and Finance ("MEF") a preliminary application for the purposes of admission to the State guarantee scheme on the liabilities issued (so-called "GACS") pursuant to (It.) Legislative Decree 14 February 2016, no. 18 ("Urgent measures concerning the reform of cooperative credit banks, the guarantee on the securitisation of non-performing loans, the tax regime relating to crisis procedures and collective asset management), converted with (It.) Law no. 49 of 8 April 2016, subsequently implemented with the MEF Decree of 3 August 2016, with the MEF Decree of 21 November 2017 and with the MEF Decree of 10 October 2018.

The transaction was carried out with the aim of achieving the objectives of reducing the stock of the Bank's bad loans, reducing their share on total assets and consequently reducing the overall corporate risk profile. The securitisation mechanism and the State Guarantee on the Senior class, the latter expected for the first half of 2022, made it possible to obtain a higher transfer value than an ordinary market transaction and at the same time contain the impact of the disposal on the profit and loss account.

In particular, the transaction envisaged the disposal of a portfolio of loans identified as a "block" (the "Portfolio"), classified as non-performing at the date of assignment, originating from 38 Banks, for a total value of around 580 million in terms of gross book value (or "GBV"), through the realisation of a securitisation carried out in accordance with the following phases:

- sale without recourse on 1st December 2021 of the Portfolio to the securitisation vehicle company Buonconsiglio 4 S.r.l. (hereinafter the "SVC") established pursuant to (It.) Law no. 130 of 30 April 1999 as subsequently amended (hereinafter "Law 130");
- payment of the consideration for the sale by the SVC, financed through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, for a total nominal value of approximately 105 million, structured in the classes indicated below:
  - €117.7 million of Senior Class A Asset Backed Floating Rate Notes, maturing in 2042 with BBB ratings assigned by Scope ratings, DBRS Morningstar and ARC Ratings;
  - €16.5 million of Class B Mezzanine Asset Backed Floating Rate Notes, maturing in 2042, not rated; and
  - €5.9 of Junior Class J Notes Asset Backed Floating Rate and Variable Return Notes maturing in 2042 and not rated.

In order to fulfil the obligation to maintain the 5% net economic interest in the Transaction, referred to in Article 6 of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017, laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, the Banks have subscribed - and will undertake to maintain them throughout the duration of the Transaction - a share of at least 5% of the nominal value of each tranche of Securities issued in the context of the Transaction (so-called "vertical segment" mode). The remaining portion of the Mezzanine and Junior Notes was instead subscribed by independent third-party investors with respect to the Transferors, with the simultaneous payment of the purchase price.

As part of the transaction:

- the SVC signed a servicing contract with Prelios Credit Servicing s.p.a. which plays the role of Master Servicer and with Prelios Credit Servicing s.p.a. as a Special Service; these companies, therefore, inter alia, are required to carry out (i) the management, administration, recovery and collection of receivables; (ii) certain reporting activities relating to receivables; and (iii) the control function on the correctness of the transaction pursuant to Article 2, paragraph 6-bis of Law 130;
- a cash reserve was set up for an amount equal to 4% (€4.7 million) of the nominal value of the Senior Notes, aimed at managing the risk of any mismatch between the funds deriving from collections and the sums due for the senior costs of the Transaction and interest on the Senior Notes. This reserve, in accordance with market practice, is financed at the same time as the issuance of the Notes by an interest-bearing loan with limited recourse issued by the transferring Banks.

The transaction also provides that:

- once transferred to the SVC, the securitised assets are legally separated from the Transferors and creditors;
- time call and clean-up call options, defined in order to allow the early redemption of the Notes before maturity;
- *Optional Redemption*: the option can be exercised by the SVC on the first Payment Date immediately following the Payment Date on which the Class A Notes have been fully redeemed;
- *Redemption for Tax Reasons*: the option can be exercised by the SVC upon the occurrence of regulatory or legislative changes, or official interpretations of the competent authorities that lead to an increase in costs for the underwriters of the notes or the SVC.

In addition, the Notes must be immediately redeemed in the event that specific trigger events occur (non-payment, default on obligations, insolvency, or violation of laws).

The "waterfall" of the payments of the transaction is important to understand the level of subordination of creditors in the transaction. There are two payment waterfalls. The first Pre-acceleration Priority of Payment is the one that is used for payments if the portfolio performs in line with expectations. In the event of Issuer Trigger Events, Redemption for Tax Reasons or Redemption on Final Maturity Date, Post-acceleration Priority of Payment is used instead.

Furthermore, the *waterfall* envisages the possibility of modifying the payment order of certain items, in the event of a "subordination event", i.e. in the event that: (i) the aggregate cumulative collections of the period immediately preceding the calculation period are 90% lower than the expected collections envisaged for the same date in the transaction contracts; (ii) there is a non-payment of interest on the Class A security; (iii) if the ratio between the present value of the recoveries, for which the respective procedure is concluded, and the sum of target prices indicated in the business plan by the servicer is less than 90%.

In these circumstances, in fact, in the post-acceleration waterfall, all the interest due for the mezzanine notes is temporarily postponed to the payment of the principal of the senior notes until the payment date on which these events cease to exist.

As anticipated, the securitised portfolio is made up of loans classified as non-performing by the Banks at the date of sale. In light of the above, the amortisation profile of the portfolio can be inferred from the expected timescales for the activities relating to recovery: in this context, the Business Plan prepared after the remediation date on the portfolio shows an expected life of approximately 15 years, in the face of a legal deadline for the transaction set for 2042.

With regard to the accounting treatment of the transaction, the IFRS 9 accounting principle in paragraph 3.2.12 states that "At the time of the derecognition of the financial asset in its entirety, the difference between:

- the book value (valued at the date of derecognition) and
- the consideration received (including any new assets obtained minus any new liabilities assumed) must be recognised in the profit (loss) for the year".

Consequently, at the conclusion of the transaction, the Bank:

- derecognised from the assets of the balance sheet the receivables subject to transfer in the current financial situation at the time when the settlement of the placement of the mezzanine and junior tranches on the market took place;
- recognised in the Profit and Loss Account under item "100 Profits (losses) from the sale or repurchase of financial assets valued at amortised cost" the capital loss determined as the difference between the aggregate gross value at the date of sale of the receivables, net of value adjustments and inclusive of any collections deriving from the same receivables and pertaining to the SVC at the date of transfer, and the consideration received;
- recognised the Senior, Mezzanine and Junior securities as assets in its balance sheet for a value, respectively, equal to:
  - approximately €5.0 million for Senior securities, classified under Financial assets valued at amortised cost;
  - approximately €21,000 for Mezzanine and Junior securities, classified among Other financial assets mandatorily measured at *fair value* through the Profit and Loss Account, due to failure to pass the SPPI Test, conducted in accordance with IFRS 9.

From the point of view of the prudential treatment of the transaction, the significant transfer of risk in compliance with Article 244(2)(a) of the CRR, without prejudice to compliance with the requirements governed by art. 244 (4), is already insured as of 31st December 2021 since, as certified by the derecognition model: (i) following the placement on the market of the Mezzanine and Junior Notes issued in the context of the Transaction, the Banks hold amounts of risk-weighted exposures of mezzanine securitisation positions significantly less than 50% of risk-weighted exposures of all mezzanine securitisation positions of the securitisation and, furthermore, (ii) the reasonable estimate of expected losses on the securitised portfolio is significantly lower than the exposures deducted or that would be subject to deduction from Common Equity Tier 1 or to a risk weight of 1250%.

As anticipated, the transaction is structured in such a way as to have suitable characteristics so that the Senior Notes can benefit from the aforementioned State guarantee, pending the deconsolidation by the Transferors of the receivables involved in the Transaction in accordance with the IAS/IFRS international accounting standards. Nonetheless, at the balance sheet date, the guarantee in question on senior-ranking liabilities issued by the vehicle company has not yet been acquired and, for this reason, as of 31st December 2021, the weighting of the Bank's exposures represented by the senior securities in the portfolio can benefit from the mitigation offered by the aforementioned guarantee.

More in general, for the purposes of measuring the overall capital absorption against the credit risk generated by the Transaction, in application of the provisions of the above-mentioned EU Regulation no. 2017/2401, the Bank adopts the SEC-SA (Securitisation Standardised Approach) methodology, based on a "supervisory formula" to calculate the capital requirement on each tranche.

QUANTITATIVE INFORMATION

C.1 Exposure arising from the main “own” securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitised assets/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
(thousands of €)	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs
A. Subject of complete derecognition from the financial statements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Subject to partial derecognition from the financial statements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised from the financial statements	**8,064**	-	**90,000**	-	**121,319**	-	-	-	-	-	-	-	-	-	-	-	-	-
- Mortgage loans	8,064	-	90,000	-	121,319	-	-	-	-	-	-	-	-	-	-	-	-	-

C.2 Exposures arising from main “third party” securitisation transactions broken down by type of securitised asset and by type of exposure

Type of underlying asset/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
(thousands of €)	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs
VIVERACQUA - Securitisation of bonds	9,965	(69)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Vehicle company for securitisation

Securitisation name / Vehicle name	Registered office	Consolidation	Intangible (thousands of €)			Liabilities (thousands of €)		
			Credits	Debt Securi-ties	Other	Senior	Mezza-nine	Junior
Voba N.7 S.r.l.	Conegliano (TV)	NO	358,204	-	35,435	88,709	150,000	121,319

C.4 Unconsolidated securitisation vehicle

At the reporting date, there were no interests in non-consolidated securitisation companies. Moreover, there are no exposures to these companies and no interventions or support agreements, including financial support, have been approved for these companies.

C.5 Servicer activities - own securitisations: collection of securitised loans and redemption of securities issued by the securitisation vehicle

Vehicle company (thousands of €)	Securitised assets (end of period data)		Collection of receivables in the year		Percentage of securities repaid (end of period data)					
					Senior		Mezzanine		Junior	
	Non-performing	Performing	Non-performing	Performing	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Voba 7 S.r.l.	2,719	359,187	92	81,407	-	82.01%	-	-	-	-

D. INFORMATION ON STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION VEHICLE COMPANIES)

QUALITATIVE INFORMATION

At the reporting date, the company did not have any structured entities that are not consolidated for accounting purposes.

QUANTITATIVE INFORMATION

At the reporting date, the company did not have any structured entities that are not consolidated for accounting purposes.

E. SALES TRANSACTIONS

The information provided in this part apply to all sales transactions, including securitisation transactions.

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

Transactions mainly refer to the use of debt securities in portfolio for short and medium-term repurchase agreements and to receivables from clients sold in the context of the securitisation transactions. With regard to transactions in debt securities under medium and long-term repurchase agreements, please refer to the Notes to the Financial Statements - Part B.

QUANTITATIVE INFORMATION

E.1 Financial assets sold and fully recognised and associated financial liabilities: book values

Technical forms/portfolio (thousands of €)		Financial assets sold and fully recognised				Associated financial liabilities		
		Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which non-performing	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreement
A.	**Financial assets held for trading**	**-**	**-**	**-**	**X**	**-**	**-**	**-**
	1. Debt securities	-	-	-	X	-	-	-
	2. Equity securities	-	-	-	X	-	-	-
	3. Financing	-	-	-	X	-	-	-
	4. Derivatives	-	-	-	X	-	-	-
B.	**Other financial assets obligatorily measured at fair value**	-	-	-	-	-	-	-
	1. Debt securities	-	-	-	-	-	-	-
	2. Equity securities	-	-	-	X	-	-	-
	3. Financing	-	-	-	-	-	-	-
C.	**Financial assets designated at fair value**	-	-	-	-	-	-	-
	1. Debt securities	-	-	-	-	-	-	-
	2. Financing	-	-	-	-	-	-	-
D.	**Financial assets measured at fair value with impact on comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-	-	-	-
	2. Equity securities	-	-	-	X	-	-	-
	3. Financing	-	-	-	-	-	-	-
E.	**Financial assets measured at amortised cost**	**999,134**	**356,831**	**642,303**	**1,841**	**105,432**	**105,432**	**-**
	1. Debt securities	642,303	-	642,303	-	-	-	-
	2. Financing	356,831	356,831	-	1,841	105,432	105,432	-
	Total as at 31.12.2021	**999,134**	**356,831**	**642,303**	**1,841**	**105,432**	**105,432**	**-**
	Total as at 31.12.2020	**1,307,160**	**865,045**	**441,715**	**11,100**	**287,917**	**267,388**	**20,529**

Financial liabilities against financial assets sold but not derecognised relate to both securitisations and repurchase agreements against securities recorded as assets. However, repurchase agreements relating to securities received under reverse repurchase agreements are not included.

E.2 Financial assets sold, partially recognised, and associated financial liabilities: book values

At the Balance Sheet date, there were no partially recognised transferred financial assets or associated financial liabilities.

