Interim Financial Report as at 30 June 2023

Banca Popolare dell’Alto Adige
A Public Limited Company

Registered and head Office: Via del Macello, 55 – I-39100 Bolzano
Share Capital as at 30 June 2023 €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
Registered in the Register of Banks and Register of Banking Groups: import-export code 5856
ABI 05856.0
www.bancapopolare.it - www.volksbank.it

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Corporate positions and auditing firms

Board of Directors

Chairperson	Lukas LADURNER
Vice-Chairpersons	Giuseppe PADOVAN (***) Lorenzo SALVÁ (***)
Directors	Margherita MARIN (*) (**) Federico MARINI (**) Alessandro METRANGOLO (*) (**) Johannes PEER Margit TAUBER (***) Christina GASSER (*) (**)

(*) Members of the Independent Directors Committee
(**) Members of the Risk Committee
(***) Members of the Credit Committee

Board of Statutory Auditors

Chairperson	Georg HESSE
Standing auditors	Rosella CAZZULANI Sabrina RIGO
Alternate auditors	Nadia DAPOZ Emilio LORENZON

General Management

General Manager	Alberto NAEF
Deputy General Manager	Georg MAIR AM TINKHOF

Financial Reporting Officer Alberto CALTRONI

Independent Auditors KPMG S.p.A.

VOLKSBANK – THE TERRITORIAL NETWORK

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

HEAD OFFICE
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BRANCHES

PROVINCE OF BOLZANO

Branch	Telephone
Appiano – Eppan Via J. G. Plazer 56 - J.-G.-Plazer-Straße 56	tel. 0471-944270
Badia - Abtei Via Colz 56 - Colz-Straße 56 - Fraz. La Villa - Frak. Stern	tel. 0471-944010
Bolzano – Bozen Galleria Telser 1 - Telsergalerie 1	tel. 0471-944190
Bolzano - Bozen Corso della Libertà 2 - Freiheitsstraße 2	tel. 0471-944020
Bolzano – Bozen Via Claudia Augusta 5 - Claudia-Augusta-Straße 5	tel. 0471-944250
Bolzano – Bozen Via del Ronco 15 - Neubruchweg 15	tel. 0471-944260
Bolzano – Bozen Via Bruno Buozzi 4 – Bruno-Buozzi-Straße 4	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 Julius Durst 28 - Julius-Durst-Straße 28	tel. 0472-811600
Bressanone - Brixen Via Plose 38/B - Plosestraße 38/B - Fraz. Millan Sarnes – Frak. Milland Sarns	tel. 0472-811560
Brunico – Bruneck Bastioni 24 - Graben 24	tel. 0474-544700
Brunico – Bruneck Via Valle Aurina 30 - Ahrntalerstraße 30	tel. 0474-544760
Caldaro sulla Strada del Vino – Kaltern an der Weinstraße 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
Chiusa – Klausen San Giacomo 3 - St. Jakob 3 Fraz. Lazfons – Frak. Latzfons	tel. 0472-811620
Castelrotto – Kastelruth Via Sciliar 16 - Schlernstraße 16 – Fraz. Siusi allo Sciliar – Frak. Seis am Schlern	tel. 0471-944300
Dobbiaco – Toblach V.le S. Giovanni 23 - St.-Johannes-Straße 23	tel. 0474-544770
Egna – Neumarkt Largo Municipio 32 - Rathausring 32	tel. 0471-944280
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

PROVINCE OF BOLZANO	
Lasa – Laas Via Venosta 44 - Vinschgaustraße 44	tel. 0473-254310
Luson – Lüsen Vicolo Dorf 19 - Dorfgasse 19	tel. 0472-811590
Malles Venosta – Mals im Vinschgau 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 in Gröden Piazza San Durich 3 - S.-Durich-Platz 3	tel. 0471-944330
Ratschings - Ratschings Stanghe 18 - Stange 18 - Fraz. Racines di Fuori - Außerratschings	tel. 0472-811610
Rio di Pusteria – Mühlbach Via K. Lanz 50 - K.-Lanz-Straße 50	tel. 0472-811520
San Leonardo in Passiria – St. Leonhard in Passeier Via Passiria 14 - Passeirer Straße 14	tel. 0473-254380
San Lorenzo di Sebato – St. Lorenzen Via Josef Renzler 17 - Josef-Renzler-Straße 17	tel. 0474-544780
Scena - Schenna Archduke Johann Square 7 - Erzh.-Johann-Platz 7	tel. 0473-254430
Selva di Val Gardena – Wolkenstein in Gröden Via Meisules 155/A - Meisulesstraße 155/A	tel. 0471-944000
Silandro - Schlanders Via Covelano 10 - Göflaner Straße 10	tel. 0473-254410
Valle Aurina – Ahrntal Via Klausberg 65 - Klausbergstraße 65 – Fraz. Cadipietra - Frak. Steinhaus	tel. 0474-544800
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
Borgo Valbelluna Via Tempietto 33/A	tel. 0437-356660
Belluno Via Caffi 15	tel. 0437-356700
Cencenighe Agordino Via XX Settembre 107	tel. 0437-356640
Comelico Superiore Piazza Tiziano 2 – Fraz. Dosoledo	tel. 0435-505670
Comelico Superiore Piazza San Luca 22 - Fraz. Padola	tel. 0435-505690
Cortina d' Ampezzo Largo delle Poste 49	tel. 0436-863500
Domegge di Cadore Via Roma 48	tel. 0435-505620
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
Ponte nelle Alpi Viale Roma 87	tel. 0437-356630

PROVINCE OF BELLUNO	
Santo 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
Pieve di Cadore Via Ferdinando Coletti 15 – Fraz. Tai di Cadore	tel. 0435-505600
Valle di Cadore Via XX Settembre 76	tel. 0435-505660

PROVINCE OF PADUA	
Camposampiero Piazza Castello 43	tel. 049 695 0070
Carmignano di Brenta Via Marconi 36	tel. 049-6950010
Cittadella Via Riva Pasubio 9	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 7	tel. 0434-786500

PROVINCE OF TRENTO	
Ala Via della Roggia 10	tel. 0464-912520
Arco Via S. Caterina 20	tel. 0464-912510
Borgo d'Anaunia Via Cesare Battisti 39	tel. 0463-840500
Borgo Valsugana Via Hippoliti 11/13	tel. 0461-211060
Cavalese Via Cacciatori 7	tel. 0462-248500
Cles Piazza Navarrino 16/17	tel. 0463-840510
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 Valsugana Viale Venezia 44	tel. 0461-211050
Riva del Garda Via Damiano Chiesa 4/G-H	tel. 0464-912560
Rovereto Via G. M. Della Croce 2	tel. 0464-912530
Tione di Trento 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 Via Poggiana 4 – Fraz. Ramon di Loria	tel. 0423-974670
Mogliano Veneto Via degli Alpini 16/G/F/E	tel. 041-5446660
Montebelluna Via Monte Grappa 24/C	tel. 0423-974660
Motta Di Livenza - Via Padre Leonardo Bello/Angolo 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 Piazza 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 UDINE	
Sappada Borgata Palú 90/A	tel. 0435-505639

PROVINCE OF VENICE

Caorle Via Pineda 1	tel. 0421 480830
Fossò Via Roncaglia 1	tel. 041-5446690
Jesolo Via Firenze 6	tel. 0421-480820
Marcon Viale della Repubblica 2	tel. 041-5446680
Martellago Via Friuli 28	tel. 041-5446780
Mira Via Venezia, 120 - Fraz. Oriago	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 Piazza Mercato 51 - Fraz. Marghera	tel. 041-5446800
Venice Sestriere Cannaregio 4547/4552	tel. 041-5446810
Venice Via Miranese 256/h - Fraz. Chirignago	tel. 041-5446600
Venice Mestre Via Torre Belfredo 23	tel. 041-5446750
Venice Via Torre Belfredo 23 - Fraz. Mestre	tel. 041-5446750

PROVINCE OF VICENZA

Asiago Piazza Carli 42	tel. 0424-596090
Arzignano Piazza G. Pellizzari, 4	tel. 0444 577110
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
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 – Fraz. S. Giuseppe	tel. 0424-596240
Colceresa Via Marconi 85	tel. 0424-596000
Dueville Piazza Monza 30/31	tel. 0444-577020
Lusiana Conco Piazza San Marco 20	tel. 0424-596170
Malo Via Vicenza 97 – Loc. San Tomio	tel. 0445-617070
Marostica Via Mazzini 84	tel. 0424-596200
Monticello Conte Otto Via Spine 3/B - Fraz. Vigardolo	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 Mazzini 71	tel. 0424-596150
Sandrigo Via Roma 34	tel. 0444-577040
Sarcedo Via Schio 34	tel. 0445-617010
Schiavon Via Roma 120	tel. 0444-577050
Schio Via Cementi 8	tel. 0445-617090
Tezze sul Brenta Via Nazionale 47 - Fraz. Belvedere	tel. 0424-596020
Tezze sul Brenta Via Risorgimento 23	tel. 0424-596180
Thiene Viale Bassani 26/28	tel. 0445-617110
Vicenza Via Lago di Molveno 2 – Fraz. Laghetto	tel. 0444-577060
Vicenza Corso Palladio 46	tel. 0444-577070
Villaverla Via S. Antonio, 43	tel. 0445-617130
Zane' Via Trieste 110	tel. 0445-617140

ADVICE POINTS

PROVINCE OF BOLZANO

Bolzano - Bozen Via del Macello 55 - Schlachthofstraße 55
Bruneck - Bruneck Via San Nicolo' 14 - Sankt-Nikolaus-Straße 14 - Fraz. Stegona - Frak. Stegen
Caldaro sulla Strada del Vino – Kaltern an der Weinstraße Via Stazione 10 - Bahnhofstraße 10
Fié allo Siliar – Völs am Schlern Via Bolzano 3 - Boznerstraße 3

PROVINCE OF TRENTO

Villa Lagarina Via degli Alpini 8

PROVINCE OF TREVISO

Treviso Viale Monte Grappa 46
Treviso Viale IV Novembre 13/A

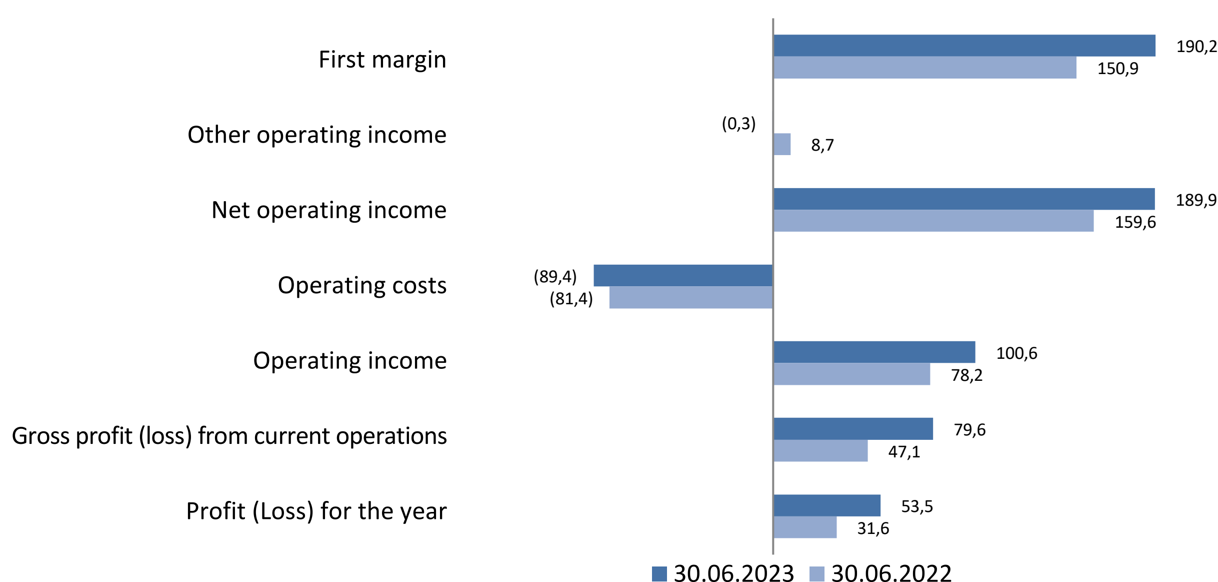
PROVINCE OF PADUA

Padua Via della Provvidenza 7/A – Fraz. Sarmeola di Rubano

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

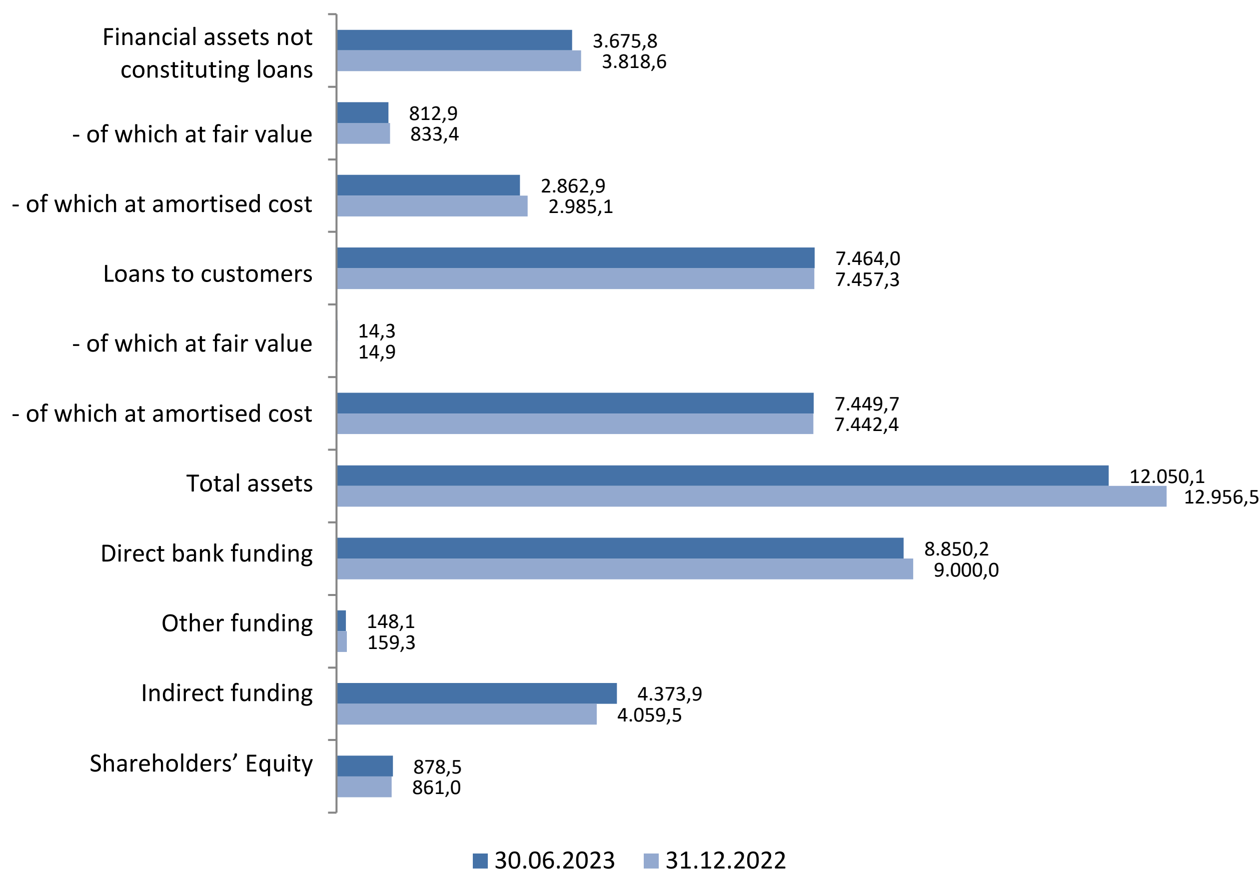
This section, the Interim Management Report and the Condensed Interim Financial Statements contain certain information that is not directly attributable to the financial statements. The section of the Notes to the Condensed Interim Financial Statements describes how the balance sheet items are aggregated in order to determine the aforementioned information.