E.3 Transfer transactions with liabilities with recourse exclusively to the assets transferred and not fully derecognised: fair value

Columns A and B show the *fair value* of the financial assets sold but still recorded, respectively, in full or in part, under the assets of the Balance Sheet, as well as the *fair value* of the associated financial liabilities recorded following such sale, if the liabilities can only be recourse to the related assets sold. In the case of assets sold belonging to two or more accounting portfolios, the associated liabilities must, by convention, be indicated in proportion to the weight that the assets sold (measured at *fair value*) forming part of a given accounting portfolio have on the total assets sold. This last case is not present as at 31st December 2021.

This table does not show covered bond transactions where the selling bank and the financing bank are one and the same.

		Fully recognised	Partially recognised	Total	
(thousands of €)				31.12.2021	31.12.2020
A.	**Financial assets held for trading**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Equity securities	-	-	-	-
	3. Financing	-	-	-	-
	4. Derivatives	-	-	-	-
B.	**Other financial assets obligatorily measured at fair value**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Equity securities	-	-	-	-
	3. Financing	-	-	-	-
C.	**Financial assets designated at fair value**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Financing	-	-	-	-
D.	**Financial assets measured at fair value with impact on comprehensive income**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Equity securities	-	-	-	-
	3. Financing	-	-	-	-
E.	**Financial assets measured at amortised cost**	**937,660**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Financing	937,660	-	-	-
	Total financial assets	937,660	-	-	-
	Total associated financial liabilities	105,432	-	X	X
	Net value 31.12.2021	**1,043,092**	**-**	**1,043,092**	**X**
	Net value 12.31.2020	**1,738,023**	**-**	**X**	**1,738,023**

B. Financial assets sold and derecognised in full with entry in the continuing involvement

At the reporting date there were no financial assets sold and derecognised in full entered in the continuing involvement.

E.4 Covered Bond transactions

On 30 August 2019, the Board of Directors authorised a covered bonds Program for a maximum amount of 3 billion based on the sale to a special purpose vehicle of residential landed-property loans and secured mortgages originated by the Bank itself.

On 1 October 2019 there was a without recourse sale, pursuant to and for the purposes of the combined provisions of arts. 4 and 7a of Law no. 130 of 30 April 1999, to the vehicle VOBA CB S.r.l. of a portfolio of a total of 460 million performing loans in relation to the issue of the first series of covered bonds for a total of 300 million on 28 October 2019 with a duration of 7 years.

The transaction involved the sale of residential mortgages to the vehicle and the contextual transfer to it of a subordinate loan to settle the sale price. As the Bank still carries all the risks and benefits connected to those loans, those transactions do not emerge as types relevant for derecognition from the financial statements of the loans being sold as specified by IFRS 9.

The main strategic objectives pursued include that of providing the Bank with instruments intended for the market. In addition activation of instruments like this can contribute to:

- lengthening the due dates of the collection so strengthen the relation between the latter and the medium/long term loan assets;
- diversifying long-term supply sources;
- use of favourable conditions, compared to those available through normal non-covered bonds.

A complex, structured process was implemented to satisfy regulations. In particular, to enable the calculation and monitoring of legal and contractual tests, check compliance with the suitability requirements for the assets sold, draw up reports required by regulations and by rating agencies and fulfil all controls. For the counterparts involved for various reasons, the independent auditing firm BDO Italia S.p.A., as "asset monitor", audits the regulatory tests.

The transactions show a regular trend and no irregularities have emerged compared to what was established contractually. Regulations also establishes that the objectives, risks, also legal and reputational, and the control procedures implemented be assessed by corporate bodies with strategic supervision and controls functions.

Series and Class	
ISIN Code	IT0005388647
Date of issue	28 October 2019
Expiry date	28 October 2026
Currency	Euro
Amount	300,000,000
Type of rate	Fixed
Parameter	n.a.
Coupon	0.250%, per annum, annually in arrears
Law applicable	Italian

F. MODELS FOR MEASURING CREDIT RISK

The bank does not use internal portfolio models to measure the exposure to credit risk.

Section 2 MARKET RISKS

2.1 Interest rate risk and price risk - supervisory trading book

QUALITATIVE INFORMATION

A. General aspects

The supervisory trading book constitutes a very small fraction of the proprietary book; the majority of the financial instruments held are registered in the accounting categories Hold To Collect & Sell (HTCS) and Hold To Collect (HTC) and accordingly belonging to the banking book.

However, the analytical instrumentation used to measure market risks (interest rate risk and price risk) is the same for the entire proprietary portfolio.

Interest rate risk represents the risk associated with the possibility of incurring losses on the Bank's financial assets as a result of unfavourable market interest rates.

Price risk, on the other hand, represents the risk associated with changes in the value of outstanding positions, deriving from fluctuations in market prices. It breaks down into:
- generic risk: a change in the price of an equity instrument as a result of fluctuations in the reference stock market;
- specific risk: change in the market price of a specific equity security resulting from changes in the market's expectations of the issuer's capital strength or prospects.

The proprietary portfolio is managed with a view to prudent management of transactions, geared to limiting market risks and in compliance with the strategic indications and operating limits contained in the "Investment Policy", the document "Operating limits and proxies for finance and liquidity" and the annual "Operating Plan".

The main source of interest rate risk is proprietary bonds; trading is aimed at absolute return targets by maximising portfolio profitability in strict compliance with the *Value at Risk* (VaR) and *Stop-Loss* limits, defined in the internal regulations mentioned above. The portfolio's bond section consists of floating-rate and fixed-rate securities with a limited duration. Most of the bonds held refer to securities issued by the Italian Republic or by Italian banks of national importance. The interest rate risk is assumed by the Investment Service, which also uses derivative instruments (*futures*, IRS) for hedging purposes.

The main source of price risk, on the other hand, is represented by equity positions relating to mainly European companies and only marginally by derivative instruments linked to equity indices. In this case, too, the strategy pursued is geared towards prudent asset management and conscious risk-taking. They also apply to the price risk limits of *Value at Risk* and *Stop-Loss*.

Almost all of the financial instruments in the portfolio are denominated in euros, making the exchange rate risk entirely marginal.

The assets in the proprietary portfolio did not undergo significant changes compared to the previous year, except for the average stock that increased in accordance with the strategic planning guidelines.

B. Management processes and methods for measuring interest rate risk and price risk

The internal control and market risk management processes (interest rate and price) are contained in the "Investments policy" and in the document "Policy on limits and the operating powers for finance and liquidity", both reviewed periodically and decided by the Board of Directors.

The policy formalises the performance of risk management activities relating to market risks, defines the tasks and responsibilities assigned to the various organisational units with competence in the matter and specifies, in particular, the main operating processes, measurement methods, exposure limits, information flows and any corrective actions.

Investment and trading activities are accordingly carried out in compliance with internal policy and are carried out within the framework of an articulated internal regulatory system of delegation of management powers, which provides for management limits defined in terms of negotiable financial instruments, amount, duration, investment markets, types of issues and issuers, sector and rating.

As part of its risk management activities, Risk management produces daily and monthly reports.

Related to the market risk control and management methods, here below please find the control indicators and the first and second level internal control processes on the overall operations of the proprietary portfolio. In general, limits are differentiated amongst the various market risk types (rate and price), but are nevertheless brought back into a unitary framework, built with a homogeneous logic.

The structure of the operating powers of finance is divided into four levels:
- operating limits
- position limits: credit and concentration risk
- Stop-Loss limits
- Value-at-Risk (VaR) limits

The structure of the operating limits requires the use of the following risk indicators:
- interest rate risk: sensitivity (change in profits or losses that would occur in the event of a change of one hundredth of a point in the reference curve, with a parallel shift);
- equity risk: delta equivalent (market value for equity positions and cash equivalent position for equity derivatives);
- maximum amount invested: countervalue of securities/funds at loading prices to ensure compliance with the average stocks allocated.

The position limits are structured on:
- limits on the assumption of credit risk: overall limits are set on exposure on the rating classes, in particular below the investment grade bracket;
- sectoral limits;
- credit sensitivity limits (change in profits or losses that would occur in the event of a change of one hundredth of a point in the credit spread);
- limits for maturity bands;
- constraints related to eligibility criteria for Eurosystem purposes;
- country limits: there are limits on the maximum permissible exposure per country depending on the country's rating.

The *Stop-Loss* limits are checked on the results achieved and not achieved during the last business day, accumulated over the last 5 business days (weekly stop-loss) and accumulated over the last 30 calendar days (monthly stop-loss), reinforced by a cumulative check since the beginning of the year, with a process of reporting to the bodies responsible for the appropriate decisions. The limits are based on the maximum level of loss deemed acceptable in the reference period, in line with the Bank's strategic choices (Risk Capital within the *Risk Appetite Framework*, RAF) and contained in the Annual Operating Plan. The Risk Capital is in turn divided between the various asset classes forming the portfolio.

Related to the VaR limits, the latter is defined as the threshold amount beyond which no losses should occur with a confidence level and on a specific time horizon. VaR is a uniform measurement indicator applicable to all types of trading on the markets and all financial instruments, thus making it possible to compare risk values from the point of view of both time and daily profitability. For the calculation of VaR, the Bank uses the parametric model of variance-covariance provided by Prometeia, supported by internal models used for the necessary checks, as well as for planning purposes: for example, VaR from Monte Carlo simulations and historical VaR using the Extreme Value Theory for the highest levels of confidence. The responsibility for daily checks on operating, position, *Stop-Loss* and *VaR* limits lies with the risk control function, which, in order to avoid and prevent possible overruns of authorised risk limits, checks and verifies the approaching of the thresholds by means of a standardised daily reporting system.

VaR models are for management purposes only and are not used to calculate capital requirements on market risks for which, instead, the standardised methodology is adopted for the purposes of the relative supervisory reporting to the Bank of Italy.

QUANTITATIVE INFORMATION

1. *Supervisory trading book: distribution by residual maturity (repricing date) of financial assets and liabilities in cash and financial derivatives*

Type/Remaining time (thousands of €)		At sight	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Indefinite duration
1.	***Cash assets***	**-**	**-**	**-**	**-**	**-**	**1,504**	**-**	**-**
1.1	Debt securities	-	-	-	-	-	1,504	-	-
	- With early redemption option	-	-	-	-	-	-	-	-
	- Other	-	-	-	-	-	1,504	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	P.C.T. liabilities	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**1,565**	**(1)**	**-**	**3,049**	**(2,754)**	**(294)**	**-**
3.1	With underlying security	-	1,465	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	1,465	-	-	-	-	-	-
	+ Long positions	-	1,500	-	-	-	-	-	-
	- Short positions	-	(35)	-	-	-	-	-	-
3.2	Without underlying security	-	100	(1)	-	3,049	(2,754)	(294)	-
	- Options	-	-	-	-	3,049	(2,754)	(294)	-
	+ Long positions	-	-	-	-	41,356	13,402	1,306	-
	- Short positions	-	-	-	-	(38,307)	(16,156)	(1,600)	-
	- Other derivatives	-	100	(1)	-	-	-	-	-
	+ Long positions	-	87,922	2,115	-	-	-	-	-
	- Short positions	-	(87,822)	(2,116)	-	-	-	-	-

2. *Supervisory trading book: distribution of exposures in equities and equity indices for the main countries of the quotation market*

Type of transactions/Listing index		Listed			Not listed
		ITALY	USA	OTHERS	
A.	Equity securities	6	-	-	-
	- long positions	6	-	-	-
	- short positions	-	-	-	-
B.	Buying/selling not yet regulated on equity securities	38	-	-	-
	- long positions	38	-	-	-
	- short positions	-	-	-	-
C.	Other derivatives on equity securities	(858)	-	-	-
	- long positions	-	-	-	-
	- short positions	(858)	-	-	-
D.	Derivatives on share indices	-	-	-	-
	- long positions	-	-	-	-
	- short positions	-	-	-	-

3. *Supervisory trading book - internal models and other methods for sensitivity analysis*

Below please find the VaR trend related to 2021 (confidence 95%, confidence interval 1 day), referred to the entire proprietary portfolio of Volksbank (however excluding what is priced at amortised cost):

In addition to traditional VaRs, a 99.9% daily VaR is also calculated using the so-called "Extreme Value Theory". The use of this methodology has a considerable advantage in terms of accuracy, especially in the evaluation of extreme events (unlikely situations, but high impact).

2.2 Interest rate risk and price risk - Supervisory trading book

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring interest rate risk and price risk

The internal measurement, control and management process for the interest rate risk of the bank portfolio uses a monitoring system based on an internal model for the daily calculation of the Value at Risk (VaR), also used to analyse sensitivity to the price risk.

This model is for the financial assets classified under "other financial assets obligatorily measured at *fair value*", the "financial assets measured at *fair value* through other comprehensive income" and the financial assets measured at amortised cost".

The relative internal risk control and management process, for both interest rate and price, and the method, are the same as what is detailed in the qualitative information related to "Interest rate and price risk - supervisory portfolio".

On monitoring based on the sensitivity analyses using ALM methods, the difference is made between the interest rate risk from "*fair value*" and the interest risk from "cash flow". The main sources of interest rate risk from "*fair value*" are found in collection transactions - especially at sight - and loans - mainly mortgages and debt securities - at fixed rate. The rate risk from "cash flow" also comes from the remaining assets and liabilities at sight or at indexed rate.

The guidelines and discipline for the management of interest rate risk are contained in the "ALM Policy" according to a clear and easily understandable model. The measurement of interest rate risk is based on a gap analysis model:

- in relation to the annual interest margin (12 months), calculation of the effect of an instantaneous and parallel shift of the yield curve by one percentage point, which is assumed to occur instantaneously and in parallel on all maturities on the day following the reference date;
- in relation to the present value of assets, the full repricing ("*full valuation*") of assets and liabilities following a parallel shift of two percentage points, and recalculating the difference (the "delta") with respect to the previous situation. The risk indicator represents the ratio between the total change in value and equity.

In order to ensure a realistic treatment of on-demand assets and liabilities (current accounts in euros and in foreign currency and savings deposits), the analysis uses an econometric model parametrised on the basis of the historical behaviour of the items themselves.

The Risk Management function then calculates monthly the sensitivity of the Bank's net interest and assets margin at pre-set changes in the interest rate curve on transactions outstanding at the reference date (end of the month).

The results of the analysis, together with the interest rate forecasts prepared by the Investment and Treasury Services, are contained in a monthly report and contribute to defining the interest rate risk hedging policy established by the Finance Committee. They are discussed on a monthly basis in the Finance Committee itself. The Treasury and Investment Services are accordingly responsible for implementing the decisions taken in practice.

2 main indicators are identified to strengthen control of the interest rate risk, related to the sensitivity to risk rate of the interest margin and of the current value of equity respectively, for which specific limits are set:

- ΔMI% indicator: Delta Margin of Interest (shock +200bp/-200bp)/ Expected Margin of Interest
- ΔVE% indicator: Delta Economic Value (worse than regulatory shocks) / Own funds

For the first indicator, a limit of 12% is set and for the second a limit of 16%. Verification of the limits set out is the responsibility of the Risk Management Function, which carries it out at least quarterly.

B. Fair value hedging activities

At the reporting date, there were no *fair value* hedges.

C. Cash flow hedging activities

At the reporting date, there were no cash flow hedges.

D. Hedging of foreign investments

For further information, reference should be made to the section on the exchange rate risk.

QUANTITATIVE INFORMATION

1. *Banking book: distribution by residual maturity (re-pricing date) of financial assets and liabilities*

Type/Remaining time *(thousands of €)*		At sight	Up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than 5 years up to 10 years	Over 10 years	Indefinite duration
1.	**Cash assets**	**728,284**	**2,320,415**	**1,446,263**	**34,063**	**704,441**	**488,742**	**278,725**	**-**
1.1	Debt securities	369	722,386	1,370,855	31,909	679,981	488,711	278,725	-
	- with early redemption option	-	-	-	-	-	-	-	-
	- other	369	722,386	1,370,855	31,909	679,981	488,711	278,725	-
1.2	Loans to banks	50	1,597,646	-	-	-	-	-	-
1.3	Loans to customers	727,865	383	75,408	2,154	24,460	31	-	-
	- C/AC	727,865	383	75,408	2,154	24,460	31	-	-
	- Other loans	-	-	-	-	-	-	-	-
	- with early redemption option	102,645	3,517,827	56,325	126,902	831,654	572,273	536,326	-
	- other	636,457	101,437	25,752	13,393	77,376	14,074	9,656	-
2.	**Cash liabilities**	**7,732,372**	**18,458**	**1,661**	**101,016**	**2,776,651**	**30,012**	**-**	**-**
2.1	Payables to clients	7,554,991	-	-	-	-	-	-	-
	- C/AC	7,554,991	-	-	-	-	-	-	-
	- other payables	-	-	-	-	-	-	-	-
	- with early redemption option	-	-	-	-	-	-	-	-
	- other	315.156	798,692	14,311	48,791	266,577	7,144	9,643	-
2.2	Payables to banks	177,381	13,092	-	-	2,478,363	-	-	-
	- C/AC	41,206	-	-	-	-	-	-	-
	- other payables	136,175	13,092	-	-	2,478,363	-	-	-
2.3	Debt securities	-	5,366	1,661	101,016	298,288	30,012	-	-
	- with early redemption option	-	-	-	-	-	-	-	-
	- other	-	5,366	1,661	101,016	298,288	30,012	-	-
2.4	Other liabilities	-	-	-	-	-	-	-	-
	- with early redemption option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
3.	**Financial derivatives**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security	-	-	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ long positions	-	-	-	-	-	-	-	-
	- short positions	-	-	-	-	-	-	-	-
	- other derivatives	-	-	-	-	-	-	-	-
	+ long positions	-	-	-	-	-	-	-	-
	- short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security	-	-	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ long positions	-	-	-	-	-	-	-	-
	- short positions	-	-	-	-	-	-	-	-
	- other derivatives	-	-	-	-	-	-	-	-
	+ long positions	-	-	-	-	-	-	-	-
	- short positions	-	-	-	-	-	-	-	-
4.	**Other off-Balance-Sheet transactions**	**(137,382)**	**17,658**	**35**	**-**	**3,213**	**19,608**	**114,513**	**-**
	+ long positions	500	17,658	35	-	3,213	19,608	114,513	-
	- short positions	(137,882)	-	-	-	-	-	-	-

2. Banking book: internal models and other methods for the sensitivity analysis

With reference to assets and liabilities generating an interest margin - other than the debt securities of the supervisory trading book, of the P.C.T. assets and liabilities (with underlying debt securities of the supervisory trading book) to the other contracts in the information on the supervisory trading book - as defined in the qualitative information to this section, please note that exposure to the interest rate risk is measured using an internal model foreseeing a *full-valuation* approach of all positions that form the interest-bearing assets and onerous liabilities. In detail, the model envisages the following phases:

- calculation of the*net present value* (NPV) of individual assets and liabilities and off-Balance Sheet items and determination of the economic value (given by the difference between the NPV of assets and liabilities and the NPV of liabilities);
- definition of a scenario relating to a change in the interest rate curve (parallel shift or *steepening or flattening* of the curve with reference to the maturities considered most relevant);
- recalculation of the NPV of on-Balance Sheet and off-Balance Sheet instruments on the basis of the new interest rate curve and determination of the new economic value;
- determination of the change in economic value as the difference between the pre- and post-shock value of interest rates.

At the end of the year, the modified duration calculated on the assets and liabilities of the entire financial statements and the duration gap were contained.

2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring exchange rate risk

Support for commercial activities in foreign currencies and the trading service for foreign securities are the main source generating an exchange rate risk for the Bank.

Management of the exchange rate risk is centred with the Treasury with limited exposures.

Automatic network systems interfaced with a single position keeping system give the Treasury Service continual control and in real time of flows in currency that are instantly transferred to the Forex interbank market. The position is updated in real time in the Treasury. The Service can therefore act on the interbank market to balance any imbalances created due to the aforementioned transactions.

The integrated IT treasury procedure (Murex) allows efficient management of spot, forward and optional flows within the framework of pre-established operating limits, defined in the "Investment Policy" and the annual "Operating Plan".

All currency positions are revalued daily at the reference exchange rates of the European Central Bank and constitute the economic contribution of the foreign exchange business to the overall profitability of the Bank.

B. Exchange rate risk hedging activities

Exposure to exchange rate risk is limited by the Company's extremely prudent attitude, expressed in a highly circumscribed currency trading activity.

The exchange rate risk generated by lending and borrowing activities in foreign currencies is also systematically hedged in real time through a hedging and/or borrowing operation in the same currency.

QUANTITATIVE INFORMATION

1. *Distribution of assets, liabilities and derivatives by currency of denomination*

Items *(thousands of €)*	Currencies					
	US Dollars	Pounds Sterling	Swiss Francs	Yen	Canadian Dollars	Other currencies
A. Financial assets	**2,951**	**-**	**4,764**	**350**	**-**	**-**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	-
A.3 Loans to banks	-	-	-	-	-	-
A.4 Loans to customers	2,951	-	4,764	350	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**989**	**198**	**744**	**15**	**41**	**284**
C. Financial liabilities	**34,639**	**13,734**	**2,718**	**1**	**177**	**118**
C.1 Payables to banks	1,080	13,092	228	-	-	-
C.2 Payables to clients	33,559	642	2,490	1	177	118
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**30,754**	**13,523**	**(2,918)**	**(348)**	**134**	**(54)**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
- short positions	-	-	-	-	-	-
- Other derivatives	30,754	13,523	(2,918)	(348)	134	(54)
+ long positions	53,573	13,862	-	-	134	126
- short positions	(22,819)	(339)	(2,918)	(348)	-	(180)
Total assets	**57,513**	**14,060**	**5,508**	**365**	**175**	**410**
Total liabilities	**57,458**	**14,073**	**5,636**	**349**	**177**	**298**
Unbalance (+/-)	**55**	**(13)**	**(128)**	**16**	**(2)**	**112**

2. *Internal models and other methodologies for sensitivity analysis*

The exchange rate risk generated by the trading and banking books is monitored using an internal model, described in the section "Interest rate risk and price risk - Supervisory trading book" where, in addition to the section "Interest rate risk and price risk - Banking book", the values assumed by this indicator are shown.

Section 3 Derivative instruments and hedging policies

3.1 Derivative instruments held for trading

A. FINANCIAL DERIVATIVES

A.1 Financial derivatives held for trading: year-end notional amounts

Underlying assets/ Type of derivatives	31.12.2021				31.12.2020			
	Over the counter				Over the counter			
		Without central counterparts				Without central counter-parts		
(thousands of €)	Central counterpart	With netting agreements	Without netting agreements	Organised markets	Central counterpart	With netting agreements	Without netting agreements	Organised markets
1. Debt securities and interest rates	**-**	**-**	**1,505**	**-**	**-**	**-**	**10,005**	**-**
a) Options	-	-	5	-	-	-	5	-
b) Swaps	-	-	-	-	-	-	10,000	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	1,500	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**858**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	858	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**68,654**	**-**	**-**	**-**	**65,201**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	68,654	-	-	-	65,201	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**71,017**	**-**	**-**	**-**	**75,206**	**-**

A.2 Financial derivatives held for trading: gross positive and negative fair value - breakdown by product

Type of derivatives	31.12.2021				31.12.2020			
	Over the counter				Over the counter			
		Without central counterparts				Without central counterparts		
(thousands of €)	Central counterpart	With netting agreements	Without netting agreements	Organised markets	Central counterpart	With netting agreements	Without netting agreements	Organised markets
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	126	-	-	-	146	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**126**	**-**	**-**	**-**	**146**	**-**
2. Negative fair value								**-**
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	414	
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-		-	-
e) Forward	-	-	60	-	-	-	1,369	-
f) Futures	-	-	-	-	-		-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**60**	**-**	**-**	**-**	**1,783**	**-**

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair value by counterpart

Underlying assets *(thousands of €)*	Central counterpart	Banks	Other finance companies	Other entities
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
- notional value	X	1,505	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and share indices				
- notional value	X	858	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	67,153	-	1,501
- positive fair value	X	126	-	-
- negative fair value	X	48	-	12
4) Other values		**-**	**-**	**-**
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting agreements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and share indices	**-**	**-**	**-**	**-**
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	**-**	**-**	**-**	**-**
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Other values	**-**	**-**	**-**	**-**
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives held for trading: notional amounts

Underlying/Residual life ***(thousands of €)***	**Up to 1 year**	**Over 1 and up to 5 years**	**Over 5 years**	**Total**
A. 1 Financial derivatives on debt securities and interest rates	1,500	-	5	1,505
A. 2 Financial derivatives on equity securities and share indices	858	-	-	858
A. 3 Financial derivatives on foreign currencies and gold	68,654	-	-	68,654
A. 4 Financial derivatives on goods	-	-	-	-
A. 5 Other financial derivatives	-	-	-	-
Total as at 31.12.2021	**71,012**	**-**	**5**	**71,017**
Total as at 31.12.2020	**75,202**	**-**	**5**	**75,207**

B. CREDIT DERIVATIVES

B.1 Credit derivatives held for trading: notional values at the end of the period

At the reporting date, there were no trading credit derivatives.

B.2 Credit derivatives held for trading: gross positive and negative fair value - breakdown by product

At the reporting date, there were no trading credit derivatives.

B.3 OTC credit derivatives held for trading: notional values, gross positive and negative fair values by counterpart

At the reporting date, there were no trading credit derivatives.

B.4 Residual life of OTC credit derivatives held for trading: notional values

At the reporting date, there were no trading credit derivatives.

B.5 Credit derivatives associated with the fair value option: annual changes

At the reporting date, there were no credit derivatives associated with the *fair value* option.