Key economic data



	30.06.2023	30.06.2022	Changes	
Economic data				
(€ million)			**Abs.**	**Change %**
First margin	190.2	150.9	39.3	26.1%
Other operating income	(0.3)	8.7	(9.0)	n.a.
Net operating income	189.9	159.6	30.3	19.0%
Operating costs	(89.4)	(81.4)	(8.0)	9.8%
Operating income	100.6	78.2	22.3	28.6%
Gross profit (loss) from current operations	79.6	47.1	32.5	69.0%
Profit (Loss) for the year	53.5	31.6	21.9	69.5%

Key balance sheet data



Balance sheet data	30.06.2023	31.12.2022	Changes	
(€ million)			**Abs.**	**Change %**
Financial assets not constituting loans	3,675.8	3,818.6	(142.8)	-3.74%
- of which at fair value	812.9	833.4	(20.6)	-2.47%
- of which at amortised cost	2,862.9	2,985.1	(122.3)	-4.10%
Loans to customers	7,464.0	7,457.3	6.6	0.09%
- of which at fair value	14.3	14.9	(0.6)	-4.20%
- of which at amortised cost	7,449.7	7,442.4	7.3	0.10%
Total assets	12,050.1	12,956.5	(906.4)	-7.00%
Direct bank funding	8,850.2	9,000.0	(149.8)	-1.66%
Other funding	148.1	159.3	(11.2)	-7.00%
Indirect funding	4,373.9	4,059.5	314.4	7.75%
Shareholders' Equity	878.5	861.0	17.4	2.02%

Main indicators

Economic, financial indicators and other information	30.06.2023	31.12.2022
Structural indicators		
Financial assets / total assets	93.1%	87.6%
Gross loans to customers / Direct funding from customers (retail)	88.0%	86.5%
Fixed assets / total assets	1.3%	1.2%
Total risk-weighted assets (RWA) / Total assets	44.9%	41.8%
Goodwill / Total assets	0.0%	0.0%
Number of employees	1,374	1,357
Number of branches	169	167
Profitability indicators		
ROE	12.9%	9.4%
ROTE (Net profit / tangible equity)	13.1%	9.6%
ROA (Net profit / total assets)	0.8%	0.6%
Cost to income ratio	47.0%	51.0%
Annualised basic EPS (earnings per share)	2.24	1.57
Annualised diluted EPS (earnings per share)	2.24	1.57
Risk ratios		
Net non-performing loans / Net loans to customers	2.1%	2.3%
Gross non-performing loans / Gross loans to customers	4.7%	5.0%
Texas ratio (Net non-performing loans / Tangible shareholders' equity)	33.5%	36.2%
% coverage of bad debts	72.5%	70.7%
% coverage of non-performing loans	57.3%	56.3%
% coverage of performing loans	1.3%	1.1%
Regulatory aggregates and indices		
Class 1 Primary Capital (CET 1)	820,495	805,615
Total own funds	920,495	905,615
Total risk-weighted assets (RWA)	5,515,906	5,410,721
CET 1 Ratio - Common Equity Tier 1 capital (transitional)	14.9%	14.9%
Total Capital Ratio - Total own funds (transitional)	16.7%	16.7%
CET 1 Ratio - Common Equity Tier 1 capital (fully phased)	14.7%	14.4%
Total Capital Ratio - Total own funds (fully phased)	16.5%	16.2%
Stock		
Shareholders' equity in the accounts per share	18.43	18.00
Tangible shareholders' equity in the accounts per share	18.13	17.07
Share quoted prices (Hi-Mtf market)		
- minimum price	8.30	8.30
- maximum price	8.30	8.30
- average price	8.30	8.30
Price/shareholders' equity	0.45	0.46
Price/tangible shareholders' equity	0.46	0.47

Indicator	Description/reconciliation
ROE (annualised net profit/shareholder's equity at year's end.)	Ratio of (i) annualised net profit to (ii) year-end shareholders' equity
ROA (net profit/total assets)	Ratio of (i) net profit to (ii) average total assets
Cost to income ratio	Ratio of (i) Operating Costs to (ii) Net Operating Income in the reclassified income statement

INTERIM DIRECTORS' REPORT

THE OPERATIONAL CONTEXT IN THE FIRST HALF OF 2023

THE MACROECONOMIC SCENARIO ([1])

Based on the latest information made available by the European Central Bank, the short-term economic outlook for the euro area worsened, mainly due to weakening domestic demand.

High inflation and tighter financing conditions are curbing spending with restrictive effects especially on manufacturing production, also affected by weak external demand.

The housing and business investment markets are also showing signs of weakness. The service sector shows more resilience, particularly in sub-sectors such as tourism, although it too shows signs of a slowdown.

The latest available data for April 2023 for international trade indicates a decline of -1.4 % month-on-month and -0.8 % year-on-year. Also in April, the average 12-month rate of change in world trade was +1.7%.

Industrial production, again in April 2023, showed a negative month-on-month change of -1.4 % (although it remained positive compared to the same month in 2022 with +1.4 %). The average monthly rate of change of the last 12 months was equal to +2.1%.

In June 2023, the purchasing managers′ index (PMI), although falling, remained above 50 – i.e. above the threshold dividing expansion and contraction – both globally and in the US, while in the euro area it fell below this threshold.

In June 2023, the price of oil stood at 75.0 dollars per barrel, down slightly from the previous month (-1.0 %; -36.3 % year-on-year).

In detail, the world PMI fell from 54.4 to 52.7 in the previous month as a result of both the decline in the services sector sub-index (down to 54 from 55.5 in the previous month) and the less pronounced decline in the manufacturing sector (down from 49.6 to 48.8).

At the global level, the IMF's estimates in April 2023 predicted a slightly lower change in world GDP than previously forecast at +2.8% for 2023 and +3.0% for 2024.

In the first quarter of 2023, the GDP of the euro area declined -0.1% compared to the previous quarter, and grew by +1% when compared with the same quarter of the previous year.

Within the area, France recorded a cyclical change in GDP of +0.2% in the same quarter, while growth amounted to +0.9% year-on-year. Germany's figure was down by -0.3% for the second consecutive quarter (-0.5% in the previous quarter), and down by -0.5% year-on-year.

In April 2023, industrial production in the euro area increased by +1.1% compared to the previous month and by +0.7% year-on-year. The data for the main countries of the euro area for May show the following situation in cyclical terms: in France, production increased by +1.2 % month-on-month and +2.6 % year-on-year, while in Germany it decreased by -0.2 % month-on-month and increased by +0.8 % year-on-year.

Retail sales in the euro area remained unchanged in May 2023 in cyclical terms, while they decreased by -2.9% on a trend basis. In the same month in Germany, sales increased by +0.4 per cent compared to the

([1]) Sources: ABI Monthly Outlook, ISTAT, Bank of Italy - Economic Bulletin - European Central Bank - Eurosystem - European Commission

previous month, with a decrease of -3.6% year-on-year. In France, the same figure showed a decrease of -0.7% month-on-month and -4.0% year-on-year.

In June 2023, the business confidence index in the euro area was -7.2 (-5.3 the previous month), in Germany it went down from -5.1 to -8.7 and in France it rose from -8.9 to -7.5. The consumer confidence index, in the same month, was at -16.1 in the euro area, at -13.7 in Germany and at -14.8 in France.

The European economy is expected to remain weak in the short term. Over time, falling inflation, rising incomes and improved lending conditions should help stimulate a phase of recovery.

The labour market remains robust. The unemployment rate, based on the latest available data from May, remained at a record low of 6.5 per cent, and many new jobs are being created, especially in the service sector. At the same time, forward-looking indicators suggest that this trend may slow down in the coming months and turn negative for the manufacturing sector.

As the energy crisis eases, governments should reduce their support measures in a timely and concerted manner. This will be essential to prevent medium-term inflationary pressures from rising again, which would otherwise require a stronger monetary policy response.

The Eurogroup's recent statement on the fiscal position of the euro area, consistent with the ECB's assessments, confirms that fiscal policies should be designed to make the economy of the euro area more productive and to gradually reduce the high public debt. Policies aimed at strengthening the lending capacity of the euro area can help reduce price pressures in the medium term, while supporting the medium-term green transition which is also promoted by the EU's Next Generation programme. The reform of the EU economic governance framework should be concluded by the end of the year.

Inflation fell further in June to 5.5 %, after 6.1 % in May (+8.1 % twelve months earlier). Energy prices fell again, down 5.6% year-on-year. Food price inflation continued to slow down but remained high at 11.6%.

Inflation excluding energy and food rose to 5.5% in June, with goods and services following diverging trends. Goods inflation fell further to 5.5%, from 5.8% in May. In contrast, services inflation rose to 5.4 %, from 5.0 % in May, due to robust spending on holidays and travel.

The causes of inflation are changing. External sources of inflation are softening. In contrast, domestic price pressures, partly due to rising wages and still robust profit margins, are becoming an increasingly important factor in inflation.

Although some measures are coming down, underlying inflation remains high overall, not least because of the persistent impact of past increases in energy prices on prices in the economy as a whole. Although most longer-term expectations with regard to inflation are currently around 2%, some indicators remain high and need to be monitored closely.

As far as Italy is concerned, gross domestic product grew by +0.6 % in Q1 2023 compared to the previous quarter (-0.1 % in Q4 2022) and also increased in trend terms (+1.9 %).

Private consumption, public spending and fixed investment contributed positively to this cyclical change, while the contribution of the balance of payments was negative. There was substantially no contribution from stocks. The leading indicator stood at 98.4 in June 2023 (99.4 a year earlier). In May 2023, the seasonally adjusted industrial production index was up by +1.6% in cyclical terms, and down in trend terms (-7%). The monthly seasonally adjusted index shows economic increases in all main industry groupings: intermediate goods (+1.2%), capital goods (+1.5%), consumer goods (+1.1%) and energy goods (+0.1%). Retail sales in May 2023 fell by -5.5% year-on-year. Both confidence indices continued to be negative in June.

The consumer confidence index rose to -15.4 compared to -24 twelve months earlier; business confidence rose to -5.5 compared to +2.8 a year earlier. The unemployment rate dropped to 7.6 % in May 2023, down from +8.1 % twelve months earlier. Youth unemployment (15-24 years) in the same month was 21.7 per cent, up from 22.2% a year earlier. The employment rate stood at 61.2%, up from 60.1% a year earlier.

The national consumer price index for the entire community (NIC), gross of tobacco, decreased in June 2023 to + 6.4%, while the "core" component (net of unprocessed food and energy goods) decreased to + 5.7%.

Financial and money markets

At its meeting on 27 July, the Governing Council decided to raise the ECB's three key interest rates by 25 basis points. Accordingly, with effect from 2 August 2023, the interest rates on the main refinancing operations, the marginal refinancing transactions, and on deposits were raised to 4.25%, 4.50% and 3.75% respectively.

The Governing Council points out that inflation continues to fall, but expects it to remain overly high for a long time yet. The Governing Council therefore reaffirmed its determination to ensure a timely return of inflation to the 2% target over the medium term.

The increase in interest rates reflects in particular the Governing Council's assessment of the inflation outlook, the dynamics of core inflation and the intensity of monetary policy transmission. The developments observed after the meeting of 15 June confirmed the expectation that inflation is expected to decline further throughout the year, but is expected to remain above target for an extended period of time. According to the Governing Council, although some measures show signs of easing, core inflation remains high overall. The past increases in interest rates are still being passed on strongly: financing conditions have tightened again and are increasingly dampening demand, which is an important factor in bringing inflation back on target.

The Governing Council confirmed that future decisions will ensure that the ECB's key interest rates are set at sufficiently restrictive levels as long as necessary to achieve a timely return of inflation to the 2% target over the medium term. The Governing Council will continue to follow a data-driven approach in determining the appropriate level and duration of the restriction. In particular, interest rate decisions will continue to be based on its assessment of the inflation outlook taking into consideration the latest economic and financial data, the dynamics of core inflation and the intensity of monetary policy transmission.

The Governing Council also decided to set the remuneration of the minimum reserves at 0%. This decision is aimed at preserving the effectiveness of monetary policy, maintaining the current degree of control over its intonation and ensuring the full transmission of rate decisions to the money markets. At the same time, the objective is to improve the efficiency of monetary policy by reducing the total amount of interest payable on reserves in order to implement the appropriate orientation.

With regard to the Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP), the Council confirmed that the APP portfolio is shrinking at a measured and predictable rate, as the Eurosystem no longer reinvests the principal payments on maturing securities.

As regards the PEPP (Pandemic Emergency Purchase Programme), the Governing Council intends to reinvest principal payments on maturing securities under the programme until at least the end of 2024. In any case, the gradual future reduction of the PEPP portfolio will be managed in such a way as to avoid interference with the appropriate monetary policy stance.

The Governing Council will continue to flexibly reinvest the principal payments from maturing securities of the PEPP portfolio to counter the risks to the monetary policy transmission mechanism from the pandemic.

With regard to the refinancing operations, in view of the repayments of the amounts received by banks in the targeted longer-term refinancing operations, the Governing Council has confirmed that it will regularly review how the targeted operations and repayments contribute to the monetary policy stance.

Lastly, the ECB adjusted the remuneration of the minimum reserve, which will be 0%.

It is the Governing Council's intention that the change in remuneration should preserve the effectiveness and improve the efficiency of monetary policy.

The amendment will enter into force as of 20 September 2023, the start of the reserve retention period.

Minimum reserves are reserve balances that credit institutions are required to hold with their Eurosystem NCB on average during the retention period. Credit institutions are required to hold a minimum amount

equivalent to 1 per cent of specific liabilities, mainly customer deposits. The minimum reserves are currently remunerated at the ECB deposit rate (DFR).

In the current conditions of ample liquidity, the interest paid on the reserves that banks hold in their deposits with the ECB - i.e. the reserves above the required minimum level - is the Governing Council's main instrument for defining the orientation of monetary policy in the fight against inflation. The decision to reduce the remuneration of reserve requirements will preserve the effectiveness of monetary policy by maintaining the current degree of control over the stance of monetary policy and ensuring the full transfer of the Governing Council's interest rate decisions to the money markets. At the same time, it will improve the efficiency of monetary policy by reducing the total amount of interest to be paid on reserves in order to implement the appropriate orientation.

In October last year, the Governing Council decided to reduce the remuneration of the minimum reserve from the main refinancing operations (MRO) rate to the DFR.

This change brought the remuneration of the minimum reserve more in line with short-term money market rates. Since then, the efficiency aspect has become increasingly important, in line with the higher level of the ECB's key interest rates.

Today's decision does not affect the outcome of the ongoing review of the ECB's operational structure.

The Governing Council also confirmed that it stands ready to adjust all its instruments within its mandate to ensure that inflation returns to the 2% target in the medium term and to preserve the orderly functioning of the monetary policy transmission mechanism. Furthermore, the monetary policy transmission mechanism protection tool can be used to counter unwarranted and disorderly market dynamics that seriously jeopardize the transmission of monetary policy in all euro area countries. This allows the Governing Council to more effectively carry out its mandate to preserve price stability.

EQUITY AND BOND MARKETS

The benchmark rate on the 10-year maturity averaged 3.75% in the US, +2.40% in Germany and 3.95% in Italy in June (3.55% twelve months earlier). The spread between the yield on ten-year Italian and German government bonds was 155 basis points.

The financial bonds, based on indications provided by the Merrill Lynch indicator, showed a June return average of 4.61% in the euro area and 5.83% in the USA.

In April 2023, bonds by issuer category showed the following dynamics in Italy:

- For government bonds, gross issues amounted to €50.6 billion (€37 billion in the same month of the previous year; €182.6 billion in the first four months of 2023, which compares with €169.3 billion in the corresponding months of 2022), while net issues stood at €28 billion (-11.2 billion in the same month of the previous year; €71.4 billion in the first four months of 2023, which compares with €56.8 billion in the corresponding months of 2022);
- With regard to corporate bonds, gross issues amounted to €6.1 billion (€9 billion in the same month last year; €29.1 billion in the first four months of 2023, compared to €26.1 billion in the corresponding months of 2022), while net issues amounted to €-5.9 billion (€2.4 billion in the same month last year; €-2.4 billion in the first four months of 2023, compared to €-2.7 billion in the corresponding months of 2022);
- Finally, with regard to bank bonds, gross issues amounted to €2.5 billion (€1.3 billion in the same month of the previous year; €23.3 billion in the first four months of 2023, which compares with €17.3 billion in the corresponding months of 2022), while net issues amounted to €-4 billion (€-5.4 billion in the same

month of the previous year; €-4.1 billion in the first four months of 2023, which compares with €-16.6 billion in the corresponding months of 2022).

In June 2023, international share prices showed the following trends year-on-year: the Dow Jones Euro Stoxx (index of the 100 largest stocks in the euro area by capitalisation) rose by +11.5%, the Nikkei 225 (benchmark index for Japan) rose by +21.5%, the Standard & Poor's 500 (benchmark index for the US) increased by +11.8%. The price/earning figure for the Dow Jones Euro Stoxx in the same month averaged 14.1.

In June, the main European stock exchange indices showed the following average monthly changes: the CAC40 (the French index) rose by 18.2% year-on-year; the FTSE100 of the London stock exchange rose by 3.5% year-on-year, the Dax30 (the German index) rose by 17,9% and the Ftse Mib (the Milan stock exchange index) rose by 21% also year-on-year.

In the same month, the main New Economy markets were as follows: the TecDax (German technological index) rose by +7.5% year-on-year, the CAC Tech (French technological index) rose by +10.9% and Nasdaq rose by +18.3% also year-on-year. With reference to the main international banking indices, the following changes were recorded: the S&P 500 Banks (US banking index) fell by -10,5% year-on-year, the Dow Jones Euro Stoxx Banks (euro area banking index) rose +21% and the FTSE Banche (Italy's banking index) rose +44.8% also year-on-year.

In June 2023, the capitalisation of the euro area equity market rose +11.4% compared to a year earlier.

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 €1,319.7 billion as at May 2023 (+19.4 and +214.2 billion more than a year earlier) - show that about 24.7% was attributable to consumer households, 19.8% to financial institutions, 44.0% to insurance companies, 5.5% to non-financial companies, about 3.1% to the public administration and 1.0% to producer families.

Overall, the individual portfolio asset management of banks, investment firms and UCITS management companies in Italy amounted to approximately €908.4 billion in March 2023, an annual trend decrease of 7.8%. Specifically, bank asset management in the same period amounted to €110.2 billion, marking a trend change of +3.0% (+2.1 billion compared to December 2022). Assets administered by SIM [securities investment] firms, amounting to approximately 10.8 billion, varied by +26.8% year-on-year, while those of asset management companies, amounting to €783,4 billion, recorded an annual decrease of -8.9% (+1,9 billion compared to the previous quarter).