3.2 Accounting hedges

QUALITATIVE INFORMATION

A. Fair value hedging activities

At the reporting date, there were no accounting hedges in place.

B. Cash flow hedging activities

At the reporting date, there were no accounting hedges in place.

C. Hedging of foreign investments

At the reporting date, there were no accounting hedges in place.

D. Hedging instruments

At the reporting date, there were no accounting hedges in place.

E. Covered elements

At the reporting date, there were no accounting hedges in place.

QUALITATIVE INFORMATION

A) Hedging financial derivatives

A.1 Hedging financial derivatives: notional values at the end of the period

At the balance sheet date there are no financial hedging derivatives.

A.2 Financial derivatives held for trading: gross positive and negative fair value - breakdown by product

At the reporting date, there were no financial hedging derivatives.

A.3 OTC financial hedging derivatives: notional amounts, gross positive and negative fair value by counterpart

At the reporting date, there were no financial hedging derivatives.

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

At the reporting date, there were no financial hedging derivatives.

B) Hedging credit derivatives

B.1 Hedging credit derivatives: notional values at the end of the period

At the reporting date, there were no hedging credit derivatives.

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

At the reporting date, there were no hedging credit derivatives.

B.3 OTC credit derivatives held for trading: notional values, gross positive and negative fair values by counterpart

At the reporting date, there were no hedging credit derivatives.

B.4 Residual life of OTC hedging credit derivatives: notional values

At the reporting date, there were no hedging credit derivatives.

C) Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and type of hedge

At the reporting date, there were no hedging instruments other than derivatives.

D) Hedged instruments

D.1 Fair value hedges

At the reporting date, there were no hedging transactions.

D.2 Hedges of cash flows and foreign investment

At the reporting date, there were no hedging transactions.

E) Effects of hedging transactions on shareholders' equity

E.1 Reconciliation of shareholders' equity components

At the reporting date, there were no hedging transactions.

3.3 Other information on derivatives (trading and hedging)

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OTC financial and credit derivatives: net fair value for counterparts

At the reporting date, there were no hedging transactions.

B.1 OTC financial derivatives: counterparty risk/financial risk - Internal models

For the purposes of calculating the capital requirement for counterpart risk, the Company does not use internal EPE models validated by the supervisory authorities.

For management and capital adequacy assessment purposes (ICAAP process), it uses a risk estimation model for the component represented by over-the-counter (OTC) derivative transactions.

This model uses internal market risk estimation methodologies to determine the potential short-term evolution of the *fair value* of positions, incorporating the benefits of market correlations and including the impacts of guarantee agreements.

Section 4 Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management procedures and measurement methods of the liquidity risk

Liquidity risk typically occurs as a non compliance with payment commitments or being unable to finance the financial statement assets promptly and based on cost-effectiveness criteria. Those negative circumstances can occur because of:

- not being able to raise funds or to obtain them at reasonable costs (*funding liquidity risk*);
- not being able to sell or reduce a position without significantly affecting the price, due to the bad market efficiency or its malfunctioning (*market liquidity risk*).

The Bank’s general liquidity risk management strategy, characterised by a limited appetite for risk, is displayed first of all by adopting specific management guidelines enabling the reduction of the unfavourable circumstances described above probably happening.

In particular, referred to the first of the aforementioned risk sources, the Bank’s commitment is mainly addressed at maintaining a broad, stable, retail collection base, adequately diversified. Further important supply sources are from Italian and international companies and from banking counterparts from whom the Bank has no difficulty with financing itself at market rates. The bank also uses funding granted by the European Central Bank (Targeted Longer-Term Refinancing Operations).

The potential liquidity risk from difficulties to disinvest its positions is limited thanks to the Bank’s choice to keep a portfolio of high quality bonds. It mainly includes Government bonds, and, to a lesser extent, bonds issued by other issuers, with high cash value characteristics as they are easy to sell on markets and can be used, with a need for liquidity, in both repurchase agreement transactions with bank counterparts and in the European Central Bank refinancing transactions if the bonds, as most of them are, are eligible.

The liquidity risk is controlled through the actions of different business units: the first control is the action implemented by the operating functions foreseeing specific control that activities they are responsible for are carried out correctly and that they draw up the summary of daily operations.

Liquidity risk management is described in the “Liquidity and funding policy” document, which is reviewed and approved annually by the Board of Directors. It defines in detail:

- the organisational model, which assigns roles and responsibilities to the organisational functions involved in the liquidity management and control process;
- operational and structural liquidity management policies, with an indication of the models and metrics used to measure, monitor and control the liquidity risk, as well as to perform stress tests;
- the*Contingency Funding Plan* (CFP) foreseeing, besides a description of the indicators supporting identification of possible emergencies, the organisation processes and actions to re-establish the normal liquidity management condition.

An essential element of that management is the distinction between short-term operational liquidity (with a time horizon of up to 12 months) and medium- to long-term structural liquidity (with a time horizon of more than 12 months). The former is aimed at avoiding situations of sudden liquidity tension, caused by specific shocks of the Bank or systemic market shocks; the latter responds to the need to ensure optimal management, from a strategic point of view, of the transformation of the maturities between deposits and loans, through an adequate balance of the maturities of the assets and liabilities, so as to prevent future liquidity crisis situations.

The measurement and control of operational liquidity and structural liquidity have been defined by means of a system of indicators, limits and periodic reporting, including on a daily basis. In particular, a so-called *maturity ladder* has been set up, i.e. a system for monitoring the net financial position that makes it possible to highlight the balances and accordingly the imbalances between expected flows and outflows over predefined time bands and, through the construction of cumulative imbalances, the calculation of the net balance of financial needs (or surpluses) over the considered time horizon.

For the measurement of liquidity risk, the Bank also uses the so-called Liquidity-at-Risk (LaR) model, which is based on the observation of "autonomous" negative net flows of liquidity - considering the historical series of the last 5 years and on the application of the *Extreme-Value-Theory* which enables improving the precision of the analysis for high levels of confidence. In particular, daily data are used for the following variables: compulsory reserve with the Bank of Italy, interbank deposits, bond issues, securitisations, movements in securities, extraordinary flows. The data are processed in order to determine the daily cash flows attributable exclusively to decisions outside the direct control of the Bank (Treasury Service) and accordingly attributable to client behaviour. The 3 levels of confidence hypothesised represent the Bank's liquidity needs in normal (up to the LaR value with 99% confidence), stress (up to 99.9%) and extreme conditions (up to 99.99%) at 1 day, 1 week (5 working days), 2 weeks (10 working days) at one month (20 working days).

Another key liquidity risk management activity concerns the execution of a stress test programme to assess the Bank's vulnerability to exceptional but plausible events. In particular, stress tests are performed in terms of scenario analysis, consistent with the definition of liquidity risk adopted and trying to simulate the behaviour of their cash flows in unfavourable conditions against subjective conjectures based on corporate experience and/or indications provided by regulations and supervisory guidelines.

In addition, the policy clearly defines the organisational structure of the structures and functions responsible for liquidity management and related controls and the emergency plans to be implemented in the event of stress or crisis situations (CFPs, Contingency Funding Plans), the declaration of which originates from the problematic development of a predefined series of exogenous and endogenous factors.

Moreover,the "Policy on the system of internal transfer prices" ("TIT") of funds has the following objectives:

- the transfer of interest rate and liquidity risks from the commercial network to the treasury unit, so as to ensure centralised assessment and management of the Bank's exposure to these types of risks;
- the transfer from the commercial network to the treasury unit of contributions resulting from the transformation of maturities;
- the possibility of evaluating in precise ways the actual contribution at the level of each individual business unit and each individual client relationship.

The internal transfer rates at the base of the system, in addition to being differentiated by maturity (multiple TITs), being based on market rates that are effectively negotiable by the treasury, guaranteeing profit margins for the operating units consistent with the Bank's overall profitability, are all made up of several components with different purposes:

- the interest rate free component (TIT risk free), which transfers interest rate risk from commercial units to the treasury unit;
- the liquidity component (TIT), which takes into account the cost of funding (refinancing) that the Bank has to face on the interbank market and the risk-taking capabilities set out in the "Risk Policy" and the "Liquidity Policy";
- the "bonus-malus" component as an instrument with which to manage any commercial incentives.

QUANTITATIVE INFORMATION

1. *Distribution of financial assets and liabilities over time by residual contractual duration*

Items/Scales of time (thousands of €)		At sight	Over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Indefinite duration
Cash assets		**844,038**	**18,270**	**24,502**	**126,616**	**271,800**	**348,075**	**657,883**	**5,179,254**	**3,533,407**	**1,601,497**
A.1	Government bonds	311	-	2,123	-	5,841	36,993	60,014	2,170,782	705,000	-
A.2	Other debt securities	398	-	10	3,414	26,278	5,572	23,320	279,425	63,011	-
A.3	UCI units	47,008	-	-	-	-	-	-	-	-	-
A.4	Financing	796,321	18,270	22,369	123,202	239,681	305,510	574,549	2,729,047	2,765,396	1,601,497
	- Banks	50	-	-	-	1,177	1,324	2,749	-	-	1,597,747
	- Customers	796,271	18,270	22,369	123,202	238,504	304,186	571,800	2,729,047	2,765,396	3,750
Cash liabilities		**7,965,401**	**686,181**	**2,381**	**8,516**	**16,795**	**15,773**	**48,068**	**3,192,893**	**218,500**	**-**
B.1	Deposits and current accounts	7,897,584	14,616	2,381	3,033	16,600	14,085	48,053	257,280	-	-
	- Banks	92,029	13,093	-	-	-	-	-	-	-	-
	- Customers	7,805,555	1,523	2,381	3,033	16,600	14,085	48,053	257,280	-	-
B.2	Debt securities	-	-	-	5,369	-	1,666	-	300,000	130,000	-
B.3	Other liabilities	67,817	671,565	-	114	195	22	15	2,635,613	88,500	-
"Off-balance-sheet" transactions		**(155,040)**	**62**	**11**	**(7)**	**16,158**	**34**	**-**	**3,213**	**134,121**	**-**
C.1	Financial derivatives with exchange of capital	-	62	11	(7)	(1,500)	(1)	-	-	-	-
	+ Long positions	-	34,328	789	20,874	30,431	2,115	-	-	-	-
	- Short positions	-	(34,266)	(778)	(20,881)	(31,931)	(2,116)	-	-	-	-
C.2	Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.3	Deposits and loans to be received	(17,658)	-	-	-	17,658	-	-	-	-	-
	+ Long positions	-	-	-	-	17,658	-	-	-	-	-
	- Short positions	(17,658)	-	-	-	-	-	-	-	-	-
C.4	Irrevocable commitments to disburse funds	137,382	-	-	-	-	35	-	3,213	134,121	-
	+ Long positions	500	-	-	-	-	35	-	3,213	134,121	-
	- Short positions	(137,882)	-	-	-	-	-	-	-	-	-
C.5	Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6	Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7	Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.8	Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

At the date, there are no Hedge Funds in the Bank's portfolio.

Section 5 Operational risk

QUALITATIVE INFORMATION

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

In line with supervisory requirements, operational risk is defined as the risk of loans losses due to errors, violations, interruptions, external events or damage resulting from malfunctions in internal processes or inadequacies of persons and/or systems. Operational risks include, amongst other things, losses resulting from theft and fraud, human error, operational disruption, system unavailability, transaction execution, breach of contract, data processing, property damage and natural disasters.

With reference to governing operating risks, the Risk management department is responsible for establishing methods and coordinating execution of management and control processes, preparing specific information flows for the competent company Bodies and Departments, in order to ensure the full knowledge and governance of risky phenomena, also potential, the bank is exposed to.

Monitoring and measurement of operational losses

The most advanced method of measuring the operational risk profile involves the combined use of information on internal and external historical operating losses, with qualitative factors deriving from scenario analysis and evaluations relating to the control system and the operating context.

With regard to the monitoring of operational risks, it should first of all be noted that the Bank is a member of the interbank consortium DIPO (Italian Data Base for Operational Losses) promoted by the Italian Banking Association, and accordingly regularly collects information on operating losses.

The internal database of operating losses reports all events with a gross operating loss of more than 500 Euros. Reports from the network and the internal business units are integrated with losses deriving from passive legal actions and complaints from clients; both the latter types of events are systematically recorded and monitored during their evolution in special internal databases under the responsibility of the Legal Advice organisational unit and the Compliance department respectively.

Where a legal and accounting analysis reveals elements that may suggest a probable future disbursement of economic resources, adequate provisions will be made for risks and charges as a precautionary measure and, if possible, settlement policies will be implemented.

The information obtained from the internal and external databases (DIPO), the detailed analysis of the most significant loss events according to their impact and/or frequency of occurrence, the countermeasures already taken or to be taken are discussed periodically in the Internal Control Committee. This meeting, possibly also involving the operational functions (process owners) affected from time to time, identifies the main sources of manifestation of operational risks and potential critical situations, the adequacy of existing operational processes with respect to possible sources of loss, the actions to be taken with a view to prevention and mitigation, and the quality of insurance cover. As already indicated, where deemed appropriate, certain categories of operational risks are mitigated through the conclusion of ad hoc insurance contracts. The Bank also has a sophisticated going concern plan, reviewed and verified on an annual basis; it establishes principles, targets and procedures aimed at reducing the damage resulting from accidents and catastrophes to an acceptable level.

The Risk Management department also carries out numerical analysis and processing activities, based on data from the internal database of operating losses and DIPO return flows, with the aim of calculating the VaR values of operating losses (Operational VaR, or potential losses). The model consists of running Monte Carlo simulations on a large number of scenarios. In each scenario, the operating losses incurred in a year are simulated, numerically and as an amount, by acting on 2 independent distributions that model the following key variables:

- distribution of the frequency of loss events (number of events in 1 year); the Poisson distribution is used;
- distribution of the impact (amount) of the loss events ("*severity loss distribution*"); the generalised Pareto distribution is used according to the methodology of the *Extreme-Value-Theory* (EVT, model of the extreme values).

To calculate the capital requirements referred to the operating risk, the Bank uses the standardised method (*Traditional Standardized Approach*) based on provisions in Regulation (EU) 575/2013 of 26 June 2013 which implements the Basel 3 principles. It establishes that the calculation of the overall capital charge will be equal to the average of the so-called TSA contribution, referring to the last three annual observations made at the end of the financial year (31st December). For each year, the TSA contribution is obtained from the sum of the contributions of the individual regulatory business lines (BL, *business line*), the latter calculated by applying as weighting factors the regulatory coefficients (known as "B" or risk factors) to the relevant indicator. These ratios have been estimated by the Supervisory Authority on the basis of the ratio between the losses historically recorded by the banking industry in that particular BL and the relative economic indicator. As a relevant indicator, the regulations establish the set of elements taken from the accounting items of the Profit and Loss Account, which are appropriately dealt with.

Processes for identifying and assessing operational risks

A key element used to identify, assess and implement operating risks containment actions in company operations is the company process system.

The assessment of inherent and residual operational risks takes place through a *risk self-assessment* methodology and process, common to all corporate control departments, by means of which the operational processes underlying the Bank's business activities are analysed with respect to every possible risk factor, considering its potential impact. Each type of risk (inherent and residual) is then assigned an overall assessment of its "relevance" using as a guideline a breakdown of the analysis on two dimensions:

- impact of the risk on normal business operations;
- the probability (or frequency) that the risk will occur over a given period of time.

The assessment of the residual risk starts from that of the inherent risk, reducing it on the basis of the degree of mitigation that is expected to be provided by the controls; a greater robustness of the controls leads to a reduction of the residual risk. Risk Management uses the following tools to correctly assess the significance of the risks:

- mapping of processes in order to identify critical risk points, interdependencies between different risks, control areas and possible control deficiencies,
- the results of the verification activities carried out by the control functions,
- information of various kinds relating to the probability of entry of a risk and the possible economic damage that may result from it,
- risks for which there is insufficient information on probability of occurrence and causable damage, will, where appropriate, be subject to qualitative estimation analysis.

Dedicated analysis, measurement and monitoring methodologies are developed for the management of specific types of operational risk, such as

- IT risk, i.e. the risks associated with the use of *Information and Communication Technology* - ICT;
- outsourcing risk, i.e. the risks arising from the outsourcing of the Bank's processes, functions and services to third parties,
- model risk, i.e. the risk of potential negative consequences deriving from decisions made on the basis of results obtained from unreliable or incorrectly used models.

Control management processes

The monitoring of operational risks, within the Internal Control System, is guaranteed by the adoption of an integrated control model which, in line with the supervisory provisions, is divided into three levels and involves, each with own specific role, the business functions responsible for line controls (or 1st level controls) and the company control functions responsible for 2nd level controls (Risk management and Compliance) and 3rd level controls (Internal audit).

The results of monitoring and control activities are periodically discussed and evaluated by the Internal Control Committee, which is composed of all the company's control functions and which, in particular, has the task of establishing priorities for action and coordinating the performance of control activities

In addition, operational risk monitoring makes use of the results of the monitoring and analysis of operational losses contained in the periodic report prepared by the Risk Management Department and the related discussion within the Internal Control Committee itself.

First-level controls

Level 1 controls, or line controls, are to ensure the correct, regular performance of the transactions underlying all company processes and are carried out by the same network production organisational units or in the context of *middle and back-office* activities, preferably through the use of IT procedures/systems.

They are the first line of defence in the operating risk control system.

Line controls are the responsibility of the single process owners who have to assess the design and effectiveness in risk mitigation related to execution of the operating processes.

Second-level controls

Level 2 controls are entrusted to different structures, independent of the production ones and:

- contribute to the definition of risk measurement methodologies, verifying compliance with the assigned limits also in terms of consistency of operations with the set risk/return targets (RAF),
- contribute to the definition of methodologies for the measurement/assessment of conformity risk, identify suitable procedures for the prevention of the risks identified and request their adoption,
- certify/declare the company's accounting information in accordance with the law.

These controls are mainly aimed at monitoring risks, verifying compliance with risk limits and external and internal regulatory provisions, checking the consistency of the various operations with the strategic targets of risk-return, and reporting conduct or events that differ from the usual operations.

The Risk Management function (as a risk management function) and the Compliance function (which incorporates the regulatory compliance function and the anti-money laundering function) carry out part of their activities within the scope of level 2 controls. In order to ensure the effectiveness of the performance of their duties, the functions responsible for carrying out level 2 checks will be provided with the necessary independence, authority and professionalism.

Third-level controls

Level 3 controls are entrusted to structures other than the production ones and are aimed at identifying anomalous trends, violations of procedures/regulations and evaluating the functionality of the overall Internal Control System.

Level 3 controls are entrusted to the Internal Audit Department as the internal audit Function.

Controls identify anomalous trends, breaches of procedures and regulations and assess the overall functionalities of the internal controls system. That activity was carried continually during the year, periodically or for exceptions, through in loco controls and by using remote instruments, in accordance with Supervisory Instructions.

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is represented by the presence of losses connected to breaches of regulatory provisions an/or adoption of inappropriate commercial and market practices, mainly configurable as prudential provisions made for legal or conduct disputes.

The total amount of operating losses also includes errors made when performing daily activities, in particular when executing transactions or as part of relations with counterparts that are not customers, and the losses resulting from events of an exogenous nature, such as forgery / fraudulent collection of cheques and theft / loss / cloning payment cards, normally mitigated through specific insurance policies.

Internal reporting for 2021 showed 250 new reports with a gross loss of €1,846,822, of which 15.6% from external or internal fraud cases (equal to 1.2% of the value), 78.4% from process execution errors (with 94.3% of the value), 6.0% from other factors, counterfeit notes, system failures, legal disputes, etc. (4.4% of the value).

By way of comparison, in 2020 there were 168 events, corresponding to gross losses of €2,257,838.

PART F INFORMATION ON ASSETS

Section 1 COMPANY ASSETS

A. QUALITATIVE INFORMATION

The solidity of the banking system is a public, specifically protected interest and the solvency and reliability of banks assumes they maintain suitable capital resources. For the Company those resources must be able to absorb any losses without prejudicing the reasons of depositing parties. So the real consistency of those resources is a founding element of the Company's reputation.

The need for a suitable supply of capital was made even stricter by the crisis and by Supervisory Body activities that are now at supranational level. The 2007-2008 economic-financial crisis brought the importance of capital adequacy to the forefront, because of the consistent losses recorded, the explosion of losses expected induced by the recession and by the worsening of credit quality and by the asset assessment uncertainties.

The adjustment process of European rules to international standards is now concentrating on adopting the revision of the Basel III package. The corrections made to Basel III are to reduce the excessive variability of the risk measures and make them more transparent and comparable, to give all stakeholders correct assessments of the banks' risk profiles. That way, providing correct incentives to increase the solidity of the banking system and strengthen the capacity to sustain the real economy.

The measures approved aim to restore market trust in how weighted risk assets are calculated: i) limiting the use of internal models; ii) improving the robustness and sensitivity to risk of standardised calculation methods for credit risk requirements and the operating risk; iii) introducing backstop measures, such as a financial lever ratio and a floor to weighted risk activities.

Faithful to its people's bank cultural matrix, the Company has identified in its capitalisation policy the instrument that, favouring the creation of the partner-customer figure, enables it to pursue the autonomous growth strategy. Company growth has therefore involved periodical increases in capital, in simple, transparent forms in the technical methods that can give the corporate body clear, immediate understanding of transaction characteristics.

The financial means collected with those transactions, together with the allocations of profits made in compliance with statutory specifications have enabled the Company to expand its activities uniformly and look towards future challenges with a certain tranquillity.

B. QUANTITATIVE INFORMATION

B.1 Company assets: breakdown

Items/Amounts *(thousands of €)*		31.12.2021	31.12.2020
1.	**Capital**	**201,994**	**201,994**
2.	**Emission surcharges**	**298,787**	**298,787**
3.	**Reserves**	**284,005**	**267,883**
	- of profits:	284,005	267,883
	a) legal	123,700	122,100
	b) extraordinary	169,309	155,227
	c) treasury shares	-	-
	d) other	(9,004)	(9,444)
	- other	-	-
4.	**Capital instruments**	**-**	**-**
5.	**(Treasury shares)**	**25,225**	**(22,735)**
6.	**Valuation reserves**	**2,375**	**2,118**
	- Equities designated at fair value with impact on total revenue	234	(1,334)
	- Hedging of equity securities designated as at fair value through other comprehensive income		
	- Financial assets (other than equity securities) measured at fair value with impact on total revenue	5,477	6,466
	- Tangible fixed assets	-	-
	- Intangible fixed assets	-	-
	- Hedging of foreign investments	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (non-designated elements)		
	- Exchange rate differences	-	-
	- Non-current assets and disposal groups held for sale	-	-
	- Financial liabilities designated at fair value through profit or loss (changes in credit rating)	-	-
	- Actuarial gains (losses) on defined-benefit pension plans	3,336	(3,014)
	- Portion of valuation reserves relating to investee companies valued by the equity method	-	-
	- Special revaluation laws	-	-
7.	**Profit (loss) for the year**	**70,076**	**16,015**
	Total	**832,012**	**764,062**

B.2 Valuation reserves for financial assets at fair value through other comprehensive income: breakdown

Assets/Amounts		31.12.2021		31.12.2020	
(thousands of €)		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	6,322	(844)	6,577	(111)
2.	Equity securities	1,568	(1,334)	-	(1,334)
3.	Financing	-	-	-	-
	Total	**7,890**	**(2,178)**	**6,577**	**(1,445)**

B.3 Valuation reserves for financial assets at fair value through other comprehensive income: annual changes

(thousands of €)	Debt securities	Equity securities	Financing
1. Opening balance	**6,466**	**(1,334)**	**-**
2. Positive changes	**4,681**	**1,568**	**-**
2.1 Fair value increases	4,551	1,568	-
2.2 Value adjustments for credit risk	112	X	-
2.3 Transfer to Profit and Loss Account of negative reserves on disposal	18	X	-
2.4 Transfers to other equity components (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Negative changes	**(5,670)**	**-**	**-**
3.1 Fair value reductions	(1,835)	-	-
3.2 Value reinstatements for credit risk	(188)	-	-
3.3 Transfer to Profit and Loss Account from positive reserves: - from sale	(4,092)	X	-
3.4 Transfers to other shareholders' equity components (equity securities)	-	-	
3.5 Other changes	445	-	-
4. Closing inventories	**5,477**	**234**	**-**

B.4 Valuation reserves relating to defined benefit plans: annual changes

(thousands of €)	31.12.2021		31.12.2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Employee benefit plans	-	(3,336)	-	(3,014)
Total	**-**	**(3,336)**	**-**	**(3,014)**

(thousands of €)	
1. Opening balance	**(3,014)**
2. Positive changes	**122**
2.1 Gains due to changes in the discount rate	-
2.2 Other changes	122
3. Negative changes	**(445)**
3.1 Losses due to changes in the discount rate	(153)
3.2 Other changes	(292)
4. Closing inventories	**(3,337)**

Section 2 OWN FUNDS AND MONITORING RATIOS

As of 1 January 2014, the new harmonised rules for banks and investment firms contained in Regulation (EU) No. 575/2013 (CRR) and in the EU directive 2013/36 (CRD IV), which implement in the European Union the standards defined by the Basel Committee for Banking Supervision (so-called "Basel 3").

While the CRR Regulation is directly applicable in national law, the CRD IV Directive has been implemented by the Bank of Italy with the issuance of Circular n. 285 of 17 December 2013 "Supervisory provisions for banks", a measure that also defined the regulatory choices made at national level regarding own funds applicable during the transitional period. CRD IV regulations are adopted through the circular and implementation is the Bank of Italy responsibility and redesigns the overall framework of prudential reports, harmonising them with community directives.