In May 2023, the assets of open-ended Italian and foreign funds increased by 0.2% compared to the previous month, to about €1,103.8 billion (+2.1 billion).

Of these assets, 21.5% were funds under Italian law and the remaining funds were under foreign law. Compared to May 2022, assets fell by 7.2% as a result of the decline of: 25.1 billion in bond funds, 35.3 billion in flexible funds, 0.7 billion in equity funds, 23.3 billion in balanced funds, 570 million in money market funds and 571 million in hedge funds.

With regard to the breakdown of assets by type of fund, it should be noted that, over the past year, the share of equity funds has risen from 29.8% to 32.1%, that of money market funds from 3.7% to 3.9%, that of bond funds to 33.8% from 33.4%, that of flexible funds from 19.3% to 17.6%, that of balanced funds from 13.6% to 12.5% and that of hedge funds to 0.1% from 0.2% (see Chart 6).

THE CREDIT SYSTEM

Bank funding

According to the first estimates of the SI-ABI, in June 2023, customer deposits of all banks operating in Italy - represented by deposits with resident customers (current account deposits, deposits with a predetermined duration net of those connected with the sale of loans, deposits redeemable at notice and repurchase agreements; deposits are net of transactions with central counterparties) and bonds (net of those repurchased by banks) - amounted to €1,995.4 billion, down by 2.3% compared to a year earlier.

In detail, deposits from resident customers recorded a trend change of -4.1% in the same month, with a decrease of €75.3 billion in absolute terms year-on-year, bringing the amount of deposits to €1,765.4 billion.

The annual change in bonds was positive and equal to +14.3% (+13.1% the previous month). The bonds amounted to approximately €230 billion.

Deposits from abroad were up in May 2023 compared to a year earlier: specifically, deposits from banks operating in Italy amounted to approximately €3.675.3 billion, +17.0% from a year earlier. The share of deposits from abroad on the total inflows was 13.7%, compared to 11.7% a year earlier. The net flow of funds from abroad between May 2022 and May 2023 was positive for approximately €54.4 billion.

According to SI-ABI's initial estimates, the average rate of bank funding from customers stood at 0.93% in June 2023. In particular, the euro deposit rate applied to households and non-financial companies was 0.73%, that on bonds 2.59% and that on repurchase agreements 2.56%.

With reference to new transactions, SI-ABI estimates show that the average rate of bank funding from customers (which includes the yield on current account deposits, deposits with agreed maturity, deposits redeemable at notice, bonds and repurchase agreements in euro applied to households and non-financial corporations) stood at 3.27% in June 2023, compared to 0.61% in June 2022. In particular, the euro deposit rate with fixed terms applied to households and non-financial companies was 3.01%, compared to 0.29% in June 2022, while that on bonds was 3.63%, compared to 1.31% in June 2022.

Gross return on the CCT secondary market was 4.20% in May 2023, compared to 0.28% a year earlier). With reference to BTP Italia [Italian government securities indexed to the Italian inflation rate], the average yield was 3.89%, compared to 2.43% a year earlier. Lastly, the annualised average gross yield of government bonds went from -0.27% to -3.35% in the period May 2022 - May 2023.

Bank loans

Based on initial estimates by the SI-ABI, total loans to residents in Italy in June 2023 stood at €1,698 billion, with an annual change – calculated 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) – of -2.2%.

Loans to Italian residents in the private sector amounted to €1,447 billion in the same month, down -1.9% from a year earlier.

Loans to households and non-financial corporations amounted to €1,311.5 billion with an annual change of -1.5%.

According to official Bank of Italy data, lending to non-financial companies was -2.9% in May 2023.

In the first quarter of 2023, the share of house purchases financed by mortgage loans fell to 64.1% (from 65.3% in the previous quarter). The ratio of loan size to property value fell to 76.6% from 77.3% in the previous quarter.

Analysis of the distribution of bank lending by sector of economic activity shows that, in May 2023, manufacturing, mineral extraction and services accounted for 58.3% of the total (manufacturing activity

alone accounted for 28%). Financing for trade and for the hotel and catering business accounted for about 22.5% of the total, the construction sector for 8.9% and agriculture represented 5.6%. The residual assets represent approximately 4.6%.

According to the latest quarterly Bank Lending Survey (Bank Lending Survey - April 2023, "in the first quarter of 2023, lending criteria for corporate loans tightened slightly, which, as in the previous year, can be attributed to a higher perception of risk and a lower tolerance of risk. The lending conditions for households for house purchases became slightly tighter, while those for consumer credit remained unchanged. Their terms and conditions were tightened to reflect rising funding costs and budgetary constraints. For the current quarter, intermediaries expect a tightening of the lending criteria for non-financial corporations while those for households would remain stable. Demand for credit from businesses decreased, reflecting the decline in fixed investments and the increase in the general level of interest rates; demand for inventories and working capital continued to make a positive contribution. Household demand for loans for house purchases also declined while demand for consumer purposes remained unchanged; in both cases, the higher level of interest rates and worsening confidence continue to have a negative effect. In the current quarter, applications for loans by businesses and households will decrease further".

The SI-ABI reports that in December 2023 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 loan composition according to the type of loan – was 4.27%, compared to +2.05% in June 2022. Of all new mortgage disbursements, 63.7% were fixed-rate mortgages. The average rate on new euro loans to non-financial corporations rose to 4.86%, compared to 1.44% in June 2022. The weighted average rate on total loans to households and non-financial companies was instead equal to 4.25%, compared to 2.21% in June 2022.

The difference between the average lending rate and the average borrowing rate to households and non-financial companies was 332 basis points in June 2023.

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 May 2023, to 179 basis points in Italy, less than the 203 bps in Spain and 179 bps in Germany but more than the 102 bps in France. For the household sector, a margin of 120 bps was recorded in Italy, less than the 124 points in Spain and more than the 108 points in Germany and the -39 points in France.

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 stood at 2.86 percentage points in June 2023 in Italy.

This difference is the result of the average interest-bearing asset rate of 3.79% and the average cost of customer deposits of 0.93%.

With reference to flows, the margin calculated as the difference between lending and borrowing rates on new transactions, with households and non-financial corporations, was 190 basis points in Italy in June 2023, up from 143 points in June 2022.

SIGNIFICANT EVENTS DURING THE PERIOD

Transfer of non-performing loans

During the first half of 2023, the bank transferred "without recourse", pursuant to Articles 1, 4 and 7.1 of Law 130, 155 loans classified as "non-performing", for a total amount of €8,642,716.

The consideration for the assignment of receivables amounted to €1,334,172.

Support for share liquidity

During the first half of the year, Banca Popolare Alto Adige S.p.A. submitted, pursuant to Art. 77 and 78 of EU Reg. no. 575/2013 (CRR), a request for authorisation to repurchase primary tier 1 capital instruments (treasury shares) in the amount of € 3.5 mln in order to support the liquidity of the stock and contain any price fluctuations in the interest of the general public. The authorisation was issued on 26 July.

According to Art. 28 of EU Reg. no. 241/2014, as of the date of this measure, the full amount of the shares to be repurchased shall be deducted from the Bank's own funds.

Bankit authorisation (Tier 2)

During the first half of the year, Banca Popolare dell'Alto Adige S.p.A. submitted, pursuant to Art. 77 and 78 of EU Reg. no. 575/2013 (CRR), a request for authorisation to repay early, through the exercise of a call option, a subordinated TIER 2 bond with a maturity date of 03 October 2028 and a total nominal value of €25m. The initiative is related to the forthcoming start of the regulatory amortisation period of this instrument under Art. 64 CRR and, at the same time, an expected increase in the amount for payment of the relevant coupons. The relevant authorisation was received on 26 July 2023.

According to Art. 28 of Delegated Regulation no. 241/2014 and as clarified by the EBA Q&A no. 2017_3277, from the announcement of the intention to exercise the aforementioned call option, the total nominal value of the TIER 2 instrument subject to early redemption will be deducted from the Bank's own funds.

SIGNIFICANT EVENTS

SIGNIFICANT EVENTS OF THE SIX-MONTH PERIOD

Shareholders' Meeting

On 1 April 2023, the Ordinary Shareholders' Meeting was held, with the discontinuation of the Covid-19 measures, once again at the Fiera di Bolzano.

The 2022 Financial statements closed with a net profit of €75,527,325.37 (of which €73,936,849.96 was distributable); the Shareholders' Meeting resolved to distribute a dividend of €0.62 per share.

The Shareholders' Meeting appointed the Board of Directors for the three-year period 2023-2025, which has 9 members as opposed to the previous 12, as per the statutory minimum.

Lukas Ladurner, Lorenzo Salvà, Giuseppe Padovan, Margherita Marin, Johannes Peer, Alessandro Metrangolo, Margit Tauber and Federico Marini were reappointed to the new Board of Directors. Christina Gasser, a banking consultant and entrepreneur from Brixen, was also appointed as a new board member.

Lukas Ladurner - entrepreneur born in Silandro (BZ) on 04 June 1980	Chairman of the Board
Lorenzo Salvà - lawyer born in Merano (BZ) on 10 August 1961	Deputy Chairman of the Board
Giuseppe Padovan - lawyer born in Bassano del Grappa (VI) on 10 May 1965	Deputy Chairman of the Board
Margherita Marin - chartered accountant - auditor born in Bassano del Grappa (VI) on 29 November 1957	Director of the BoD
Johannes Peer - manager born in Bolzano (BZ) on 21 April 1989	Director of the BoD
Christina Gasser - bank consultant - entrepreneur born in Brunico (BZ) on 31 March 1989	Director of the BoD
Alessandro Metrangolo - lawyer born in Milan on 23 December 1975	Director of the BoD
Margit Tauber - manager born in Brixen (BZ) on 29 May 1974	Director of the BoD
Federico Marini - manager- officer born in Bolzano (BZ) on 26 June 1970	Director of the BoD

The outgoing directors are: David Covi, Maximilian Eisendle, Vito Jacono and Adriano Dalpiaz.

The Shareholders' Meeting also determined the annual remuneration and attendance allowances to be paid to the Board of Directors for the three-year period 2023-2025, overall slightly less compared to the previous year:

• €45,000.00 (forty-five thousand/00) as a fixed annual component;

• €250.00 (two hundred and fifty/00) daily allowance for attendance at meetings of the board and council (the attendance allowance does not cumulate in the event of multiple meetings on the same day). The previous attendance allowance was confirmed.

In addition, in order to increase the liquidity of the Bank's shares on the Vorvel trading platform (formerly Hi-MTF), the Shareholders' Meeting allocated an additional €18.5 million to the Bank's share buyback fund, divided between the work of the liquidity provider (€3.5 million) and the extraordinary buyback transaction (€15 million). Terms and conditions of the buyback - established by the Board of Directors - were communicated to the market on 28 April 2023. In addition to the technical methods, it provided for the start of the operation on 30 June 2023.

Lastly, the Shareholders' Meeting approved the proposal to proceed, in the period between November 2023 and March 2024, with the free allocation of treasury shares to shareholders who will remain shareholders, recognising the benefits of the Bank's share buyback operations. Depending on the number of shares available at the time of allotment, the exchange ratio will be a maximum of 1 free share for every 20 shares held and a minimum of 1 free share for every 30 shares held. Terms and conditions for allotment will be determined by the Board of Directors and communicated in good time.

The Shareholders' Meeting then approved the Remuneration Policies applicable as of the financial year 2023, as well as the 2023 Stock Grant Plan for the free assignment of ordinary shares of Banca Popolare dell'Alto Adige S.p.A. to the categories of personnel that have or may have a significant impact on the Bank's risk profile. These documents were previously approved by the Board of Directors on 3 March 2023. The Assembly also took note of the Report on the 2022 Implementation of the Remuneration Policies.

Inspection by the Bank of Italy

In the period between 26 April and 7 July 2023, the Bank was subject to an inspection conducted by the Bank of Italy pursuant to Art. 54 of (It.) Legislative Decree no. 385/1993 (TUB). The inspections conducted covered the issue of customer protection and, in particular, the transparency of banking transactions and services, as well as the rights and obligations of the parties in the provision of payment services. As of the date of preparation of this Financial Report, the Supervisory Authority has not yet submitted its assessments.

Complaint Management

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.

The following is the statistical data on complaints received as at 30 June 2023: during the first half of 2023, 578 complaints were received and processed, 127 of which were related to banking and financial services and 451 of which were related to investment services. It should be noted that 86 complaints relating to investment services are part of the so-called maxi-complaint (i.e., a complaint filed by a law firm in several tranches, starting in 2021, on behalf of various shareholders of the Company).

Of the 578 complaints as at 30 June 2023, 50 complaints were closed, 221 were closed pending settlement, while 307 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 the first half of 2023 concerning banking and financial services, the Company reimbursed customers the total amount of €3,483.81 and entered no loss provision.

With regard to complaints received during the first half of 2023 concerning investment services, the Company reimbursed clients a total amount of € 2,500.00.

In addition, in the first half of 2023, reimbursements of €186.00 (relating to banking and financial services) and €165,850.00 (relating to investment services) were made in respect of complaints made in previous years.

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 first half of 2023, 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.

RATING

Standard & Poor's

On 19 May 2023, the agency S&P Global Ratings revised Volksbank's outlook from "stable" to "positive" while confirming its "BB+" rating. At the same time, it confirmed its short-term credit rating as "B".

According to the agency, Volksbank benefits from the potential decrease in economic risks in Italy, which could be reflected in an increase of approximately 80-90 basis points on the risk-adjusted capital (RAC) ratio projections over the next two years. The good outlook on revenues, which benefit from rising interest rates, and a cost of credit risk lower than the system average will allow the bank to keep its RAC ratio steadily above 7%.

The rating agency's positive outlook on Volksbank reflects the view that the bank's creditworthiness could improve over the next 12 to 24 months.

DBRS

On 16 May 2023, the agency DBRS Ratings GmbH (DBRS Morningstar) confirmed Volksbank's rating, i.e. "BBB (low)" the "Long-Term Issuer Rating" and "R-2 (middle)" the "Short-Term Issuer Rating", and its trend at "stable".

According to the agency, the confirmation of the ratings and the stable trend take into account the bank's stable business in its home region, its stable debt and liquidity position, and the progress made in reducing the stock of impaired loans (NPLs) and improving profitability. Also according to the agency, higher interest rates will further support the bank's profitability in 2023, offsetting pressure from higher funding costs and asset quality risks.

FITCH

On 29 March 2023, the agency Fitch Ratings confirmed the "Long-Term Issuer Default Rating (IDR)" at "BB+", the "Viability Rating (VR)" at "bb+" and the bank's outlook at "stable".

According to the agency, Volksbank's ratings reflect its ample capital reserves compared to the minimum regulatory requirements, despite the small size of its equity capital and its average debt from stable taking of deposits. Risk controls are deemed commensurate with the bank's business profile and the rating agency recognises the progress made to strengthen them.

The stable outlook reflects the rating agency's view that Volksbank's ratings have room to absorb a modest deterioration in asset quality.

ONGOING PROJECTS

EVOLUTION OF ICT SYSTEMS

Core Banking System

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.

The evolution of the IT system continues according to the project plans shared between bank and full-outsourcer. Major business and regulatory IT projects in the first half of 2023 include:

- Digitisation 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, the project "digitalisation of end-to-end credit processes", i.e. consultation for finalisation of the loan, is underway. 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 at greater standardisation of processes, greater integration between the various operating systems and applications, and greater process automation by minimising redundant, manual or superfluous tasks. In addition to the features already released in 2022, a number of improvements were implemented in the first half of the year based on user feedback.
- T2-T2S Consolidation: one of the most important regulatory projects, this initiative maximises synergies between TARGET2 (T2) and TARGET2-Securities (T2S) by integrating the securities and cash settlement service offerings and providing new functionalities to meet the latest 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 new system went into production in March 2023 and radically modified the network infrastructure it is based on and the messages exchanged between banks.
- Amlet: the new anti-money laundering management platform was launched in 2022 with the first modules for managing due diligence questionnaires, and in the first half of 2023, testing started on the modules for transaction reporting. When fully operational, Amlet will be a complete management system integrating all AML processes in a single application.

Digital channels, infrastructure and branch automation

The use of the bank's app continues to rise sharply and has now overtaken the use of direct banking via PCs, which is also the result of the investments that have been made in recent years to improve the user experience and the completeness of the services that can be carried out via the app.

In this regard, the use of remote signing and contracting processes is also increasing. This is a sign of the greater propensity on the part of customers to carry out even more complex transactions and advice through

channels without physical contact. The bank will continue with investments and initiatives to complement this offer and improve the user experience on these channels.

As for the infrastructure, the gradual upgrading of the “self-service” equipment continued in the first half of 2023 with the installation of latest-generation deposit ATMs and the replacement of coin-counters, partly with 24/7 machines in branches with a high volume of coin deposits.

In the area of branch organisation, it should be noted that 104 branches now work with the so-called “multi-branch” organisational model. In these branches, the role of the stationary cashier and the classic counter are no longer present, but a multi-operator cash desk is installed in the common area of the branch, which is accessible to all employees. The client may accordingly turn to any adviser for support on cash transactions. This branch model, which is particularly suitable for small and medium-sized branches with limited cash operations, allows employees to make the most of their time and thus concentrate on consulting and services with higher added value.

Finally, it should be noted that in the area of internal IT developments, more than three fourths of the applications on the HCL Domino platform were migrated to applications developed in-house on a new “low code” platform with agile development methods. By 2023, the migration of all remaining applications as well as the development of completely new apps is planned to support the digitisation and streamlining of internal business processes.

MANAGEMENT OF RISKS

The integrated measurement and control of financial, credit, counterparty, operational, reputational and strategic risks, as well as the assessment of capital adequacy (ICAAP process) and liquidity risk (ILAAP process), are entrusted to the risk management and control department (risk management), which is governed by a specific mandate approved by the Board of Directors; the department is hierarchically and functionally placed under the direct authority of the Board of Directors in order to endow it with the necessary autonomy, authority and independence.

As in previous years, this department collaborated in the definition, implementation and verification of the *Risk Appetite Framework (RAF*) and related risk governance policies, through an appropriate management process, as required by the relevant guidelines of national and international regulatory authorities. At a higher level, the RAF defines risk tolerance and risk appetite, both of which are used to establish both the absolute level of risk the Bank is a priori willing to take on and the actual limits it sets for itself within that maximum level. The aim is, once the risks within individual activities and changes in their structure over time have been identified, to ensure accurate and timely 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 level of risk assumption is based on the Bank's ability or willingness to take on risk and depends on capital base, which is set aside to cover risks, income capacity and the risk it is willing to take on in order to achieve its economic and strategic objectives. Audits with respect to capital adequacy fall under the ICAAP, Internal Capital Adequacy Assessment Process, those concerning the assessment and monitoring of liquidity risk under the ILAAP (Internal Liquidity Adequacy Assessment Process).

This section illustrates, with reference to the first half of 2023, the dynamics of the main risks, the evolution of the monitoring and control systems and, finally, some information on the foreseeable evolution of corporate risks.

THE FIRST HALF OF 2023

The activities of the risk control department during the first half of 2023 were guided by the realisation of the department's programme plan for the year 2023, which was approved by the Board of Directors on 24 March 2023. As usual, the plan is aimed, from a general point of view, at intensifying efforts to foster an ever deeper penetration and dissemination of the risk management culture, at every management and policy level, on the basis of the guidelines set out in the Risk Policy and in the Risk Management Regulation, documents that organically and systematically define the policies for identifying, measuring, managing and controlling risks, as well as the prerequisites for their conscious adoption. On the other hand, the primary purpose of the plan is to monitor the bank's risk profile on an ongoing basis in order to identify and prevent any deviations from the bank's risk appetite as set forth in the Risk Appetite Framework (RAF) and accompanying statements (RAS), which were approved by the Board of Directors on 3 March 2023.

As in 2022, the activity of the risk control function continued to be conditioned by the evolving situation related to the assessment and monitoring of the current and prospective impacts of the Russian-Ukrainian crisis. In addition to the strengthening of risk safeguards, the department implemented the instructions and fulfilled the requests of supervision and oversight with regard to the monitoring and correct representation to corporate bodies and the supervisory authority of the risks and potential impacts caused by the ongoing geopolitical crisis. These indications have been incorporated into the annual ICAAP and ILAAP process, the Restructuring Plan and the NPL management strategy, as well as into internal information flows to top management bodies. In addition, the monitoring of climate risks and ESG risks in general was strengthened.

FINANCIAL RISKS

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. Volksbank then measures market risk as a change in the value of stocks due to market movements.

Volksbank uses a market risk measurement and control system 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. For the calculation of VaR, the Bank uses the parametric variance-covariance model provided by the company Prometeia and supported by hybrid internal models used for the necessary checks.

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.

The review and control of the market risk profile of the assets held are periodically discussed in the ALCO Finance Committee, at which a specific report is presented by the risk management department.

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).

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 Bank is exposed to, consistent with its bank type, oriented towards retail customers and small and medium-sized companies.

Consequently, Volksbank's 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.

The Risk Policy and the associated Risk Management Regulation define all possible forms of credit risk and the management guidelines, default risk, solvency risk, foreign currency exposure risk, risk of concentration of the loan portfolio, residual risk). The internal documentary structure regulates in particular:

- 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 applied to the annual credit strategy and management policies;
- the organisational model, specifying the minimum responsibilities, 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 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, starting from the performance rating and a whole series of indicators calculated and fed on a daily basis, is able to detect the onset of degraded situations at an early stage. 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 two 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. Pursuant to Bank of Italy Circular 285/2013, as part of the credit monitoring process, the risk management department verifies the proper carrying out of performance monitoring of individual credit exposures, especially non-performing exposures, and the assessment of the consistency of classifications and adequacy of provisions. In particular, the risk management department:

- checks 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;
- systematic controls through participation in internal credit committees and simultaneous verification of compliance with internal regulations.

In the case of conflicting assessments, the assessments made by the risk control department apply.

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 definition of the estimation, assessment and periodic re-evaluation processes for properties used as mortgage guarantees, in order to scrupulously comply with the eligibility and admissibility criteria for such guarantees. During the first half of 2023, the entire portfolio of mortgage securities provided was subjected to the periodic geo-referential revaluation process by the company Nomisma in order to assess the state of the value of the real estate market, which was significantly affected by the crisis, and their adequacy with respect to the credit they cover.

The quarterly credit risk reports prepared for the Board of Directors and previously discussed in the Internal Credit Committee are the main tool for monitoring the development of lending activities and related risks as well as compliance with the risk objectives (RAF) and guidelines defined in the 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 and the analysis of the main risk phenomena.

Finally, it should be noted that the full adoption of the Bank's new internal rating model, which replaces the previous management rating system, was completed in the first half of 2023.

COUNTERPART RISK

Counterparty risk is the risk that a counterparty 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 in accordance with specific percentage shares of the limit assigned to homogeneous categories of financial instruments.

OPERATIONAL RISKS

In contrast to credit and market risks, which the bank consciously assumes in return for a risk remuneration, operational risks can generate losses, sometimes considerable ones, without the bank receiving any remuneration. Operational risks are naturally inherent in the execution of processes, including their IT aspect, in the characteristics of the products and services offered, and in the possibility of being subject to fraudulent or accidental events.

For these reasons, the Bank analyses the causes of operational losses and systematically detects and measures events with the aim of limiting and reducing the relevant risks.

In accordance with the definitions of the Basel Committee, Volksbank considers operational risk to be "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.

Since 2003 Volksbank has introduced an internal system for the detection and measurement of operating losses (loss data collection) for the purposes of better management of potential sources of danger that could undermine the company's 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 indicative statistical information and data.

The operational loss collection process is based on an internal reporting system, which provides for collection and forwarding to a central collection point located at the risk management department, of all events categorised as operational losses, starting from a minimum threshold of €500. These reports are supplemented with losses resulting from lawsuits, customer complaints, disputes with staff, etc.

The systematic collection and analysis of this information over the past year provided valuable insights and suggestions for the evaluation and optimisation of the bank's processes and activities.

Assessment of operational risks is also included in the assessment of the company control departments and 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 departments (Internal Audit, Compliance, Risk Management, and Anti-Money Laundering), share control perimeters and results of audits, direct corrective actions towards operational departments, and develop and disseminate a risk and control culture among the Bank's operating offices.

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. In the first half of 2023, special attention was given to the handling and control of risks arising from applications using cloud computing services, a case study that is being progressively extended. In addition, the monitoring of cyber risk continues to be progressively strengthened, in view of the constantly evolving potential types of cyber attacks.

Still in the area of operational risks, a greater emphasis has been placed on checks with regard to the so-called "outsourcing risk", aimed at controlling the risks associated with corporate departments transferred to external suppliers, with particular reference to essential and important departments pursuant to the regulatory framework in force. The checks involve analysis and evaluation processes and methodologies, specifically defined to monitor this type of risk.

On a quarterly basis, the Risk management department draws up a report on the Bank's operating risks for discussion in the internal controls committee and submitted to the Board of Directors. The latter therefore has the task of identifying all potential critical situations, proposing countermeasures to prevent them, identifying operational processes that require revision and those that have not yet been defined.

THE ICAAP PROCESS AND PILLAR II RISKS

The ICAAP process (Internal Capital Adequacy Assessment Process) has been strictly conceived and aimed at supporting, even in advance of regulatory planning, the impacts deriving from the so-called Basel regulatory framework. The supervisory authorities intend to strengthen the prudential rules of the international banking system by introducing a definition of capital aimed at strengthening capital through stringent requirements in terms of high-quality capital instruments, and establishing additional measures to reduce the pro-cyclicality of the rules (capital buffers) by setting limits on leverage and also considering Minimum Requirements for own funds and Eligible Liabilities (MREL) in the event of resolution.

With regard to this process, it should be noted that since the end of 2012, Volksbank has calculated its so-called "Pillar 1" capital requirements for credit, market and operational risks using the so-called standardised methodology.

As every year, the annual report was prepared and sent to the Supervisory Authorities in April. On this occasion, the methodologies for calculating and analysing all types of risks and the stress tests to which they are subjected were refined. In particular, stress tests included, in addition to sensitivity analyses on individual risks or risk factors, scenario analyses aimed at simulating the effects on all key banking indicators of the simultaneous occurrence of exogenous and endogenous risk factors. Among these, stress scenarios referring to climate crisis situations were also considered.

The annual report showed that capital is expected to remain fully adequate in the future and despite the emergency of the ongoing geopolitical crisis, both with respect to the risks taken and assumable in the medium- to long-term and with respect to the regulatory limits in force. In particular, it was assessed how the overall good quality of capital, the low degree of leverage and the prevalence of a traditional business model, which is essentially linked to financing the real economy in the territories where the bank is based, should make it less burdensome to comply with the requirements of the regulations in force. However, the bank remains committed to capital management and proper allocation of capital (capital management) in order to identify any possibilities for strengthening/optimising own funds and optimising absorption (RWA optimisation), using all possible levers made available by the business model.

Among so-called Pillar II risks, 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.

As part of ICAAP, specific methods have been defined, 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.

The concentration risk per individual borrower is instead measured in accordance with the provisions of Bank of Italy Circular 285 according to the Granularity Adjustment ("GA") method.

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 meetings of the Internal Loan Committee.

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 economic value, 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 finance and liquidity. Two indicators are identified here, relating respectively to the sensitivity of the interest margin and the present value of own funds and the present value of CET1 in the face of unfavourable changes in the rate curve.

The monitoring of interest rate risk makes use in particular of the monthly elaborations of the Ermas computer procedure of the company Prometeia. The application takes into account the modelling of items without a defined contractual maturity (so-called on-demand items) in order to reconstruct a maturity and repricing structure that is as realistic and relevant as possible to what has been observed in the past.

Since the first half of 2022, an increase in the risk profile of the bank's banking book was noted as a result of the reduction in funding maturities, to which the bank has reacted through appropriate corrective actions aimed at keeping the exposure within the limits imposed by the RAF in terms of sensitivity of the capital value to interest rate risk. As at 30 June 2023, there were two hedging transactions in derivatives accounted for under hedge accounting.

The review and control of the interest rate risk profile is discussed in the Bank ALCO, during which a specific monthly report (ALM report) is submitted by the Risk management department. In particular, the reporting includes a so-called fixing analysis, which illustrates the amount of items in the banking book, which have broken down by relative maturity and repricing date, within a regulatory maturity schedule. It also makes it possible to monitor the actual natural hedging capacity of the banking book both in terms of time and amount between asset and liability items.

The risk 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.);
  - 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 poor company decisions, inadequate implementation of decisions or insufficient reaction to changes in the competitive environment;
- risks arising from securitisation transactions;
- 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;
- 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. In this regard, the bank has set up a daily monitoring tool (reputational monitor) with which a number of important indicators measuring the bank's reputational level vis-à-vis key stakeholders are checked;
- 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. In the first half of 2023, the bank was strongly committed to the development of appropriate systems for assessing, measuring and monitoring these types of risks, with particular reference to environmental and climate risks (physical risk and transition risk). These include an additional equity measure to cover certain climate risk factors.

ILAAP PROCESS AND 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).

Awareness of the importance of liquidity risk was also a primary and constant focus of attention during the first half of 2023.

In particular, in compliance with the information requirements set out in Circular No. 285 of the Bank of Italy, which transposed the SREP guidelines of the European Banking Authority, the Internal Liquidity Adequacy Assessment Process (ILAAP) was defined and formalised; the results of which, referring to 31 December 2022, were transmitted to the Supervisory Authority in April as part of a specific report drawn up jointly with the ICAAP report.

Liquidity management is based on the indications and operating guidelines set out in the Risk Policy and in the Risk Management Regulations, which are 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, including 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 liquidity flows of interest in the LaR analysis are the daily imbalances that are not attributable to choices made by the bank; in other words, the flows directly attributable to customer activity.

The liquidity situation is constantly monitored by the relevant departments on a daily, 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 three 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 Department, which is 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. These are the short-term indicator, the so-called LCR, Liquidity Coverage Ratio, and the long-term indicator, the so-called NSFR, Net Stable Funding Ratio, to which the additional indicators ALMM, Additional Liquidity Monitoring Metrics, were subsequently added.

During the first half of 2023, the analysis of the bank's liquidity situation did not reveal any particular tense situations in either the short or long term.

The bank's policy has favoured the maintenance of liquidity reserves that are stably consistent and always sufficient to cope with possible stress situations; to this end, all available instruments have been used, including those put in place by the European Central Bank and the Italian government. The Bank's securities portfolio is configured to ensure a large and readily available liquidity management reserve over time, establishing for this purpose appropriate investment rules in terms of duration, sector, issuer risk, eligibility, etc. In addition, the so-called ABACO refinancing channel is extensively active, an instrument through which loans with specific eligibility requirements can be collateralised with the ECB.

ANNUAL REPORTS OF THE CONTROL DEPARTMENTS (COMPLIANCE AND RISK MANAGEMENT)

The internal Compliance and Risk Management departments report at least once a year on the activities carried out, pursuant to the joint Bank of Italy-Consob regulation in compliance with Article 6, paragraph 2-bis, of the Consolidated Law on Finance ("TUF") and Bank of Italy Circular 285/2013.

Specifically:

- art. 13 of the Joint Regulation stipulates that the risk management department cooperates in the definition of the company's risk management system, oversees the operation of the company's risk management system and verifies compliance therewith, verifies the adequacy and effectiveness of the measures taken to remedy any deficiencies found in the company's risk management system; and finally, the same article specifies that this department shall submit reports on its activities to the corporate bodies at least once a year and provide them with consultancy;
- art. 16 of the aforementioned regulation assigns to the compliance department the following responsibilities: to monitor and regularly assess the adequacy and effectiveness of the procedures adopted and the measures taken to remedy any shortcomings in the fulfilment of obligations by the intermediary; to provide advice and assistance to the relevant persons in charge of services for the purpose of fulfilling the obligations laid down in the provisions transposing Directive 2004/39/EC and its implementing measures. The compliance department also submits reports on its activities to the corporate bodies at least once a year;
- Point 2 of Part I, Title IV, Chapter 3, Section III requires the compliance and risk control departments to submit a programme of activities to the corporate bodies on an annual basis, each according to their respective competences, in which the main risks to which the bank is exposed are identified and assessed and the relevant management actions are planned. At the end of the management cycle, i.e. annually, the corporate control departments submit to the corporate bodies a report on the activity carried out, which illustrates the checks carried out, the results that have emerged, the weaknesses detected and proposes the measures to be taken for their removal.

In compliance with the above-mentioned regulatory obligations, the bank's Compliance and Risk Management departments report to the corporate bodies in the first half of the year on the activities carried out during the previous year. Both departments provided their respective annual reports on their activities to the Board of Directors on 24 March 2023.

FUTURE DEVELOPMENT OF THE BANK'S RISKS/OBJECTIVES

The Bank implements the processes of selecting, assuming, governing and mitigating risks arising from its banking and financial activities in order to pursue stable and sustainable growth objectives over time, which are consistent with the general guidelines approved by the Board of Directors.

These guidelines include in particular: the strong fractioning of credit risks in keeping with the objective of financing, predominantly, households and small and medium-sized enterprises; the assumption of market risks in strict relation to commercial needs; the careful monitoring of liquidity in order to ensure the ability to meet expected and unexpected financial needs in a timely manner; and the exclusion of risks unrelated to characteristic activities.

The implementation of the guidelines outlined above is an element of guarantee in order to be able to cope in the best possible way with possible adverse developments, and even unforeseeable ones, in the economic-financial framework.

The Bank will continue with a careful policy of selecting, assuming, governing and mitigating risks arising from its banking and financial activities in order to pursue stable and sustainable growth objectives over time.

As far as credit risk is concerned, the Bank will focus its growth efforts on the household and SME segment, remaining well-rooted in its historical reference areas, but above all pursuing a high fragmentation of the credit portfolio. Sovereign risk will be assumed mainly in connection with commercial requirements given the continuing uncertainty about the evolution of the macroeconomic framework at the national and international level.

The objective is to maintain the character of a commercial bank, establishing a marginal component of financial risks in relation to the overall risks faced. However, the refinement of market-risk-measurement methodologies will continue, also in light of the increasing complexity of products and the persistent volatility of markets.