2.1 Treasury shares

A. QUALITATIVE INFORMATION

treasury shares, in accordance with the provisions of art. 4 par. 1 no. 71 and 118, and art. 72 of Regulation (EU) no. 575/2013 (CRR), consist of:

- Core capital (Tier 1);
- Tier 2 capital.

The "Core capital 1" (art. 25 CRR) is equal to the sum of:

- Common Equity Tier 1 - CET 1 capital;
- Additional Tier 1 capital (AT1).

"CET1" capital includes the following positive and negative elements:

- Share capital;
- Share premium reserves;
- Earnings reserves;
- Negative valuation reserves former OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional provisions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters are regulatory adjustments of the book value of elements (positive or negative) of Tier 1 elements. Detractions represent negative Tier 1 elements.

"AT1" capital includes the following positive and negative elements:

- Equity instruments and related premiums;
- Previous AT1 instruments subject to transitional provisions (grandfathering);
- Deductions.

"T2" capital includes the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums;
- Previous T2 instruments subject to transitional provisions (grandfathering);
- Deductions.

With reference to the introduction of IFRS 9, on 12 December 2017 the European Parliament issued Regulation (EU) 2017/2395, which updates the CRR, inserting the new article 473 bis "Introduction of IFRS 9", which offers the possibility to mitigate the impact on equity resulting from the introduction of the new accounting standard.
In this regard, the Company has chosen to adopt the so-called "dynamic approach", which allows the re-introduction in Common Equity Tier I of a progressively decreasing share until 2022 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022) of the amount of the following two aggregates:

- a comparison between IAS 39 value adjustments as at 31st December 2017 and IFRS 9 value adjustments as at 1st January 2018, excluding the reclassification of financial instruments (including adjustments to stage 3 positions);
- a comparison between value adjustments as at 1st January 2018 and subsequent reporting periods up to 31st December 2022, limited to increases in value adjustments of exposures classified as stage 1 and 2 (excluding adjustments to stage 3 positions).

Following the deterioration of the macroeconomic scenario connected to the persisting COVID-19 epidemiological emergency, the "dynamic" component of the transitional regime, originally envisaged until 31st December 2022, was extended for a further two years by Regulation (EU) 2020/873 and split in the following sub-components:

- the first ("pre-COVID") refers to the increases in adjustments recorded from 1/1/2018 to 12/31/2019; the additional amount of CET1 related to them is subject to a percentage of computability (the so-called "adjustment factor") which declines over time, from 70% in 2020 to 25% in 2022, until it is zeroed from 1st January 2023;
- the second ("post-COVID") refers to the increases in adjustments recorded at each accounting date between 1/1/2020 and the new end of the transitional period (31st December 2024); also in this case, the calculation of the additional CET1 amount related to them is based on the application of "adjustment factors" gradually decreasing over the years, initially set at 100% in 2020 and 2021 and then reduced to 25% in 2024, until complete zeroing from 1st January 2025.

Volksbank has decided to make use of this transitional regime in an "integral" form, with reference to both the component of higher adjustments for expected losses on performing and non-performing financial instruments observed during the first application of IFRS 9 ("static" component), and to the increase in expected losses recognised only on performing positions, posted in the accounts in Stage 1 and 2, subsequent to the date of first adoption of the standard ("dynamic" component).

Lastly, Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 granted supervised entities the right, for the three-year period 2020-2022, to mitigate the cumulative effects of unrealised profits and losses for prudential purposes starting from 1st January 2020 on performing exposures to central Administrations and public sector Entities classified for accounting purposes in the portfolio of "financial assets measured at *fair value* through other comprehensive income" (FVOCI). In particular, the complete sterilisation of the effects is envisaged for the financial year 2020, with decreasing percentages in the following two years (70% in 2021 and 40% in 2022), through a corresponding increase in tier 1 capital (CET1).

Regulation (EU) 2017/2395 also governs the disclosure obligations that institutions are required to publish, providing to the EBA the issuance of specific guidelines on the subject. Adopting the regulation, on 12 January 2018 the EBA issued specific guidelines according to which banks adopting the transitional treatment referred to the impact of IFRS 9 are obliged to publish the consolidated "Fully loaded" (as if the transitional treatment had not been applied) and "Transitional" values (application of the transition system) of Common Equity Tier 1 (CET1) capital, Tier 1 capital, Total Capital, Total risk-weighted assets, Capital Ratios and Leverage Ratio.

As at 31st December 2021, taking into account the transitional treatment adopted to mitigate the impact of IFRS 9, CET 1 amounted to 815.7 million and Own Funds amounted to 945.7 million, against weighted assets of 5,199.5 million, deriving mainly from credit and counterparty risks and, to a lesser extent, from operational and market risks. On the same date, considering the full inclusion of the impact of IFRS 9, CET 1 amounted to 752.4 million and Own Funds amounted to 882.4 million, against weighted assets of 5,136.2 million.

Based on the foregoing, the solvency ratios as at 31st December 2021, calculated taking into account the transitional treatment for the impact of IFRS 9 ("IFRS 9 phased-in") are set at the following values: Common Equity Tier 1 ratio 15.7%, Tier 1 ratio 15.7% and Total capital ratio 18.2%. Considering the full inclusion of the impact of IFRS 9 ("IFRS 9 Fully-phased"), the solvency ratios as at 31st December 2021 are as follows: Common Equity Tier 1 ratio 14.6%, Tier 1 ratio 14.6% and Total capital ratio 17.2%.

Please note that, on 19 February 2020, the Company, following the results of the Supervisory Review and Evaluation Process (SREP), received the Bank of Italy decision concerning capital requirements to be met as of 31st March 2020:

- CET 1 ratio: 7.70%, including a binding measure of 5.20% (of which 4.50% for minimum regulatory requirements and 0.70% for additional requirements calculated based on the SREP results) and, for the remaining part, a capital conservation reserve component;
- Tier 1 ratio: 9.44%, including a binding measure of 6.94% (of which 6,00% for minimum regulatory requirements and 0.94% for additional requirements calculated based on the SREP results) and, for the remaining part, a capital conservation reserve component;
- Total Capital Ratio: 11.75%, including a binding measure of 9.25% (of which 8% for minimum regulatory requirements and 1.25% for additional requirements calculated based on the SREP results) and, for the remaining part, a capital conservation reserve component.

Furthermore, to ensure compliance with binding measures even in a worsened financial economic context, the Supervisory Body identified the following capital levels:

- CET 1 ratio: 8.20%, including an OCR CET1 ratio of 7.70% and a Target Component (Pillar 2 Guidance, P2G), for a greater exposure to risk under stress conditions, of 0.50%;
- Tier 1 ratio: 9.94%, including an OCR T1 ratio of 9.44% and a Target Component, for a greater exposure to risk under stress conditions, of 0.50%;
- Total Capital Ratio: 12.25%, including an OCR CET1 ratio of 11.75% and a Target Component, for a greater exposure to risk under stress conditions, of 0.50%.

B. QUANTITATIVE INFORMATION

(thousands of €)	31.12.2021	31.12.2020
A. Common Equity Tier 1 - CET1 prior to the application of prudential filters	801,056	764,062
- of which T1 instruments subject to transitional provisions	-	-
B. Prudential filters of the CET1 (+/-)	(809)	(742)
C. CET1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	800,247	763,320
D. Deductions from CET1	47,853	(52,655)
E. Transitional regime - Impact on CET1 (+/-)	63,331	60,377
F. Total Common Equity Tier 1 Capital (CET1) (C - D +/- E)	815,725	771,042
G. G. Additional Tier 1 capital (Additional Tier 1 - AT1) gross of the elements to be deducted and the effects of the transitional arrangements	-	-
of which AT 1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 Capital (AT1) (G - H +/- I)	-	-
M. Tier 2 capital (T2) gross of the elements to be deducted and the effects of the transitional regime	130,000	130,000
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-)	-	-
P. Total Tier 2 - T2 capital (M - N +/- O)	130,000	130,000
Q. Total equity (F + L + P)	945,725	901,042

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

Countercyclical capital reserve

In a communication dated 17 December 2021, taking into account the analysis of the reference indicators, the Bank of Italy decided to maintain the countercyclical capital buffer ratio at zero per cent for the first quarter of 2022.

Capital conservation buffer

In a communication dated 18 January 2017, the Bank of Italy announced its choices regarding application of the capital conservation buffer. Subsequently, the Supervisory Board decided to adopt the transitional regime provided for by the EU/2013/36 directive (Capital Requirements Directive, CRD4) for application of the capital conservation buffer (CCoB), a system that allows for a gradual introduction of the requirement. This decision modified the decision made in 2013, when the CRD4 was implemented, to bring forward application of the full reserve (equal to 2.5% of risk-weighted assets) to banking groups at consolidated level and to banks that do not belong to groups.

The decision responds to the need to align national discipline with that of the majority of euro area countries. This ensures, on the one hand, equal treatment between intermediaries from different countries and, on the other, reduces divergences between national regulations, in line with the action taken by the Single Supervisory Mechanism (SSM) to minimise differences in the prudential rules applicable to banks.

Following regulatory intervention, as of 1st January 2019, the Bank is required to apply a minimum capital conservation reserve ratio, both at individual and consolidated level, of 2.500 percent.

B. QUANTITATIVE INFORMATION

The Company uses the standardised method for calculating capital requirements for credit risk.

The main features of the regulatory portfolios and the related risk weights are, in particular, introduction of a *supporting factor* of 0.7619 to be applied to the prudential requirement for retail exposures to SME counterparts and a new capital requirement on the risk of a credit assessment adjustment ("CVA"), i.e. against the risk of losses arising from adjustments to the market value of OTC derivatives as a result of changes in creditworthiness.

A further prudential filter is constituted by the requirements of art. 105 of the CRR, which regulates the prudential supervisory institutions of the First Pillar and the rules on public disclosure (Third Pillar) in relation to the requirements of prudent valuation of all assets measured at *fair value*. In particular, in order to consider the uncertainty of the additional parameters with reference to exposures in the financial statements valued at *fair value*, the Bank is required to deduct from the Common Equity TIER 1 the difference between the value resulting from the prudent valuation and the *fair value*. To this end, it should be noted that the Bank applies these requirements based on the simplified approach.

For operational risks, the standardised approach is used.

Categories/Values		**Unweighted amounts**		**Weighted amounts / requirements**	
(thousands of €)		**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
A.	**RISK ACTIVITY**				
A.1	**Credit and counterpart risk**	**13,867,489**	**11,970,684**	**4,706,379**	**4,831,847**
	1. Standardised methodology	13,867,489	11,970,684	4,706,379	4,831,847
	2. Methodology based on internal ratings	-	-	-	-
	2.1 Basis	-	-	-	-
	2.2 Advanced	-	-	-	-
	3. Securitisations	-	-	-	-
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	**Credit and counterpart risk**			**376,510**	**386,548**
B.2	**Credit assessment adjustment risk**				
B.3	**Settlement risk**				
B.4	**Market risk**			**635**	**600**
	1. Standard method			635	600
	2. Internal models			-	-
	3. Concentration risk			-	-
B.5	**Operational risk**			**38,813**	**37,082**
	1. Basic method			-	-
	2. Standardised method			38,813	37,082
	3. Advanced method			-	-
B.6	**Other elements of the calculation**			**-**	**-**
B.7	**Total prudential requirements**			**415,958**	**424,230**
C.	**RISK ACTIVITIES AND SUPERVISORY RATIOS**				
C.1	Risk-weighted assets (RWA)			5,199,484	5,302,880
C.2	Primary capital class 1/Risk-weighted assets (CET 1 capital ratio)			15.69%	14.54%
C.3	Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			15.69%	14.54%
C.4	Total capital/risk weighted assets (Total capital ratio)			18.19%	16.99%

PART G MERGER TRANSACTIONS INVOLVING COMPANIES OR COMPANY BRANCHES

Section 1 OPERATIONS CARRIED OUT DURING THE YEAR

There were no business combinations during the year.

Section 2 OPERATIONS IMPLEMENTED AFTER THE CLOSING OF THE FINANCIAL YEAR

No business combinations were carried out after the end of the financial year.

Section 3 RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made during the year.

PART H TRANSACTIONS WITH RELATED PARTIES

1. Information on the remuneration of Directors, Statutory Auditors and key employees

The following table summarises the remuneration paid to directors, statutory auditors and the remaining key employees, i.e. to the category of persons who, by function, role, professional activity or remuneration structure have a significant impact on the Bank's risk profile. The remuneration paid is governed by the Remuneration policies approved by resolution of the shareholders' meeting.

(thousands of €)	**31.12.2021**
Directors	1,161
Statutory Auditors	354
Key personnel	6,392
Total	**7,907**

Remuneration of key personnel ***(thousands of €)***	**31.12.2021**
of which	
– short-term benefits	5,401
– benefits after employment	492
– long-term benefits	284
– termination benefits	-
– share-based payments	215
Total	**6,392**

The amount refers to the total cost sustained by the Company. In the case of fees to directors and statutory auditors, the amounts also include any VAT.