On the liquidity risk front, in addition to pursuing the constant improvement of the control tools at its disposal, and also adopting internal models to simulate the effects on liquidity arising from extreme scenarios, the Bank implements a type of management that favours, on the one hand, the balance of financial maturities, and on the other, an increase in liquidity reserves so as to guarantee stability and operational capacity even in the event of any sudden and significant reduction in the system's liquidity.

The risk management department remains constantly focused on monitoring the risks arising from the introduction of new products or services and makes proposals and checks on the control oversight.

EXPOSURE IN DEBT SECURITIES AND LOANS TO SOVEREIGN STATES

With the "Communication on disclosure of information to be disclosed in financial reports about exposures of listed companies in sovereign debt securities", no. DEM/11070007 of 5 August 2011, Consob recalls the application of Document No. 2011/266 of 28 July 2011 of the European Securities and Markets Authority (ESMA) on the disclosure of sovereign debt to be included in annual and Interim financial reports prepared by listed companies adopting IAS/IFRS.

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. The tables below show in greater detail the exposure in debt securities by the accounting portfolio to which they belong, by maturity bracket and by fair value hierarchy.

The table below shows the balance sheet value of sovereign credit risk exposures by country.

Composition of sovereign debt securities portfolio - by issuing country	30.06.2023	31.12.2022
EU countries		
- Italy	2,951,947	3,143,168
- Spain	20,292	0
Non-EU countries		
- United States of America	861	881
Total portfolio	**2,952,808**	**3,144,048**

Composition of sovereign debt securities portfolio - Financial assets measured at fair value with impact on income statement

State	expiry by 2023	expiry in 2024	expiry in 2025	expiry in 2026	expiry in 2027	expiry after 2027	Total	LEVEL 1	LEVEL 2	LEVEL 3
-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

At the date there were no sovereign debt securities measured at fair value with an impact on the income statement.

Composition of sovereign debt securities portfolio - Financial assets measured at fair value with impact on comprehensive income

State	expiry by 2023	expiry in 2024	expiry in 2025	expiry in 2026	expiry in 2027	expiry after 2027	Total	LEVEL 1	LEVEL 2	LEVEL 3
Italy	-	24,569	299,014	10,083	9,592	26,202	369,460	369,460	-	-
United States of America	-	-	-	-	861	-	861	861	-	-
Total	**-**	**24,569**	**299,014**	**10,083**	**10,453**	**26,202**	**370,690**	**370,690**	**-**	**-**

Composition of sovereign debt securities portfolio - Financial assets measured at amortised cost

State	expiry by 2023	expiry in 2024	expiry in 2025	expiry in 2026	expiry in 2027	expiry after 2027	Total	LEVEL 1	LEVEL 2	LEVEL 3
Italy	-	273,367	530,596	439,583	169,004	1,149,645	2,562,196	2,562,196	-	-
Spain	-	-	-	-	20,292	-	20,292	20,292		
Total	**-**	**273,367**	**530,596**	**439,583**	**189,296**	**1,149,645**	**2,582,488**	**2,582,488**	**-**	**-**

DISCLOSURE OF EXPOSURE TO STRUCTURED CREDIT PRODUCTS AND SPECIAL PURPOSE ENTITIES

In accordance with the recommendations of the Financial Stability Forum (now Financial Stability Board) and the Bank of Italy (Communication no. 671589 of 18 June 2008) the following disclosures are provided on risks related to exposures to structured credit products, Asset Backed Securities and Collateralised Debt Obligations as well as special purpose entities for securitisation transactions originated by Volksbank or consequent to the issue of Covered Bank Bonds.

It should be noted that third-party bond issues backed by guarantees based on loan portfolios are not considered relevant for the purposes of the disclosure required in this paragraph, as they are instruments in which the underlying structure constitutes an additional guarantee to the issuer's solvency.

EXPOSURES TO 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.

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 €9.6 million, related to a bond securitisation (€10.0 million as of 31.12.2022).

STRUCTURED PRODUCT EXPOSURES

As at 30 June 2023, the total exposure to covered bonds amounted to €76.6m, which was limited compared to the overall portfolio (about 2.1% of the total). They are all financial instruments issued by EU and non-EU (UK) banks or financial companies and are classified as HTCS ("*Hold To Collect And Sell*") for €55.3m and as HTC ("*Hold To Collect*") for €21.0m. All these instruments have residual maturities by 2030.

Structured securities with a balance sheet value of €118.2 million (or 3.2% of the total portfolio), of which €66.4 million are measured at fair value with impact on comprehensive income ("HTCS - Hold To Collect And Sell") and €50.4 million are measured at amortised cost ("HTC - Hold To Collect"), and €1.4 million are measured at fair value with impact on the profit and loss account. All these instruments have residual maturities by 2030.

DISCLOSURE OF RELATED PARTY TRANSACTIONS

This Interim financial report incorporates the regulatory changes to IAS 24 - Related Party Disclosures - published in November 2009 by the IASB (Reg. CE no. 632/2010 of 19/07/2010) regarding the definition of the scope of related parties.

Please refer to the section "Related Party Transactions" in the Notes to the Condensed Interim Financial Statements for details on existing transactions.

BUSINESS OUTLOOK

The outlook for economic growth and inflation remains very uncertain. Risks to growth include Russia's war against Ukraine and an increase in broader geopolitical tensions, which could fragment global trade and therefore affect the economy of the euro area. Growth could also slow down if the effects of the ECB's monetary policy are stronger than expected, or if the global economy weakens further, dampening demand for euro area exports. That said, growth could be higher than expected if robust labour markets, rising real incomes and decreasing uncertainty lead individuals and businesses to become more confident and spend more.

Risks to inflation include potential new upward pressure on energy and food costs. Adverse weather conditions, in the light of the ongoing climate crisis, could cause food prices to increase more than expected.

A sustained rise in inflation expectations above the ECB's stated targets, or higher-than-expected increases in wages or corporate profit margins, could raise inflation, even in the medium term. On the other hand, weaker demand, e.g. due to more effective transmission of monetary policy decisions, would lead to less pressure on prices, especially in the medium term. In addition, inflation would fall faster if the reduction in energy prices and lower increases in food prices were passed on to the prices of other goods and services faster than currently expected.

The tightening of monetary policy decided by the ECB continues to be transmitted to financing conditions. Risk-free interest rates on short- and medium-term maturities have risen since the last ECB meeting and funding for banks has become more expensive, also due to the phasing out of the targeted longer-term refinancing operations (TLTRO). The significant TLTRO repayments in June showed the banks' ability to sustain disbursements without difficulty.

In this regard, average lending rates for mortgages and business loans increased again in the second quarter. Furthermore, rising loan rates and related cuts in spending plans led to a further drop in demand for credit in the second quarter. Meanwhile, credit selection standards in corporate and household lending have tightened further, due to the increased focus by financial intermediaries on the risks of non-repayment. Tightening financing conditions are making investments in the housing market less convenient and less attractive as a form of investment. Demand for property mortgages is now declining.

A broadly linear evolution of revenues can be expected, with the financial margin expected to continue to benefit from the recovery in rates and to be penalised by a slowdown in new disbursements, while the contribution of the commission component should be affected by the uncertainty in the equity and financial markets.

Particular attention will continue to be paid to the monitoring of credit risk, with strengthened monitoring actions and the development of early warning systems to detect possible credit deterioration profiles in a timely manner. The aforementioned inflationary dynamics and the potential deterioration of the macroeconomic scenario could have an increasing impact on credit risk and lead to a strengthening of the adjustment safeguards, which will benefit from the stabilisation effects of the performing loans component.

CONDENSED INTERIM FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Balance Sheet as at 30 June 2023

Assets and liabilities	30.06.2023	31.12.2022
(in EUR)		
10. Cash and cash equivalents	216,793,644	1,063,322,866
20. Financial assets at fair value with impact on profit and loss	70,416,542	103,896,451
a) financial assets held for trading	4,956,373	1,608,254
b) financial assets designated at fair value	-	-
c) other financial assets that must be measured at fair value	65,460,169	102,288,197
30. Financial assets measured at fair value with impact on comprehensive income	742,468,954	729,539,423
40. Financial assets measured at amortised cost	10,406,120,340	10,515,057,702
a) due from banks	222,346,176	181,590,462
b) due from customers	10,183,774,164	10,333,467,240
50. Hedging derivatives	232,886	-
60. Value adjustment of hedged financial assets (+/-)	-	-
70. Investments	4,321,339	4,339,450
80. Tangible fixed assets	146,589,450	146,207,245
90. Intangible fixed assets	14,078,381	14,576,571
of which:		
- goodwill	-	-
100. Tax assets	114,479,992	138,188,423
a) current	28,630,190	47,966,227
b) anticipated	85,849,802	90,222,196
110. Non-current assets and groups of assets held for sale	3,650,303	4,848,930
120. Other assets	330,937,810	236,513,588
Total assets	**12,050,089,641**	**12,956,490,649**

Liabilities and equity items	30.06.2023	31.12.2022
(in EUR)		
10. Financial liabilities valued at amortised cost	10,601,907,685	11,788,026,227
a) due to banks	1,603,581,614	2,628,753,865
b) due to customers	8,593,802,855	8,759,381,566
c) securities in issue	404,523,216	399,890,796
20. Financial liabilities held for trading	106,597	383,503
30. Financial liabilities designated at fair value (IFRS 7 par. 8 (e))	-	-
40. Hedging derivatives	429,156	-
50. Value adjustment of hedged financial liabilities (+/-)	-	-
60. Tax liabilities	23,437,738	29,919,529
a) current	22,066,723	28,863,357
b) deferred	1,371,015	1,056,172
70. Liabilities associated with assets held for sale	-	-
80. Other liabilities	506,818,537	240,397,398
90. Employee severance indemnities	12,219,458	12,742,904
100. Provisions for risks and charges	26,712,621	23,973,950
a) commitments and guarantees issued	7,859,754	9,829,176
b) pensions and similar obligations	-	-
c) other provisions for risks and charges	18,852,867	14,144,774
110. Valuation reserves	(17,009,257)	(11,847,028)
120. Redeemable shares	-	-
130. Capital instruments	-	-
140. Reserves	372,726,257	326,729,530
150. Share premium reserves	298,770,235	298,773,829
160. Capital	201,993,752	201,993,752
170. Treasury shares (-)	(31,509,523)	(30,130,270)
180. Profit (loss) for the year (+/-)	53,486,385	75,527,325
Total liabilities and equity	**12,050,089,641**	**12,956,490,649**

Profit and Loss Account as at 30 June 2023

PROFIT AND LOSS ACCOUNT	30.06.2023	30.06.2022
(in EUR)		
10. Interest receivable and similar income	215,860,636	109,117,673
of which: interest income calculated according to the effective interest method	192,495,034	102,383,332
20. Interest paid and similar charges	(75,763,356)	(8,556,624)
30. Interest margin	**140,097,280**	**100,561,049**
40. Commission income	57,906,839	56,024,995
50. Commission expense	(7,764,358)	(5,695,050)
60. Net commission	**50,142,481**	**50,329,945**
70. Dividends and similar income	2,456,868	2,622,119
80. Net result of trading	2,737,345	1,707,506
90. Net result of hedging	2,921	-
100. Profits (losses) on disposal or repurchase of:	(5,001,815)	3,361,373
a) financial assets measured at amortised cost	(2,480,138)	537,481
b) financial assets measured at fair value through comprehensive income	(2,521,677)	2,823,864
c) financial liabilities	-	28
110. Net profit/loss from other financial assets and liabilities measured at fair value through profit and loss	1,314,700	1,088,209
a) financial assets and liabilities designated at fair value	-	-
b) other financial assets that must be measured at fair value	1,314,700	1,088,209
120. Net banking income	**191,749,780**	**159,670,201**
130. Net value/write-backs adjustments for impairment of:	(10,338,459)	(21,968,947)
a) financial assets measured at amortised cost	(10,342,209)	(21,747,825)
b) financial assets measured at fair value through comprehensive income	3,750	(221,122)
140. Profits/losses from contractual amendments without write-downs	870,791	(34,785)
150. Net profit from financial activities	**182,282,112**	**137,666,469**
160. Administrative expenses:	(100,406,171)	(92,943,626)
a) personnel expenses	(56,815,004)	(52,407,572)
b) other administrative expenses	(43,591,167)	(40,536,054)
170. Net provisions for risks and charges	(2,976,330)	(1,713,335)
a) for credit risk relating to commitments and guarantees issued	1,969,422	(434,771)
b) other net provisions	(4,945,752)	(1,278,564)
180. Net adjustments/write-backs on tangible assets	(7,477,900)	(5,771,009)
190. Net adjustments/write-backs on intangible assets	(499,636)	(555,733)
200. Other operating charges/revenue	8,263,109	9,158,168
210. Operating costs	**(103,096,928)**	**(91,825,535)**
220. Profits (Losses) on equity investments	(70,284)	1,395,590
230. Net result of measurement at fair value of tangible and intangible assets	-	-
240. Goodwill value adjustments	-	-
250. Profits (Losses) on disposal of investments	518,969	(108,827)
260. Pre-tax profit (loss) for the period from continuing operations	**79,633,869**	**47,127,697**
270. Income taxes on current operations	(26,147,484)	(15,567,230)
280. Profit (Loss) from current operations after tax	**53,486,385**	**31,560,467**
290. Profit (Loss) on discontinued operations after tax	-	-
300. Profit (Loss) for the year	**53,486,385**	**31,560,467**

Statement of comprehensive income

Items *(in EUR)*		30.06.2023	30.06.2022
10.	**Profit (Loss) for the year**	**53,486,385**	**31,560,467**
	Net impairment losses/reversals on receivables of the NPL segment were entirely reclassified to		
20.	Equity securities designated at fair value through other comprehensive income	(1,104,242)	334,602
30.	Financial liabilities designated at fair value through profit or loss (changes in credit rating)	-	-
70.	Defined benefit plans	93,563	2,082,808
	Other income net of taxes reversed to the income statement		
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(4,151,550)	(9,850,209)
160.	Share of valuation reserves of equity accounted investments	-	-
170.	Total other income net of taxes	(5,162,229)	(7,432,799)
180.	**Comprehensive income (Item 10+170)**	**48,324,156**	**24,127,668**

Statement of changes in shareholders' equity

Statement of changes in shareholders' equity from 1st January to 30th June 2023

(in EUR)	Balance as at 31.12.2022	Change in opening balances	Balance as at 01.01.2023	Allocation of result for previous year		Changes in the year								Shareholders' equity as at 30.06.2023
						Reserve changes	Transactions on equity						Comprehensive Income as at 30.06.2022	
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Variation to capital instruments	Derivatives on treasury shares	Stock Options		
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserves	**298,773,829**	**-**	**298,773,829**	**-**	**-**	**(3,594)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**298,770,235**
Reserves:	**326,729,529**	**-**	**326,729,529**	**45,903,753**	**-**	**92,974**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**372,726,256**
a) of profits	326,622,966	-	326,622,966	45,903,753	-	92,974	-	-	-	-	-	-	-	372,619,693
b) other	106,563	-	106,563	-	-	-	-	-	-	-	-	-	-	106,563
Valuation reserves:	**(11,847,026)**	**-**	**(11,847,026)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,162,231)**	**(17,009,257)**
Capital instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**(30,130,270)**	**-**	**(30,130,270)**	**-**	**-**	**-**	**-**	**(1,379,252)**	**-**	**-**	**-**	**-**	**-**	**(31,509,522)**
Profit (Loss) for the period	**75,527,325**	**-**	**75,527,325**	**(45,903,753)**	**(29,623,572)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53,486,385**	**53,486,385**
Shareholders' Equity	**861,047,139**	**-**	**861,047,139**	**-**	**(29,623,572)**	**89,380**	**-**	**(1,379,252)**	**-**	**-**	**-**	**-**	**48,324,154**	**878,457,849**

Statement of changes in shareholders' equity

Statement of changes in shareholders' equity from 1st January to 30th June 2022

(in EUR)	Balance as at 31.12.2021	Change in opening balances	Balance as at 01.01.2022	Allocation of result for previous year		Changes in the year								Shareholders' equity as at 30.06.2022
						Reserve changes	Transactions on equity						Comprehensive Income as at 30.06.2022	
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Variation to capital instruments	Derivatives on treasury shares	Stock Options		
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserves	**298,786,747**	**-**	**298,786,747**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**298,786,747**
Reserves:	**284,004,937**	**-**	**284,004,937**	**41,215,965**	**-**	**1,568,211**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**326,789,113**
a) of profits	283,898,374	-	283,898,374	41,215,965	-	1,568,211	-	-	-	-	-	-	-	326,682,550
b) other	106,563	-	106,563	-	-	-	-	-	-	-	-	-	-	106,563
Valuation reserves:	**2,375,681**	**-**	**2,375,681**	**-**	**-**	**(1,568,211)**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,432,799)**	**(6,625,329)**
Capital instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**(25,225,203)**	**-**	**(25,225,203)**	**-**	**-**	**-**	**-**	**(3,625,704)**	**-**	**-**	**-**	**-**	**-**	**(28,850,907)**
Profit (Loss) for the period	**70,076,010**	**-**	**70,076,010**	**(41,215,965)**	**(28,860,045)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31,560,467**	**31,560,467**
Shareholders' Equity	**832,011,923**	**-**	**832,011,924**	**-**	**(28,860,045)**	**-**	**-**	**(3,625,704)**	**-**	**-**	**-**	**-**	**24,127,668**	**823,653,843**

Cash flow statement

A.	OPERATING ACTIVITIES	30.06.2023	30.06.2022
(in EUR)			
1.	**Management**	**80,042,330**	**58,597,528**
	- interest revenue received (+)	215,860,636	109,117,673
	- interest expense paid (-)	(75,763,356)	(8,556,624)
	- dividends and similar income (+)	2,456,868	2,622,119
	- Profit/loss on hedging activities (+/-)	2,921	-
	- net fees (+/-)	50,142,481	49,969,861
	- personnel costs (-)	(56,608,207)	(52,201,409)
	- other costs (-)	(45,287,100)	(42,097,678)
	- other revenues (+)	15,385,574	15,310,816
	- taxes and duties (-)	(26,147,484)	(15,567,230)
	- costs/revenues relating to discontinued operations net of tax effect (+/-)	-	-
2.	**Cash generated/utilised by financial assets**	**40,607,352**	**221,599,899**
	- financial assets held for trading	(610,774)	642,565
	- financial assets designated at fair value	-	-
	- other assets necessarily measured at fair value	37,909,842	3,184,784
	- financial assets measured at fair value with impact on comprehensive income	(20,703,250)	(1,162,483)
	- financial assets measured at amortised cost	91,559,277	301,149,454
	- other assets	(67,547,742)	(82,214,421)
3.	**Cash generated/utilised by financial liabilities**	(928,870,705)	(251,589,540)
	- financial liabilities measured at amortised cost	**(1,186,118,542)**	**(498,245,009)**
	- financial liabilities held for trading	(276,906)	(7,341)
	- financial liabilities designated at fair value	429,156	-
	- other liabilities	257,095,587	246,662,810
	Net cash provided by/used in operating activities	**(808,221,024)**	**28,607,888**

B.	INVESTING ACTIVITIES	30.06.2023	30.06.2022
1.	**Cash flows generated by**	**518,969**	**(108,827)**
	- sales of equity investments	-	-
	- dividends received on equity investments	-	-
	- sales of tangible assets	518,969	(108,827)
	- sales of intangible assets	-	-
	- sales of business units	-	-
2.	**Cash absorbed by**	**(7,913,724)**	**(6,251,089)**
	- purchases of equity investments	(52,173)	2,270,008
	- purchases of tangible assets	(7,860,105)	(8,520,120)
	- purchases of intangible assets	(1,446)	(977)
	- purchases of business units	-	-
	Net cash generated/utilised by investment activities	**(7,394,756)**	**(6,359,917)**

C.	FINANCING ACTIVITIES	30.06.2023	30.06.2022
	- issues/Purchases of treasury shares	(1,379,253)	(3,625,704)
	- issues/Purchases of capital instruments	89,380	-
	- distribution of dividends and other	(29,623,572)	(28,860,045)
	Net cash generated/utilised by funding	**(30,913,445)**	**(32,485,748)**
	NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	**(846,529,224)**	**(10,237,777)**

RECONCILIATION	30.06.2023	30.06.2022
Cash and cash equivalents at beginning of year	1,063,322,866	92,348,846
Total net cash generated/utilised during the year	(846,529,224)	(10,237,777)
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at end of year	**216,793,642**	**82,111,069**

ILLUSTRATIVE NOTES

DECLARATION OF CONFORMITY WITH THE INTERNATIONAL ACCOUNTING STANDARDS

The Half-Year Financial Report is prepared in accordance with the current International Financial Reporting Standards (IFRS - formerly known as IAS), as adopted by the European Union, and the relevant interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The Bank of Italy defines the formats and rules for compiling financial statements in Circular no. 262 of 22 December 2005, including subsequent updates. Currently in force is the sixth update, issued on 30 November 2018 and supplemented by the communication of 15 December 2020, on the subject of 'Impacts of COVID -19 and measures to support the economy and amendments to IAS/IFRS. The application of international accounting standards is also carried out with reference to the "Framework for the preparation and presentation of financial statements".

In particular, the condensed Interim consolidated financial statements are prepared in accordance with the requirements of IAS 34, which regulates interim financial statements.

In preparing the Report, the IAS/IFRS in force at the time were applied, including the SIC and IFRIC interpretations as endorsed by the European Commission.

It should be noted that, following the completion of the endorsement procedure, various amendments to existing IAS/IFRS and IFRIC interpretations were implemented as of 1 January 2023, and new interpretations were also issued.

International Accounting Standards endorsed in previous years and entering into force in 2023	Approval regulation	Date of publication	Date of entry into force
IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)	2021/2036	23/11/2021	01/01/2023
Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)	2022/357	03/03/2022	01/01/2023
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021)	2022/357	03/03/2022	01/01/2023
Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)	2022/1491	09/09/2022	01/01/2023

The entry into force of some new standards that have already been endorsed has been postponed to later years.

The standards and interpretations that came into force in 2023 did not have a material impact on the bank's balance sheet and income statement.

BASIS OF PREPARATION

The Interim Financial Report, prepared pursuant to Art. 154-ter of Legislative Decree 24 February 1998 no. 58 Consolidated Law on Finance (TUF) and subsequent updates, consists of the condensed Interim financial statements and is accompanied by an interim management report containing the significant events of the half-year, information on transactions with related parties and a description of the main risks and uncertainties, including those related to the business outlook.

The condensed interim financial statements (hereinafter also referred to as "Condensed Financial Statements") consist of the balance sheet, 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 comments on the results for the period.

In accordance with Art. 5 of (It.) Legislative Decree no. 38/2005, the Financial Statements are prepared using the Euro as the accounting currency.

The reclassified balance sheet and income statement contained in the Condensed Interim Financial Statements have been prepared on the basis of the new financial statement formats. The reclassification criteria are detailed in the specific section of the Condensed Financial Statements. The purpose of the above reclassified statements is to provide a more immediate reading of the balance sheet, financial position and economic result for the six-month period.

The Half-Year Report as at 30 June 2022 is prepared using the Euro as the accounting currency. The amounts indicated in the Financial Statements and Notes are expressed in euros, unless otherwise specified.

The Interim Report as at 30 June 2022, approved by the Board of Directors on 23 September 2022, is accompanied by the attestation of the Manager in charge, pursuant to Art. 154 bis of the Consolidated Law on Finance (TUF) and is subject to a limited audit by the auditing firm KPMG S.p.A..

UNCERTAINTIES SURROUNDING THE USE OF ESTIMATES IN THE PREPARATION OF THE INTERIM REPORT

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 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 PDs and LGDs;
  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;
- for the determination of the value in use of intangible fixed assets with an indefinite useful life (goodwill) with reference to the Cash Generating Unit (CGU), 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 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).

THE MAIN BALANCE SHEET ITEMS

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".

Entry 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.

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.

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".

Entry 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.

Financial assets measured 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".

Entry 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.

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.

Hedging Operations

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.

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.

Cancellation 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.

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.

Entry 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.

Cancellation 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.

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.

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.

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.

Current and Deferred Taxation

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.

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.

Financial liabilities valued 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.

Entry 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.

Cancellation 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.

Financial liabilities held for trading

Entry 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.

Cancellation 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.

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.

Entry 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.

Cancellation 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.

Currency Transactions

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.

Other liabilities

Other liabilities essentially include items awaiting settlement and those that do not relate to other balance sheet items.

Other information

Treasury shares

Any treasury shares held are deducted from equity. Similarly, their original cost and the gains or losses from their subsequent sale are recognised as movements in 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 income 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 PDs and LGDs;
  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).

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. The 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 departments , 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 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.

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 and LGD forward looking are 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.

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.

SIGNIFICANT EVENTS AFTER THE END OF THE SIX-MONTH PERIOD

On 7 August 2023, the Council of Ministers announced that it had approved an extraordinary tax to be paid by financial intermediaries, excluding mutual fund management companies and securities brokerage companies referred to in the "Testo unico delle disposizioni in materia di intermediazione finanziaria" (Legislative Decree 24 February 1998, no. 58).

The rationale for the introduction of this tax lies in the interest rate trend and the social impact of rising mortgage repayments, and follows in the wake of already existing regulations in Europe on extra bank margins.

The extraordinary tax is determined by applying a rate of 40% to the taxable base, determined as the greater of:

1. the amount of the interest margin referred to in item 30 of the profit and loss account, prepared in accordance with the formats approved by the Bank of Italy, relating to the financial year prior to the financial year current on 1 January 2023 that exceeds the same margin in the financial year prior to the financial year current on 1 January 2022 by at least 5 per cent; and

2. the amount of the interest margin referred to in item 30 of the profit and loss account, prepared in accordance with the formats approved by the Bank of Italy, relating to the financial year prior to the financial year current on 1 January 2024 that exceeds the same margin in the financial year prior to the financial year current on 1 January 2022 by at least 10 per cent.

At the same time, in order to safeguard the stability of banking institutions, the measure also provides for a ceiling for the contribution, which may not exceed 0.1 % of total assets.

The extraordinary tax will be paid during 2024 and will not be deductible for the purpose of income tax and regional business tax.

In accordance with the applicable principles, the effects of this tax will be recognised in the second half of 2023, for the purpose of preparing the financial statements for the year 2023.

FAIR VALUE DISCLOSURE

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

(thousands of €)	**30.06.2023**			**31.12.2022**		
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	10	4,946	0	8	1,600	0
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets that must be measured at fair value	6,341	44,770	14,349	7,659	79,652	14,977
2. Financial assets measured at fair value with impact on comprehensive income	370,758	366,600	5,111	415,439	307,834	6,266
3. Hedging derivatives	-	233	-	-	-	-
4. Tangible fixed assets	-	-	-	-	-	-
5. Intangible fixed assets	-	-	-	-	-	-
Total	377,109	416,549	19,461	423,106	389,086	21,243
1. Financial liabilities held for trading	-	107	-	-	384	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	429	-	-	-	-
Total	-	536	-	-	384	-

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

Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets at fair value with impact on profit and loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated as at fair value	of which: c) other financial assets that must be measured at fair value	Financial assets measured at fair value with impact on comprehensive income	Hedging derivatives	Tangible fixed assets	Intangible fixed assets
(thousands of €)								
1. Opening balance	**14,979**	**1**	**-**	**14,978**	**6,266**	-	-	-
2. Increases	**978**	**-**	**-**	**978**	**539**	-	-	-
2.1 Purchasing	-	-	-	-	539	-	-	-
2.2 Profits attributed to:	723	-	-	723	-	-	-	-
2.2.1 Profit and Loss Account	723	-	-	723	-	-	-	-
- of which capital gains	723	-	-	723	-	-	-	-
2.2.2. Shareholders' Equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	254	-	-	254		-	-	-
3. Decreases	**1,606**	**-**	**-**	**1,606**	**1,694**	-	-	-
3.1 Sales	-	-	-	-	539	-	-	-
3.2 Refunds	1,424	-	-	1,424	-	-	-	-
3.3 Losses attributed to:	177	-	-	177	1,155	-	-	-
3.3.1 Profit and Loss Account	177	-	-	177	-	-	-	-
- of which capital losses	177	-	-	177	-	-	-	-
3.3.2. Shareholders' Equity	-	X	X	X	1,155	-	-	-

3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	5	-	-	5	-	-	-	-
4. Closing inventories	**14,350**	**1**	**-**	**14,349**	**5,111**	**-**	**-**	**-**

Annual changes in liabilities measured at fair value on a recurring basis (level 3)

At the date, there were no financial liabilities measured at level 3 fair value on a recurring basis.

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 €)	30.06.2023				31.12.2022			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	10,406,120	2,459,082	215,367	7,566,451	10,515,058	2,556,582	192,986	7,526,806
2. Tangible assets held for investment purposes	9,440	-	-	14,946	10,974	-	-	16,319
3. Non-current assets and groups of assets held for sale	3,650	-	-	-	4,849	-	-	-
Total	**10,419,210**	**2,459,082**	**215,367**	**7,581,397**	**10,530,881**	**2,556,582**	**192,986**	**7,543,126**
1. Financial liabilities valued at amortised cost	10,601,908	-	299,227	10,212,085	11,788,026	-	298,667	11,343,056
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**10,601,908**	**-**	**299,227**	**10,212,085**	**11,788,026**	**-**	**298,667**	**11,343,056**

Key		
BV	=	Book value
L1	=	Level 1
L2	=	Level 2
L3	=	Level 3

RECLASSIFIED FINANCIAL STATEMENTS

The reclassified balance sheet and profit and loss account are presented below, in which the economic and financial data are presented according to management criteria that are quicker and easier to interpret, in order to allow for a more immediate reading of the situation and the result for the period.

Reclassified balance sheet

To facilitate reading the balance sheet, the reclassified statement of financial position is shown below. Reclassification only involved the aggregation of Balance Sheet items. 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	30.06.2023	31.12.2022	Change	
(thousands of €)			**Abs.**	**%**
Loans to banks	238,935	1,067,357	(828,422)	-77.6%
Loans to customers	7,463,970	7,457,332	6,638	0.1%
a) Loans to customers measured at amortised cost	7,449,667	7,442,401	7,266	0.1%
b) Loans to customers valued at FVOCI and with FV in the Profit and Loss Account	14,303	14,931	(628)	-4.2%
CA-rated financial assets that do not constitute loans	2,862,883	2,985,146	(122,263)	-4.1%
Financial assets valued at fair value with impact on profit and loss	56,114	88,966	(32,852)	-36.9%
Financial assets valued at FVOCI	742,469	729,539	12,930	1.8%
Investments	4,321	4,339	(18)	-0.4%
Tangible and intangible assets	160,668	160,784	(116)	-0.1%
- owned goods	140,206	140,686	(480)	-0.3%
- rights of use	20,462	20,098	364	1.8%
Tax assets	114,480	138,188	(23,708)	-17.2%
Non-current assets and groups of assets held for sale	3,650	4,849	(1,199)	-24.7%
Other assets	402,599	319,991	82,609	25.8%
Total assets	**12,050,089**	**12,956,491**	**-906,401**	**-7.0%**

Reclassified liability items	30.06.2023	31.12.2022	Change	
(thousands of €)			**Abs.**	**%**
Payables to banks at amortised cost	1,603,582	2,628,754	(1,025,172)	-39.0%
Payables to customers at amortised cost and outstanding securities	8,998,326	9,159,272	(160,946)	-1.8%
Financial liabilities held for trading	107	384	(277)	-72.1%
Financial liabilities designated at fair value	-	-	-	n.a.
Tax liabilities	23,438	29,920	(6,482)	-21.7%
Liabilities associated with assets held for sale	-	-	-	n.a.
Other liabilities	507,248	240,397	266,851	111.0%
Provisions for risks and charges	38,932	36,717	2,215	6.0%
- of which: commitments and guarantees granted	7,860	9,829	(1,969)	-20.0%
Capital	201,994	201,994	-	0.0%
Reserves	639,987	595,373	44,614	7.5%
Valuation reserves	(17,009)	(11,847)	(5,162)	43.6%
Capital instruments	-	-	-	n.a.
Profit (loss) for the year (+/-)	53,486	75,527	(22,041)	-29.2%
Total liabilities and equity	**12,050,091**	**12,956,491**	**-906,400**	**-7.0%**

Reclassified Profit and Loss Account

A reclassified Profit and Loss Account 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", "Profits (Losses) from disposal or repurchase", "Net profit/loss from other financial assets and liabilities measured at fair value through Profit and Loss" and "Profit (Losses) on equity investments;
- "Other operating income/expenses" includes the item "Other operating income/expenses" net of costs under item 160(b) of the Profit and Loss Account "Administrative expenses" which are recovered;
- the item "Administrative expenses" shows the balance of item 160 b) of Profit and Loss of costs that are recovered and excluding taxes and charges relating to the banking system, which are reported in a specific item of the reclassified income statement;

- the item "Net value of tangible and intangible assets" includes the income statement items "Adjustments/ write-backs on impairment of tangible assets" and "Adjustments/write-backs on impairment of 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.
- the item "Net provisions for risks and charges" shows the balance of item 170 b) of the Profit and Loss Account.

Reclassified Profit and Loss Account	**30.06.2023**	**30.06.2022**	**Change**	
(thousands of €)			*Abs.*	*%*
Interest margin	140,097	100,561	39,536	39.3%
Net commission	50,142	50,330	(188)	-0.4%
First margin	**190,239**	**150,891**	**39,348**	**26.1%**
Net financial result	1,440	10,175	(8,735)	-85.8%
Other operating charges/revenue	(1,754)	(1,441)	(313)	21.7%
Other operating income	**(314)**	**8,734**	**(9,048)**	**-103.6%**
Net operating income	**189,925**	**159,625**	**30,300**	**19.0%**
Personnel expenses	(56,815)	(52,408)	(4,407)	8.4%
Administrative expenses	(25,954)	(22,664)	(3,290)	14.5%
Net result of tangible and intangible assets	(7,978)	(6,327)	(1,651)	26.1%
Operating costs	**(90,747)**	**(81,399)**	**(9,348)**	**11.5%**
Operating income	**99,178**	**78,226**	**20,952**	**26.8%**
Net adjustments on loans to customers	(7,399)	(19,853)	12,454	-62.7%
Adjustments on other assets and liabilities	(99)	(2,585)	2,486	-96.2%
Profits (Losses) on disposal of equity investments and shareholdings	519	(109)	628	-576.1%
Levies and charges relating to the banking system	(7,620)	(7,274)	(346)	4.8%
Net provisions for risks and charges	(4,946)	(1,279)	(3,667)	286.7%
Gross profit (loss) from current operations	**79,633**	**47,126**	**32,507**	**69.0%**
Income tax	(26,147)	(15,567)	(10,580)	68.0%
Profit (Loss) for the year	**53,486**	**31,559**	**21,927**	**69.5%**

In accordance with the indications of Consob Communication no. DEM/6064293 of 28 July 2006 information has been provided below on the effects that events or transactions of a non-recurring nature have had on the economic result for the periods under comparison.