2. Information on transactions with related parties

In accordance with the indications of IAS 24, applied to the organisational and governance structure of the Bank, the following individuals and legal entities are considered related parties:

- subsidiaries, companies over which the Bank exercises direct or indirect control, as defined by IAS 27;
- associated companies, companies in which the Bank exercises significant direct or indirect influence, as defined by IAS 28;
- jointly controlled companies, companies over which the Bank exercises direct or indirect joint control, as defined by IAS 31;
- executives with strategic responsibilities and top managers, i.e. directors, statutory auditors, the General Manager and the Deputy General Managers;
- other related parties, which include:
    - close family members up to the second degree, the spouse or partner living together as man and wife, as well as the children of the latter;
    - subsidiaries, jointly controlled companies or companies subject to significant influence by the Bank's Directors, Statutory Auditors, the General Manager and the Deputy General Managers, as well as by their close relatives as defined above.

Transactions with subsidiaries and associates

The main Balance Sheet and Profit and Loss Account transactions with subsidiaries and associates are set out below.

Transactions with subsidiaries

(thousands of €)	Receivables for loans granted	Bonds subscribed	Payables for loans received	Bonds issued	Guarantees	Commitments
31.12.2021	8,776	-	2,096	-	1,317	-
Incidence	0.12%	0.00%	0.02%	0.00%	0.21%	0.00%

	Interest revenue on financing conceded	Interest revenue on bonds subscribed	Interest expense on financing received	Interest expense on bonds issued	Commission and other revenues	Commission and other costs
31.12.2021	95	-	-	-	8	-
Incidence	0.05%	0.00%	0.00%	0.00%	0.01%	0.00%

Transactions with associated companies

(thousands of €)	Receivables for loans granted	Bonds subscribed	Payables for loans received	Bonds issued	Guarantees	Commitments
31.12.2021	9,201	-	236	-	27	-
Incidence	0.12%	0.00%	0.00%	0.00%	0.00%	0.00%

	Interest revenue on financing conceded	Interest revenue on bonds subscribed	Interest expense on financing received	Interest expense on bonds issued	Commission and other revenues	Commission and other costs
31.12.2021	-	-	-	-	-	-
Incidence	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Below please find the main capital and economic transactions with Directors, Statutory Auditors and members of General Management

Transactions with Directors, Statutory Auditors and members of General Management

(thousands of €)		Directors		Statutory Auditors		Strategic executives		Total
		Direct	Indirect	Direct	Indirect	Direct	Indirect	
Credit line granted		23	6,474	-	290	670	233	7,690
Loans		11,684	2,286	-	105	461	128	14,662
	Incidence	0.16%	0.03%	0.00%	0.00%	0.01%	0.00%	0.20%
Unsecured loans		2,093	-	-	2	-	8	-
	Incidence	0.33%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Direct funding		7,703	3,581	1,017	1,056	380	434	-
	Incidence	0.08%	0.04%	0.01%	0.01%	0.00%	0.00%	0.00%
Indirect funding		481	381	31	19	200	300	-
	Incidence	9.83%	7.79%	0.63%	0.38%	4.09%	6.13%	0.00%
Interest revenue		212	50	-	1	0	2	-
	Incidence	0.11%	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest expense		2	0	0	1	0	0	-
	Incidence	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%
Commissions and other revenue		61	20	3	4	0	2	-
	incidence	0.06%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%

3. Management of Transactions with related parties

Transactions with related parties are governed by Consob Regulation no. 17221 of 12 March 2010 and subsequent update resolutions and Part Three, Chapter 11 of Bank of Italy Circular no. 285 of 17 December 2013 as updated.

The bank adopted – through Board of Directors resolution of 17.12.2021, with prior positive approval from the Committee of Independent Directors and the Board of Statutory Auditors – the “Group Regulation for management of transactions with Related Parties and Connected Subjects”, published on the Bank website.

Relations with related parties, identified in accordance with the provisions of IAS 24 of the aforementioned Consob Regulation and the Provisions of the Bank of Italy, fall within the normal operations of the Bank.

No related party transaction carried out during the period under review had a material impact on the Bank’s Balance Sheet or results of operations. In addition, there were no changes and/or developments in related party transactions completed by 31.12.2021. In the year 2021, no “significant” transactions were carried out as defined by the legislation governing related parties. In addition, during the same period, there are no positions or transitions deriving from atypical or unusual transactions, meaning those that are not part of normal business operations, which, due to their significance/relevance, the nature of the counterparties, the way in which the transfer price is determined and the timing of the event, may give rise to doubts as to the completeness of the information in the financial statements, the safeguarding of the company’s assets and the protection of shareholders.

PART I PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

A. QUALITATIVE INFORMATION

The regulatory framework for share-based payment agreements is represented by the Supervisory Provisions for Banks, Bank of Italy Circular no. 285/2013, Part One, Title IV, Chapter 2 “Remuneration and Incentive Policies and Practices”, which implements the European Directive 2013/36/EU (CRD IV-Capital Requirements Directive). The following are also relevant:

- art. 114-bis TUF on market disclosure;
- the joint Bank of Italy-Consob communication concerning “Implementation of guidelines issued by ESMA”, to promote greater consistency with interpreting and fulfilling obligations in force concerning conflicts of interest pursuant to the MIFID directive on remuneration published on 29 January 2014;
- the technical requirements, Regulatory Technical Standard (RTS) defined by the EBA for the identification of categories of personnel whose professional activities have a significant impact on the Company's risk profile, approved on 4 March 2014 by the European Commission with EU Delegated Regulation no. 604/2014 of Regulation (EU) no. 575/2013 (CRR) which deals with the prudential requirements to be met by banks and indicates in Art. 450 the information on the remuneration policies that must be published;
- EU Delegated Regulation no. 527/2014 which specifies the categories of financial instruments suitable for use for the purposes of variable remuneration.

Lastly, it should be noted that, from 1st January 2017, the Guidelines on Sound Remuneration policies, published by the EBA on 21st December 2015. The Guidelines aim to encourage adoption of remuneration policies in line with the Bank’s risk profile and, in general, to ensure that remuneration and incentive schemes are always based on the principles of sound and prudent management.

With the 25th update of Circular no. 285/2013 published on 26 October 2018, the Bank of Italy amended the provisions of Part One, Title IV, Chapter 2 concerning remuneration and incentive policies and practices in banks and banking groups in order to adapt the Italian regulatory framework to the guidelines of the European Banking Authority (EBA) on the subject.

On 13 March 2020, the Volksbank Board of Directors proposed a new incentive plan to the Shareholders’ Meeting which envisages, among other things, the enhancement of a portion of the variable component of the remuneration of “key personnel” through the assignment of ordinary shares of Volksbank, conditional on the achievement of specific goals to be reached during the year.

The recipients of the plan are the subjects who fall into the categories of “Key Personnel”, who are granted, pursuant to the Remuneration Policies, incentives in financial instruments representing the economic value of the Bank of an equivalent net amount exceeding EUR 15,000 per year, or the employees, even if not Key Personnel, who are holders of severance incentives as governed by the Remuneration Policies.

The free allocation of the Stock Grant Plan shares is subject to the achievement of the performance targets for the year 2021 as well as to the respect, for the individual periods of the plan, of the economic-financial, equity and liquidity bank indices, as indicated by the remuneration policies.

The allocation of shares can take place if and only if, at the end of each period of the plan, the economic-financial, equity and liquidity indices, which constitute the “conditions of access” to the incentive system, are reached. Under these conditions, 25% of the 2021 incentives are recognised in shares provided that, in the year of allocation of the shares, the equivalent net share value exceeds the materiality threshold indicated by the remuneration policies.

The shares are subject to a retention commitment with unavailability equal to one year from the date of allocation. For the shares to be recognised in relation to the financial year 2021 together with the shares of one or more periods of the 2021 plan, the unavailability interval is equal to 1 year from the date of the Board’s resolution to ascertain the existence of the Bank’s economic-financial, equity and liquidity indices needed to access the portion of the deferred incentive respectively in 2021 and 2022.

For severance actions agreed by an individual agreement for early termination of employment, the retention commitment has an annual duration, for spot assignments, and a duration of 1 year for deferred assignments of 1 or 2 years respectively..

For severance actions agreed by an individual agreement for early termination of employment, the retention commitment has an annual duration, for spot assignments, and a duration of 1 year for deferred assignments of 1 or 2 years respectively.

B. QUANTITATIVE INFORMATION

With respect to performance bonuses for the year 2021 which are to be paid in the year 2022 and thereafter, the calculated amount to be paid in the form of shares of the Bank is €107,000.

PART L SEGMENT REPORTING

CRITERIA FOR IDENTIFYING AND AGGREGATING OPERATING SECTORS

Segment reporting is based on the elements that management uses to make own operational decisions (so-called “management approach”) and is accordingly consistent with the disclosure requirements of IFRS 8. The segments were identified by management and approved by the Board of Directors:

- Private individuals;
- Businesses;
- Finance.

In addition to these operating segments, there are also support structures represented by other central departments and internal services.

The allocation of economic and financial results to the various business sectors is based on criteria that are independent of those used to prepare the financial statements. Accordingly, their breakdown for the purposes of segment reporting is based on the management logic used internally by the Bank to assess the results of individual operating segments. To prepare segment information, the figures shown in the “Total” column of this section are reconciled with the figures shown in the financial statements.

Distribution by sector of activity: economic data

Economic data *(thousands of €)*	**Private**	**Enterprises**	**Financial/ ALM**	**Reconcilia- tion**	**Total**
Interest revenue margin	54,221	95,305	46,589	-	196,115
Interest expense margin	(3,509)	(1,775)	(14,310)	-	(19,594)
Interest margin	**50,712**	**93,530**	**32,278**	**-**	**176,521**
Net commission	(53,170)	43,713	(2,889)	-	93,994
Financial margin	376	1,602	46,646	-	48,624
Net interest and other banking revenue	**104,258**	**138,845**	**76,035**	**-**	**319,139**
Net value adjustment on receivables and financial transactions	(9,242)	(43,927)	-	-	(53,169)
Net profit from financial activities	**95,016**	**94,918**	**76,035**	**-**	**265,970**
Administrative expenses	(62,293)	(70,787)	(4,089)	(48,697)	(185,866)
Allocations to provisions for risks and charges	(3,736)	(1,459)	-	-	(5,196)
Amortisation/Depreciation on tangible and intangible assets	-	-	-	(16,312)	(16,312)
Other operating charges/revenue	10,991	8,200	-	-	20,027
Operating costs	**(55,038)**	**(64,047)**	**(4,089)**	**(65,009)**	**(187,347)**
Gains (losses) on equity investments/on disposal of investments	-	-	-	(171)	(171)
Profit (loss) from continuing operations before tax	**40,029**	**31,052**	**69,222**	**(65,180)**	**78,452**

The amounts included in the reconciliation column refer to structural costs and revenues that are not attributable to the reported segments.

Distribution by business segment: Balance Sheet data

Balance sheet data *(thousands of €)*	**Private**	**Enterprises**	**Financial/ALM**	**Reconciliation**	**Total**
Loans and advances to banks	-	-	1,647,682	-	1,647,682
Receivables from customers	3,172,222	4,801,667	2,313,373	-	10,287,262
Financial assets measured at fair value	634	28,445	779,929	-	809,008
Payables to banks	-	-	2,668,837	-	2,668,837
Direct funding	4,597,585	3,538,181	1,177,305	156,191	9,469,262
- Due to customers	4,590,947	3,538,108	747,673	156,191	9,032,919
- Securities issued	6,638	73	429,632	-	436,343
Indirect funding	3,584,925	914,016	-	-	4,498,941

The amounts included in the reconciliation column refer to business that is not attributable to the reported segments.

Please note that It should be noted that the company's operating revenue and activities are carried out in Italy, confirming its roots in the reference territory, of strategic relevance for company growth.

With reference to geographical segment information, please note that Volksbank operates on a regional geographical basis and does not have a territorial structure whose division into distinct areas takes on economic and strategic relevance. Moreover, the characteristics and opportunities of the reference market are also homogeneous. Accordingly, the segment information by geographical area is not presented, as it is of no particular value.

PART M INFORMATION ON LEASES

Section 1 LESSEE

QUALITATIVE INFORMATION

Leases refer to real estate leasing contracts, in particular for properties intended for office use or bank branches and to a leasing contract for a car.

The real estate contracts do not normally last longer than 12 months and typically have renewal and extinction options that can be exercised by the lessee based on laws or specific contractual provisions.

These contracts do not include purchase options at the end of the lease or significant reversal costs for the Bank. For contracts with an overall lease term of or for less than 12 months and to contracts with underlying asset value, when new, of less than or equal to €5,000 ("low value") IFRS 16 is not applied. In these cases, instalments related to those leases are entered as cost with a constant quota criterion for the lease term or based on another systematic criterion if more representative of how the lessee perceives the benefits.

QUANTITATIVE INFORMATION

For information on rights of use acquired with leases, please refer to what was said in Part B Assets.

For information on payables for leases, please refer to what was said in Part B Liabilities.

For information on interest expense on lease payables and other expenses connected to rights of use acquired with leases, profits and losses resulting from sale and lease-back transactions and income from sub-leasing transactions, please refer to what is said in Part C, Information of Profit and Loss.

Section 2 LESSOR

QUALITATIVE INFORMATION

The bank does not take on the lessor role for IFRS16 purposes.

QUANTITATIVE INFORMATION

The bank does not take on the lessor role for IFRS16 purposes.

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

Information pursuant to art. 149-duodecies of Regulation no. 11971 of 14 May 1999 (Regulations for Issuers)

The fees for 2021 for auditing services and for services other than auditing provided by the Independent Auditors itself or entities belonging to its network are set out below.

Type of services ***(thousands of €)***	**Subject who provided the service**	**Recipient**	**Remuneration (1)**
Auditing	KPMG S.p.A.	Volksbank	87,750
certification pursuant to art. 7, paragraph 1, letter e) of the MEF Decree of 3 August 2016 ("GACS")	KPMG S.p.A.	Volksbank	16,500
report on the statement of investments in advertising campaigns	KPMG S.p.A.	Volksbank	4,000
report of the independent auditors pursuant to art. 23(7) of the Regulation implementing Art. 4-undecies and 6, paragraph 1, letters b) and c-bis) of Legislative Decree 58/98 ("Mifid II")	KPMG S.p.A.	Volksbank	28,000
certification services relating to tax returns	KPMG S.p.A.	Volksbank	6,250
revision of the non-financial statement	KPMG S.p.A.	Volksbank	16,000
Total			**158,500**

(1) The amounts are stated net of VAT, Consob contribution and ancillary expenses.

Financial statements of the subsidiary Voba Invest S.r.l. in liquidation

Voba Invest S.r.l. in liquidation

Voba Invest S.r.l. - with single shareholder in liquidation
Registered office in Bolzano (BZ), Via del Macello no. 55
Share capital EUR 30,000 fully paid up
Listed in the Bolzano Companies Register
Tax code 03340170277
A company subject to management and coordination
by Banca Popolare dell’Alto Adige S.p.A., with registered office in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31/12/2021
BALANCE SHEET

ASSETS		31.12.2021	31.12.2020
(in EUR)			
A. Receivables from shareholders for outstanding payments		**-**	**-**
B. Fixed assets			
I. Intangible assets			
II. Tangible assets			
1.	Land and buildings	-	-
Total		-	-
III. Financial assets			
1.	Investments in:		
	b. related companies	-	-
3.	Other securities	100	100
Total		100	100
Total fixed assets (B)		**100**	**100**
C. Current assets			
I. Inventories			
4.	Finished products and goods	-	92,873
Total		-	92,873
II. Credits			
1.	From customers	-	-
5.bis	Tax receivables	2,801	1,992
5.quater.	From others	72,731	76,071
Total		75,532	78,063
III. Financial current assets			
IV. Cash and cash equivalents			
1.	Bank and postal deposits	2,061,394	2,010,235
3.	Cash and securities on hand	58	58
Total		2,061,452	2,010,293
Total current assets (C)		**2,136,984**	**2,181,229**
D. Accrued income and prepaid expenses		**-**	**-**
TOTAL ASSETS		**2,137,084**	**2,181,229**

FINANCIAL STATEMENTS AS AT 31/12/2021
BALANCE SHEET

LIABILITIES *(in EUR)*	31.12.2021	31.12.2020
A. Shareholders' Equity		
I. Capital	30,000	30,000
IV. Legal reserve	6,000	6,000
VII. Other reserves		
13. Sundry other reserves	(45,001)	(45,001)
	(45,001)	(45,001)
VIII. Profits (losses) carried forward	2,076,247	2,215,104
IX. Profit (loss) for the year	12,611	(138,857)
Total	**2,079,857**	**2,067,246**
B. Provisions for risks and charges		
4. Other	53,527	53,527
Total	**53,527**	**53,527**
D. Payables		
3. Payables to shareholders for loans	-	-
7. Trade payables	2,442	450
12. Tax payables	1,258	44,097
14. Other payables	-	16,009
Total	**3,700**	**60,556**
TOTAL LIABILITIES	**2,137,084**	**2,181,229**

FINANCIAL STATEMENTS AS AT 31/12/2021
PROFIT AND LOSS ACCOUNT

PROFIT AND LOSS ACCOUNT ITEMS	31.12.2021	31.12.2020
(in EUR)		
A. Production value		
1. Revenues from sales and services	123,362	500,000
2. Changes to inventories in progress, semi-finished and finished products	(92,873)	(511,170)
5. Other revenues and income	22,891	-
Total	53,380	(11,170)
B. Production costs		
6. Raw materials, ancillary supplies, consumables and goods	-	5
7. For services	29,277	73,579
8. For leased assets	6,831	1,168
10. Amortisation and write-downs		
b. depreciation of tangible assets	-	-
	-	-
12. Provisions for risks	-	-
14. Other operating expenses	5,831	52,935
Total production costs	41,939	127,687
Difference between value and costs of production (A-B)	**11,441**	**(138,857)**
C. Financial income and expenses		
16. Other financial income		
b. from securities entered in fixed assets	-	-
d. income other than the above	1,170	-
of which from connected companies	-	-
	-	-
17. Interest and other financial expenses	-	-
Total financial income and expenses	-	-
D. Value adjustments to financial assets		
Net result (A-B+C+D+E)	**12,611**	**(138,857)**
21. PROFIT (LOSS) FOR THE YEAR	**12,611**	**(138,857)**

Financial statements of the subsidiary Valpolicella Alta Società Agricola S.r.l.

Valpolicella Alta Società Agricola S.r.l.

Valpolicella Alta Società Agricola S.r.l. - with a single shareholder
Registered office in Bolzano (BZ), Via del Macello no. 55
Share capital EUR 10,000 fully paid up
Listed in the Bolzano Companies Register
Tax Code 02625480211
A company subject to management and coordination
by Banca Popolare dell'Alto Adige S.p.A., with registered office in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31/12/2021
BALANCE SHEET

ASSETS	31.12.2021	31.12.2020
(in EUR)		
A. Receivables from shareholders for outstanding payments	**-**	**-**
B. Fixed assets		
I. Intangible assets	-	-
II. Tangible assets		
1. Land and buildings	2,053,633	2,053,633
2. Plant and machinery	209,780	214,833
4. Other goods	599,908	644,758
5. Assets under construction and advances	-	-
Total	2,863,321	2,913,224
III. Financial assets		
Total fixed assets (B)	**2,863,321**	**2,913,224**
C. Current assets		
I. Inventories		
II. Credits		
1. From customers	15,000	79,665
5.bis Tax receivables	18,665	30,494
5. quater From others	3,285	704
Total	36,950	110,863
III. Financial current assets		
IV. Cash and cash equivalents		
1. Bank and postal deposits	35,402	-
Total	35,402	-
Total current assets (C)	**72,352**	**110,863**
D. Accrued income and prepaid expenses	**2**	**2**
TOTAL ASSETS	**2,935,675**	**3,024,089**

FINANCIAL STATEMENTS AS AT 31/12/2021
BALANCE SHEET

LIABILITIES	**31.12.2021**	**31.12.2020**
(in EUR)		
A. Shareholders' Equity		
I. Capital	10,000	10,000
IV. Legal reserve	2,000	2,000
VII. Other reserves		
1. Extraordinary reserve	482,062	590,085
8. Payments to cover losses	-	8,288
13. Sundry other reserves	1	-
	482,063	598,373
IX. Profit (loss) for the year	51,096	(116,311)
Total	**545,159**	**494,062**
B. Provisions for risks and charges		
4. Other	37,500	37,500
Total	**37,500**	**37,500**
C. Employee severance indemnities	**-**	**-**
D. Payables		
3. Payables to shareholders for loans	806,156	806,156
5. Payables to banks	1,402,426	1,553,724
7. Trade payables	26,715	13,919
11. Payables to parent companies	117,694	117,694
12. Tax payables	-	1,034
14. Other payables	25	-
Total	**2,353,016**	**2,492,527**
E. Accrued expenses and deferred income	**-**	**-**
TOTAL LIABILITIES	**2,935,675**	**3,024,089**

FINANCIAL STATEMENTS AS AT 31/12/2021
PROFIT AND LOSS ACCOUNT

PROFIT AND LOSS ACCOUNT ITEMS	31.12.2021	31.12.2020
(in EUR)		
A. Production value		
1. Revenues from sales and services	-	72,222
5. Other revenues and income	216,270	32,093
Total	216,270	104,315
B. Production costs		
6. Raw materials, ancillary supplies, consumables and goods	16,126	10,281
7. For services	52,244	106,097
8. For leased assets	-	-
10. Amortisation and write-downs		
b. depreciation of tangible assets	65,812	54,973
	65,812	54,973
14. Other operating expenses	1,316	16,596
Total production costs	135,498	187,947
Difference between value and costs of production (A-B)	**80,772**	**(83,632)**
C. Financial income and expenses		
16. Other financial income		
d. income other than the above	-	172
17. Interest and other financial expenses	(29,676)	(32,851)
Total financial income and expenses	(29,676)	(32,679)
D. Value adjustments to financial assets		
Net result (A-B+C+D+E)	**51,096**	**(116,311)**
20. Taxes for the year, current, deferred tax assets, deferred tax liabilities	-	-
21. PROFIT (LOSS) FOR THE YEAR	**51,096**	**(116,311)**

Financial statements of the subsidiary Quartiere Brizzi S.r.l.

Quartiere Brizzi S.r.l.

Quartiere Brizzi S.r.l. - with a single shareholder
Headquarters in Chienes (BZ), Handwerkzone no. 2
Share capital EUR 10,000 fully paid up
Listed in the Bolzano Companies Register
Tax code 02519580217
A company subject to management and coordination
by Banca Popolare dell'Alto Adige S.p.A., with registered office in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31/12/2021
BALANCE SHEET

ASSETS	31.12.2021	31.12.2020
(in EUR)		
A. Receivables from shareholders for outstanding payments	-	-
C. Current assets		
2. Work in progress and semi-finished products	8,131,925	7,481,608
5.bis Tax receivables	76,553	67,822
5. quater From others	282,948	125,608
Total	8,491,426	7,675,038
IV. Cash and cash equivalents		
1. Bank and postal deposits		
Total current assets (C)	**8,491,426**	**7,675,038**
D. Accrued income and prepaid expenses	**9,311**	**2,553**
TOTAL ASSETS	**8,500,737**	**7,677,591**

FINANCIAL STATEMENTS AS AT 31/12/2021
BALANCE SHEET

LIABILITIES	31.12.2021	31.12.2020
A. Shareholders' Equity		
I. Capital	10,000	10,000
IV. Legal reserve	2,000	2,000
VII. Other reserves		
8. Payments to cover losses	64,365	64,365
13. Sundry other reserves	-	(2)
VIII. Profits (losses) carried forward	12,301	92,986
IX. Profit (loss) for the year	(39,374)	(80,685)
Total	**49,292**	**88,664**
D. Payables		
3. Payables to shareholders for loans	7,616,778	7,068,586
6. Advances	773,000	339,000
7. Trade payables	55,483	178,724
12. Tax payables	6,184	2,617
Total	**8,451,445**	**7,588,927**
TOTAL LIABILITIES	**8,500,737**	**7,677,591**

FINANCIAL STATEMENTS AS AT 31/12/2021
PROFIT AND LOSS ACCOUNT

PROFIT AND LOSS ACCOUNT ITEMS		31.12.2021	31.12.2020
(in EUR)			
A.	**Production value**		
	2. Changes to inventories of products In progress, semi-finished and finished goods	650,317	1,050,774
	5. Other revenues and income	6,038	1
	Total	656,355	1,050,775
B.	**Production costs**		
	6. Raw materials, ancillary supplies, consumables and goods	-	-
	7. For services	606,762	1,045,946
	8. For leased assets	1,500	1,958
	14. Other operating expenses	8,259	18,351
	Total production costs	616,521	1,066,255
	Difference between value and costs of production (A-B)	**39,834**	**(15,480)**
C.	**Financial income and expenses**		
	17. Interest and other financial expenses	(72,183)	(65,205)
	Total financial income and expenses	(72,183)	(65,205)
	Net result (A-B+C+D+E)	**(32,349)**	**(80,685)**
	20. Taxes for the year, current, deferred tax assets, deferred tax liabilities	7,025	-
	21. PROFIT (LOSS) FOR THE YEAR	**(39,374)**	**(80,685)**