The following criteria are generally used to identify non-recurring items:

- The results of sales transactions of all fixed assets (investments, tangible assets) are considered non-recurring;
- Profits and losses of non-current assets held for sale are considered non-recurring;
- non-recurring components are considered to be those related to efficiency-boosting operations, restructuring, etc. (e.g. redundancy costs, redundancy incentives);
- economic components of a significant amount that are not expected to recur frequently (e.g. penalties, impairment of fixed assets, effects related to changes in regulations, exceptional results) are considered non-recurring;

- on the other hand, economic impacts, even though significant, arising from valuation issues and/or changes in parameters in the application of valuation methodologies adopted on an ongoing basis are considered recurring.

In light of the above criteria, the economic result for the first half of 2023 was affected by the following non-recurring impacts:

- The item “Interest margin” includes interest expense on the TLTRO II loan in the total amount of €32.0 million before tax;
- The item “Fees and charges related to the banking system” of €7.6 million is entirely attributable to charges related to the National Resolution Fund.

RESULTS AS AT 30 JUNE 2023

The Profit and Loss Account

The main items of the reclassified profit and loss account as at 30 June 2023 are shown below, compared with the figures for the corresponding period of the previous year.

Net interest

Net interest income amounted to 140.1 million.

Composition of net interest *(thousands of €)*	**30.06.2023**	**30.06.2022**	**Changes** Abs.	**%**
Net interest from customers	105,013	65,806	39,207	*59.6%*
Interest income on property portfolio	58,590	17,804	*40,785*	*229.1%*
Net interest from banks	(22,882)	17,091	*(39,974)*	*-233.9%*
Net interest from institutional counterparties	(912)	65	*(978)*	*-1,496.9%*
Other net interest	289	(206)	*496*	*240.4%*
Interest margin	**140,097**	**100,561**	***39,536***	***39.3%***

Net interest income amounted to €140.1 million, compared to €100.6 million in the first quarter of 2022 (+39.3%). In detail, there was an increase in net interest income from customers of 59.6% (from €65.8 million in 2022 to €105 million in 2023), at the same time as a decrease in net interest income from banks of -233.9% (from €17.1 million in 2022 to €-22.9 million in 2023).

Net commission *(thousands of €)*	**30.06.2023**	**30.06.2022**	**Changes** Abs.	**%**
Current account and Debit account expenses	12,288	11,989	*300*	*2.5%*
Credits and Financing	11,477	11,440	*36*	*0.3%*
Monetics	4,171	5,061	*(890)*	*-17.6%*
Receipts / payments	3,727	3,642	*84*	*2.3%*
Internet Banking	1,131	1,126	*5*	*0.5%*
Abroad	231	267	*(36)*	*-13.6%*
Commercial banking	**33,024**	**33,526**	***(501)***	***-1.5%***
Placement of savings products	12,504	12,541	*(37)*	*-0.3%*
Bancassurance	3,520	3,280	*240*	*7.3%*
Securities Administration	1,031	606	*425*	*70.0%*
Personal finance	767	1,033	*(266)*	*-25.7-*
Brokerage and consultancy activities	**17,822**	**17,460**	***361***	***2.1%***
Other net commissions	(704)	(656)	*(47)*	*-7.2%*
Net commission	**50,142**	**50,330**	***(187)***	***-0.4%***

Net commissions amounted to €50.1 million, compared to €50.3 million in the first half of 2022. Specifically, there was a -1.5% decrease in commissions from commercial banking and a +2.1% increase in commissions from brokerage and advisory activities (insurance products, securities placement); within which the component related to the administration of securities rose by 70% and that related to bank-insurance rose by 7.3%.

The net financial result, which includes the overall performance of the property portfolio, was +€1.4 million, compared to +€10.2 million in the first half of 2022. Net trading income amounted to €+2.7 million, compared to €+1.7 million in the first half of 2022. The result from the sale of financial assets measured at

amortised cost amounted to €-2.5 million, compared to €+0.5 million in the first half of 2022. The contribution of financial assets measured at fair value with an impact on comprehensive income was +2.5 million, compared to +2.8 million in the first half of 2022. The component relating to the net result of other assets and liabilities at fair value amounted to +€1.3 million, compared with a result of -€1.1 million in the first half of 2022.

Other net operating income and expenses amounted to -€1.8 million, up from -€1.4 million in the first half of 2022.

The aggregate of other operating income therefore recorded a result of -€0.3 million, compared to +€8.7 million in the first half of 2022.

Net operating income was +189.9 million, compared to +159.6 million in 2022.

Operating expenses, which include personnel expenses, administrative expenses net of expense recoveries and depreciation and amortisation of property, plant and equipment and intangible assets, amounted to €89.3 million compared to €81.4 million in the first half of 2022); personnel expenses stood at €56.8 million compared to €52.4 million in the first half of 2022; while administrative expenses amounted to €26.0 million (+14.5% compared to €22.7 million in the first half of 2021); and the result from property, plant and equipment and intangible assets was stable at -€6.6 million compared to -€6.3 million in the first half of 2022.

Consequently, the result from operations amounted to +€100.6 million, compared to +€78.2 million in the first half of 2022.

Net value adjustments on loans to customers including the result of the sale and valuation of loans mandatorily measured at fair value amounted to -7.4 million, compared to -19.9 million in the first half of 2022. Net impairment losses on other assets and liabilities, which include impairment on property, plant and equipment and intangible assets and adjustments on financial assets and liabilities other than loans to customers, amounted to €-1.5 million, compared to €-2.6 million in the first half of 2022. Net provisions for liabilities and charges amounted to €-5.0 million, compared to €-1.3 million in the first half of 2022.

The net result from the sale of shareholdings and investments was €+0.5 million.

Fees and charges related to the banking system before tax amounted to €7.6 million, compared to €7.3 million in the first half of 2022, and were entirely attributable to the charge related to the Resolution Fund.

Income taxes for the year amounted to €-26.1 million.

The net result was +53.5 million.

The Balance Sheet

a) Credit brokerage

Direct funding

Direct funding	30.06.2023	31.12.2022	Change	
(thousands of €)			**Abs.**	**%**
Direct deposits and current accounts	8,397,226	8,345,064	52,162	0.6%
Liability transactions on repurchase agreements on securities	74,296	278,849	(204,553)	-73.4%
Outstanding securities	299,227	298,667	560	0.2%
Certificates of deposit	-	-	-	n.a.
Other funding	79,469	77,432	2,037	2.6%
Total direct funding from customers	**8,850,217**	**9,000,011**	**(149,794)**	**-1.7%**
Wholesale funding	148,109	159,261	(11,152)	-7.0%
Subordinate liabilities	105,297	101,224	4,072	4.0%

Direct funding as at 30 June 2023 amounted to €8.85 billion, a decrease of -1.7% compared to the figure of €9.0 billion as at 31 December 2022.

The decrease relates to the component represented by repurchase agreements, which amounted to 74.3 million, compared to 278.8 million at year-end 2022; current accounts and savings deposits rose by 0.6% compared to year-end, while debt securities issued remained stable.

Subordinated liabilities, totalling €105.3 million, consist of 3 issues with the following characteristics:

	Issue 01.08.2017	Issue 03.10.2018	Issue 09.09.2022
Level of Subordination	Subordinate liabilities qualified as Tier 2	Subordinate liabilities qualified as Tier 2	Subordinate liabilities qualified as Tier 2
ISIN	XS1663201942	XS1885681228	XS2530769921
Amount	5,000,000	25,000,000	70,000,000
Date of Issue	17.08.2017	03.10.2018	09.09.2022
Expiry Date	17.08.2029	30.10.2028	09.09.2032
Currency	EUR	EUR	EUR
Rate	5.625%	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	9.00% per annum, payable in arrears until 09.09.2027 (equal to 5yr MS + 673.4 bps), then reset of the rate at the mid-swap fixing + margin of 673.4 bps
Price	100	97,717	100
Listing	Luxembourg Stock Exchange	No	Luxembourg Stock Exchange

Indirect funding

Indirect deposits consisted entirely of assets under administration and amounted to €4.7 billion as at 30 June 2023, up by +7.1% compared to 31 December 2022.

In more detail, the component of assets under administration relating to third-party products amounted to €3,128.1 million, an increase of +4.1% compared to €3,004.8 million as at 31 December 2022. Mutual funds increased by +5.4% to €2,277.1 million, pension funds and pension policies increased by +9.1% to €167.3 million, and third-party life insurance decreased by -1.0% to €682.9 million.

The component of assets under administration consisting of securities under administration amounted to €1,597.3 million, an increase of €190.2m. In particular, third-party securities increased by +18.1% mainly due to the combined effect of the decrease in bonds (-11.8%) and the increase in government bonds (+88.5%).

Technical forms of indirect deposits *(thousands of €)*	**30.06.2023**	**31.12.2022**	**Changes**	
			Changes	%
Assets under administration - third party products	3,128,130	3,004,748	123,381	4.1%
Assets under management - third party securities and own shares	1,597,232	1,406,986	190,247	13.5%
Total	**4,725,362**	**4,411,734**	**313,628**	**7.1%**

Indirect funding, net of the Bank's shares, amounted to 4,0373.9 million, up +7.7% compared to the same aggregate at the start of the year (4,059.5 million; +314.4 million).

Loans to customers at amortised cost

Technical forms of use *(thousands of €)*	**30.06.2023**	**31.12.2022**	**Changes**	
			Changes	%
Current accounts	831,542	784,507	47,035	6.0%
Advances and loans	428,428	491,482	(63,054)	-12.8%
Mortgages	5,975,463	5,909,101	66,362	1.1%
Trade receivables	**7,235,433**	**7,185,091**	**50,342**	**0.7%**
Asset repurchase agreements	-	-	-	n.a.
Receivables represented by securities	59,847	85,887	(26,040)	-30.3%
Non-performing loans	153,025	167,887	(14,862)	-8.9%
Other receivables	1,362	3,536	(2,174)	-61.5%
Other loans to customers	**214,234**	**257,310**	**(43,076)**	**-16.7%**
Total loans to customers	**7,449,667**	**7,442,401**	**7,266**	**0.1%**

Net loans to customers amounted to €7.4bn as at 30 June 2023, a slight decrease from the end of 2022 (-0.1%). The aggregate of performing loans rose slightly compared to 31 December 2022 (+0.7%) while that of non-performing loans fell by -8.9%.

As a result of the above trends, customer financial assets increased to €13.2bn, up 1.3% from €13.1bn at the end of 2022.

Below are the figures for financial assets of customers only.

Customer financial assets	**30.06.2023**	**31.12.2022**	**Changes**	
(thousands of €)			**Abs.**	**%**
Direct bank deposits (excluding Wholsesale deposits)	8,850,217	9,000,011	(149,794)	-1.7%
Indirect funding	4,373,868	4,059,457	314,411	7.7%
Total customer assets	**13,224,085**	**13,059,469**	**164,617**	**1.3%**

b) Credit quality

The tables below show the situation of cash loans to customers as at 30 June 2023 compared to the similar exposure as at 31 December 2022.

Loans to customers measured at amortised cost *(thousands of €)*	**30.06.2023**	**31.12.2022**	**Changes Abs.**	**%**
Non-performing exposures				
a) bad debts				
gross amounts	158,480	175,692	(17,212)	-9.8%
value adjustments	(114,827)	(124,259)	9,432	-7.6%
net non-performing loans	43,653	51,432	(7,780)	-15.1%
b) Unlikely to pay				
gross amounts	191,269	199,967	(8,698)	-4.3%
value adjustments	(87,987)	(89,665)	1,677	-1.9%
Net unlikely to pay	103,282	110,302	-7,020	-6.4%
c) past due exposures				
gross amounts	8,416	8,772	(356)	-4.1%
value adjustments	(2,326)	(2,619)	293	-11.2%
net past due exposures	6,090	6,153	-62	-1.0%
d) Subtotal non-performing exposures (a+b+c)				
gross amounts	358,165	384,430	(26,265)	-6.8%
value adjustments	(205,140)	(216,543)	11,403	-5.3%
Net non-performing exposures	153,025	167,887	-14,862	-8.9%
Performing exposures				
e) performing loans - stage 1				
gross amounts	6,495,264	6,312,241	183,022	2.9%
value adjustments	(52,554)	(48,656)	(3,898)	8.0%
net performing loans - stage 1	6,442,709	6,263,586	179,124	2.9%
(f) performing loans - stage 2				
gross amounts	835,987	959,207	(123,220)	-12.8%
value adjustments	(41,901)	(34,166)	(7,735)	22.6%
net performing loans - stage 2	794,086	925,041	-130,956	-14.2%
g) Subtotal Performing Loans (e+f)				
gross amounts	7,331,250	7,271,448	59,802	0.8%
value adjustments	(94,455)	(82,821)	(11,634)	14.0%
net performing loans	7,236,795	7,188,627	48,168	0.7%
Total loans to customers measured at amortised cost (d+g+j+k)				
gross amounts	7,750,182	7,743,749	6,433	0.1%
value adjustments	(300,515)	(301,349)	834	-0.3%
Total net loans to customers	7,449,667	7,442,401	7,266	0.1%
- of which forborne performing	126,505	320,950	(194,445)	-60.6%
- of which forborne non-performing	59,765	66,867	(7,102)	-10.6%
- of which performing past due exposures	74,286	89,106	(14,820)	-16.6%

As at 30 June 2023, the total of gross impaired loans (non-performing loans, probable defaults and exposures past due and/or in arrears including securities) amounted to €358 million, down -6.8% (-26.3 million compared to €384.4 million at end-2022). The ratio of the impaired portfolio to total gross loans to customers stood at 4.7%, down from 5.0% at the end of 2022. Specifically:

- Gross non-performing loans fell (-9.8%) to €158.5m (-€17.2m), while net non-performing loans stood at €43.7m, down by -15.1% from €51.4m at the end of 2022 (-€7.8m). Gross non-performing loans as a percentage of total gross loans stood at 2.0 %, compared to 2.3% at the end of 2022. The coverage ratio for non-performing loans was 72.5%, up from 70.7% as at 31 December 2022;

- Gross probable defaults, which totalled €191.3m, were down by -4.3% from €200.0m at the end of 2022. Net probable defaults amounted to €103.3m, a decrease of -6.4% compared to the end of 2022. The coverage level for probable defaults stood at 46.0%, up from 44.8% at the end of 2022;
- Gross past due exposures amounted to €8.4m, a decrease of €0.4m (€8.8m at end-2022). Net past due exposures amounted to €6.1m, down by €0.1m from €6.2m at the end of 2022. The coverage ratio for past due exposures stood at 27.6%, down from 29.9% at the end of 2022.

Adjustments on a collective basis amounted to 1.29% of performing loans, compared to 1.14% at the end of 2022. In detail, the coverage of performing loans classified in "Stage 1" is 0.82% (it was 0.77% at end-2022), while loans in "Stage 2" have a coverage of 4.98% (it was 3.56% at end-2022).

Credit coverage percentages	**30.06.2023**	**31.12.2022**
Coverage of bad debts	72.46%	70.73%
Coverage of unlikely to pay	46.00%	44.84%
Coverage of past due exposures	27.63%	29.86%
Degree of coverage of non-performing loans	57.28%	56.33%
Coverage of performing exposures	1.29%	1.14%

The main credit asset quality indices are shown below:

Asset quality indices	**30.06.2023**	**31.12.2022**
Gross non-performing loans/gross loans	4.66%	5.02%
Net non-performing loans/net loans	2.05%	2.26%
Gross bad debts/gross loans	2.06%	2.29%
Net bad debts/net loans	0.59%	0.70%
Gross unlikely to pay/gross loans	2.49%	2.61%
Net unlikely to pay/net loans	1.40%	1.50%
Gross past due/gross loans	0.11%	0.11%
Net past due/net loans	0.08%	0.08%

c) The Financial assets

Financial assets	**30.06.2023**	**31.12.2022**	**Changes**	
(thousands of €)			Abs.	Change %
Financial assets valued at FV through profit and loss	70,417	103,896	(33,480)	-32.2%
- financial assets held for trading	4,956	1,608	3,348	208.2%
- financial assets designated at FV	0	0	0	n.a.
- financial assets compulsorily measured at FV	65,460	102,288	(36,828)	-36.0%
Financial assets valued at FV through OCI	742,469	729,539	12,930	1.8%
CA-rated securities that do not constitute loans	2,862,883	2,985,146	(122,262)	-4.1%
Total financial assets	**3,675,769**	**3,818,582**	**(142,813)**	**-3.7%**

Financial assets other than loans to customers totalled €3,675.8m, down by -3.7% from €3,818.6m as at 31 December 2022. This aggregate mainly includes debt securities of €3,477.8 million (compared to €3,659.0 million at the end of 2022), equity securities and OICR units of €106.6 million, and the fair value of derivatives of €76.6 million.

The overall decrease compared to the end of 2022 is attributable to the decrease in debt securities classified in the "Hold to Collect" portfolio (-€122.3m -4.1%) and in assets classified at fair value with impact on the profit and loss account (-€33.3m and -37.4%), while "Hold to Collect & Sell" securities increased (+€12.9m and +1.8%). Government bonds totalled €2,953.2m (- €191.2m vs. 31 December 2022).

As at 30 June 2023, valuation reserves, net of tax effects, on all securities classified in the Hold to Collect & Sell portfolio were negative by a total of -5.4 million euro (they were +5.7 million euro at the end of 2021).

Financial assets at fair value through profit or loss

Financial assets valued at FV through profit and loss *(thousands of €)*	30.06.2023	31.12.2022	Changes Abs.	Change %
Bonds and other debt securities	4,421	1,433	2,988	208.5%
Equities, UCITS and Policies	51,130	87,327	(36,197)	-41.5%
Net value of trading derivative contracts	564	206	358	173.8%
Cash assets	14,303	14,931	(628)	-4.2%
Total financial assets measured at FV through profit and loss	**70,418**	**103,897**	**(33,479)**	**-32.2%**

Most of these assets consisted of equity securities, funds and policies, amounting to €51.1m (vs. €87.3m), as well as cash assets of €14.3m (vs. €14.9m).

Financial assets measured at fair value with impact on comprehensive income

Financial assets measured at fair value with impact on comprehensive income *(thousands of €)*	30.06.2023	31.12.2022	Changes Abs.	Change %
Equity securities	55,447	56,610	(1,163)	-2.1%
Debt securities	687,022	672,929	14,093	2.1%
- of which stage 1	687,022	672,929	14,093	2.1%
- of which stage 2	0	0	0	n.a.
- of which stage 3	0	0	0	n.a.
Total financial assets at FV through OCI	**742,469**	**729,539**	**12,930**	**1.8%**

Financial assets measured at fair value with an impact on comprehensive income amounted to €742.5 million, a slight increase of +1.8% (+12.9 million) compared to the figure at the end of 2022 (it was €729.5 million).

The item comprises bonds and other debt securities amounting to €687.0m, up from €672.9m at the end of 2022, and equity securities amounting to €55.4m, down from €56.6m at the end of 2022 (-1.2m).

The debt securities of governments and central banks comprise €369.5 million of Italian securities maturing within five years and €0.1 million of securities issued by the United States of America maturing in 2027.

Financial assets measured at amortised cost that are not loans

CA-rated securities that do not constitute loans *(thousands of €)*	30.06.2023	31.12.2022	Changes Abs.	Change %
Debt securities	2,862,883	2,985,146	(122,263)	-4.1%
- of which stage 1	2,862,883	2,985,146	(122,263)	-4.1%
- of which stage 2	0	0	0	n.a.
- of which stage 3	0	0	0	n.a.
Total valued at CA that do not constitute loans	**2,862,883**	**2,985,146**	**(122,263)**	**-4.1%**

Financial assets at amortised cost other than loans comprise €2,562.2m in Italian government bonds (of which €1,703.3m maturing within five years and €858.9m maturing beyond five years) and €20.3m in Spanish government bonds maturing beyond five years.

Investments

Name	Location	Investment %	Voting rights %
A. WHOLLY CONTROLLED SUBSIDIARIES			
1. Valpolicella A.S.A. S.r.l	Bolzano (BZ)	100%	100%
2. Quartiere Brizzi S.r.l.	Bolzano (BZ)	100%	100%
B. JOINTLY CONTROLLED SUBSIDIARIES			
C. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE			
1. Tre S.r.l.	Trento (TN)	30.00%	30.00%
2. Voba CB S.r.l.	Conegliano (TV)	60.00%	60.00%
3. Verona Green Living S.r.l.	Bolzano (BZ)	49.00%	49.00%

The following table shows the accounting information on the subsidiaries, as shown in the latest available financial statements:

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)*	*Compre-hensive income (3) = (1)+(2)*
(thousands of €)									
A. Wholly controlled subsidiaries									
1. Valpolicella Alta Società Agricola S.r.l.	2,112	2,823	2,375	63	(97)	-	(97)	-	(97)
2. Quartiere Brizzi S.r.l.	-	8,967	9,060	430	(142)	-	(142)	-	(142)
B. Jointly controlled subsidiaries									
C. Companies subject to significant influence									
1. Tre S.r.l.	165	367	285	1	(2)	-	(2)	-	(2)
2. Voba CB S.r.l.	6	67	57	60	-	-	-	-	-
3. Verona Green Living S.r.l.	5	13,311	13,342	3,425	(41)	-	(41)	-	(41)

d) Tangible and Intangible Assets

At the end of the half-year, tangible assets amounted to €146.6 million, up from €146.2 million at 31 December 2022.

Intangible assets amounted to €14.1 million and consisted of the customer relationship for €14.1 million recognised on the merger of the Banca Popolare di Marostica Group and software for €0.0 million.

e) Impairment test of intangible assets with indefinite lives

As of the date, the Bank does not hold any intangible assets with indefinite lives.

Shareholders' equity

Equity as at 30 June 2023, including valuation reserves and the net result for the period, amounted to €878.5 million, compared to €861.0 million at the end of 2022.

The following table shows the composition of assets and reserves in relation to their possible use.

Transaction type/Values *(thousands of €)*	**Amount**	**Possible use**	**Available quota**	**Uses in the three previous financial years**	
				Loss coverage	**Other uses**
Capital	**201,994**	**-**	**-**		
Treasury shares	**(31,510)**	**-**	**-**		
Share premium reserves	**298,770**	**A,B,C**	**298,770**	**(84,372)**	**(17)**
Earnings reserves					
- Legal reserve	138,200	A(2),B	97,801		
- Extraordinary reserve	240,469	A,B,C	240,469		
- Unavailable reserve pursuant to Art. 6 of (It.) Legislative Decree 38/2005	3,160	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	(1,443)	A,B,C	-		
d) IFRS 2 reserves for employee incentive plan	140	A	-		
Valuation reserves					
- Equity securities designated at fair value through other comprehensive income:	(2,438)	(*)	-		
- Financial assets (other than equity securities) measured at fair value through other comprehensive income:	(13,704)	(*)	-		
- Actuarial gains (losses) on defined-benefit pension plans	(867)	(*)	-		
Capital instruments	**-**		**-**		
Profits carried forward	**53,486**		**-**		
Total	**878,457**			**(84,372)**	**(17)**

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 (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 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 Civil Code. If it is distributed to shareholders it will be considered part of the company's taxable income.

Dividends distributed

Dividends of €29.6 million were distributed during the period.

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.

Average number of outstanding shares	**30.06.2023**	**31.12.2022**
Weighted average of ordinary shares	47,749,794	48,140,026

As at 30 June 2023, there were no outstanding dilutive effects.

Earnings per share	**30.06.2023**	**31.12.2022**
Annualised basic earnings per share	2.24	1.57
Annualised diluted earnings per share	2.24	1.57

Own Funds and Solvency Ratios

	30.06.2023	31.12.2022
A. Common Equity Tier 1 - CET1 prior to the application of prudential filters	**847,056**	**828,592**
- of which T1 instruments subject to transitional provisions	-	-
B. Prudential filters of the CET1 (+/-)	**(818)**	**(838)**
C. CET1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	**846,238**	**827,754**
D. Deductions from CET1	**38,084**	**53,796**
E. Transitional regime - Impact on CET1 (+/-)	**12,340**	**31,657**
F. Total Common Equity Tier 1 Capital (CET1) (C - D +/- E)	**820,495**	**805,615**
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	**100,000**	**100,000**
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)	**100,000**	**100,000**
Q. Total own funds (F + L + P)	**920,495**	**905,615**

Own funds, risk-weighted assets and solvency ratios as at 30 June 2023 were determined on the basis of the harmonised rules for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the standards defined by the Basel Committee on Banking Supervision (so-called Basel III framework) into the European Union, and on the basis of the Circulars of the Bank of Italy.

As at 30 June 2023, Own Funds amounted to €920.5 million, against weighted assets of €5,515.9 million, mainly deriving from credit and counterparty risks and, to a lesser extent, from operational and market risks.

As permitted by the CRR, the profit for the period was taken into account in the common equity tier 1.

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.

By Regulation (EU) 2020/873 of 24 June 2020, which amended Regulations (EU) 575/2013 and (EU) 2019/876 regarding certain adjustments in response to the COVID-19 pandemic, in order to mitigate the potential impact that a sudden increase in provisions for expected credit losses could have on institutions' ability to lend to customers when they need it most, the transitional arrangements were extended by two years and institutions are allowed to fully reinstate into their Common Equity 1 tier capital any increase in new provisions for expected credit losses that they recognise in 2020 and 2021 for their non-impaired financial assets. These changes further cushioned the impact of the COVID-19 pandemic on the possible increase in institutions' provisioning requirements under IFRS 9.

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 of Common Equity Tier 1 (CET1) capital, Tier 1 capital, Total Capital, Total risk-weighted assets, Capital Ratios and Leverage Ratio.

As at 30 June 2023, taking into account the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds amounted to 920.5 and Common Equity tier 1 capital totalled 820.5 million against weighted assets of 5,515.9 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, Own Funds amounted to 908.2 million and Common equity tier 1 capital amounted to 808.2 million, against weighted assets of 5,503.6 million.

Based on the foregoing, the solvency ratios as at 30 June 2023, calculated taking into account the transitional treatment for the impact of IFRS 9 ("IFRS 9 Transitional") are set at the following values: Common Equity ratio 14.9%, Tier 1 ratio 14.9% and Total capital ratio 16.7%. Considering the full inclusion of the impact of IFRS 9 ("IFRS 9 Fully Loaded"), the solvency ratios as at 30 June 2023 are as follows: Common Equity ratio 14.7%, Tier 1 ratio 14.7% and Total capital ratio 16.5%.

Please note that, on 6 April 2023, 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 30 June 2023:

- CET 1 ratio: 7.80%, including a binding measure of 5.20% (of which 4,50% for minimum regulatory requirements and 0.80% for additional requirements calculated based on the SREP results) and, for the remaining part, a capital conservation reserve component;
- Tier 1 ratio: 9.60%, including a binding measure of 7.10% (of which 6,00% for minimum regulatory requirements and 1.10% for additional requirements calculated based on the SREP results) and, for the remaining part, a capital conservation reserve component;
- Total Capital Ratio: 12.00%, including a binding measure of 9.50% (of which 8,00% for minimum regulatory requirements and 1.50% 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: 8.80%, including an OCR CET1 ratio of 7.80% and a Target Component (Pillar 2 Guidance, P2G), for a greater exposure to risk under stress conditions, of 1.00%;
- Tier 1 ratio: 10.60%, including an OCR T1 ratio of 9.60% and a Target Component, for a greater exposure to risk under stress conditions, of 1.00%;
- Total Capital Ratio: 13.00%, including an OCR CET ratio of 12.00% and a Target Component, for a greater exposure to risk under stress conditions, of 1.00%.

Risk assets and capital requirements		Unweighted amounts		Weighted amounts / requirements	
		30.06.2023	**31.12.2022**	**30.06.2023**	**31.12.2022**
	Categories/Values				
A.	**RISK ACTIVITY**				
A.1	**Credit and counterpart risk**	**12,176,551**	**13,230,541**	**4,973,603**	**4,871,715**
	1. Standardised methodology	12,176,551	13,230,451	4,973,603	4,871,715
	2. Methodology based on internal ratings	-			-
	2.1 Base	-	-		-
	2.2 Advanced	-	-		-
	3. Securitisations	-	-		-
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	**Credit and counterpart risk**			**397,888**	**389,737**
B.2	**Credit assessment adjustment risk**			**-**	**-**
B.3	**Settlement risk**			**-**	**-**
B.4	**Market risk**			**579**	**315**
	1. Standard method			579	315
	2. Internal models				-
	3. Concentration risk				-
B.5	**Operational risk**			**42,806**	**42,806**
	1. Basic method				-
	2. Standardised method			42,806	42,806
	3. Advanced method				-
B.6	**Other prudential requirements**				**-**
B.7	**Other elements of the calculation**				**-**
B.8	**Total prudential requirements**			**441,272**	**432,858**

RISK ACTIVITIES AND SUPERVISORY RATIOS		**30.06.2023**	**31.12.2022**
C.1	Risk-weighted assets	5,515,902	5,410,721
C.2	Primary capital class 1/Risk-weighted assets (CET 1 capital ratio)	14.94%	14.89%
C.3	Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	14.94%	14.89%
C.4	Total capital/risk weighted assets (Total capital ratio)	16.75%	16.74%

SECTOR INFORMATION

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 data in the interim report.

Distribution by sector of activity: economic data

Economic data	Private	Enterprises	Financial/ALM	Reconciliation	Total
(euro 000)					
Interest revenue margin	48,904	93,120	73,837	-	-
Interest expense margin	-11,878	-22,294	-41,591	-	-
Interest margin	37,026	70,825	32,246	-	-
Net commission	28,019	22,828	-705	-	-
Financial margin	225	698	587	-	-
Net banking income	65,270	94,352	32,128	-	-
Net value adjustment on receivables and financial transactions	-2,433	-7,035	-	-	-
Net profit from financial activities	62,837	87,317	32,128	-	-
Administrative expenses	-48,142	-52,264	-	-	-
Allocations to provisions for risks and charges	-4,466	1,489	-	-	-
Amortisation/Depreciation on tangible and intangible assets	-	-	-	-	-
Other operating charges/revenue	4,617	3,646	-	-	-
Operating costs	-47,991	-47,129	-	-	-
Gains (losses) on equity investments/on disposal of investments	-	-	-	-	-
Profit (loss) from continuing operations before tax	14,846	40,189	32,128	-	-

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	Private	Enterprises	Financial/ALM	Reconciliation	Total
(euro 000)					
Loans and advances to banks	-	-	222,346	-	-
Receivables from customers	4,011,443	6,172,331	-	-	-
Financial assets measured at fair value	-	-	817,207	-	-
Payables to banks	-	-	1,603,582	-	-
Direct funding	4,715,667	3,835,673	446,986	-	-
- Due to customers	4,715,667	3,835,673	42,463	-	-
- Securities issued	-	-	404,523	-	-
Indirect funding	3,756,353	617,515	-	-	-

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.

Information on Volksbank shares

As at 30 June 2023, there were 47,673,032 shares. At the same date, the treasury shares in portfolio were 2,825,406. Therefore, there are a total of 50,498,438 shares.

PAYMENT AGREEMENTS BASED ON OWN CAPITAL INSTRUMENTS

A. Qualitative information

The regulatory framework for the definition of 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) and 2019/878/UE* (CRD V-*Capital Requirements Directive).*

The following are also relevant:

- art. 114-*bis* Consolidated Law on Finance (**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;
- (EU) Delegated Regulation no. 923, adopted on 25 March 2021 pursuant to Article 94(2) of the CRD on a proposal by the EBA, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting criteria for defining managerial responsibilities, control functions, the relevant business unit/company and the significant impact on the risk profile of the business unit/company in question, and the appropriate qualitative and quantitative criteria for identifying the categories of staff whose professional activities have an impact on the risk profile of the institution that is comparatively as significant as that of the categories of staff mentioned in Article 92(3) of the CRD;
- 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.

On 31.03.2022, the Volksbank Board of Directors proposed a new incentive plan to the Ordinary 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 persons identified and defined by the Bank's Remuneration and Incentive Policies and with annual incentives (total variable remuneration) awarded exceeding €50,000 and/or exceeding one third of their total annual remuneration, or employees, even if not Key Personnel, who hold "severance" incentives as governed by the Remuneration Policies.

The free allocation of the shares of the Financial instruments compensation plan is subject to the achievement of the performance targets for the year 2022 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.

Allocation can take place if and only if, at the end of each period of the plan, the BANK's economic-financial, equity and liquidity indices, which constitute the "conditions of access" to the incentive system, are reached. Under these conditions, 50% of the 2022 incentives are recognised in shares.

The shares are subject to a retention commitment with unavailability equal to one (1) year from the date of allocation.

For the shares to be recognised in relation to the financial year 2022 together with the shares of one or more periods of the 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 equity and liquidity indices needed to access the portion of the deferred incentive respectively for each deferral period.

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 for each period of reference under the plan.

B. Quantitative information

With regard to the result for the financial year 2022, the bonuses to be paid out in the form of shares were calculated at € 98,504.00. Of this, € 49,235.60 was disbursed in July 2023 in the form of 5,932 shares, at a value of € 8.30 per share.

The remaining € 49,268.40 will be paid out in the period 2024-2027 if the conditions for the bonus are met. The number of corresponding shares will be determined on the basis of the market price at the time of disbursement.

Concerning the result for the financial year 2021 of the remaining part of € 46,980.00, € 10,316.90 was disbursed as a first deferred portion in May 2023 in the form of 1,243 shares, at a value of € 8.30 per share.

The remainder will be paid out in the period 2024-2026 if the conditions for the bonus are met. The number of corresponding shares will be determined on the basis of the market price at the time of disbursement.

MERGER TRANSACTIONS INVOLVING COMPANIES OR COMPANY BRANCHES

Operations carried out during the period

No business combinations took place during the half-year.

Transactions carried out after the end of the period

No business combinations were carried out after the end of the six-month period.

TRANSACTIONS WITH RELATED PARTIES

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 department, 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.

Remuneration *(thousands of €)*	**30.06.2023**
Directors	596
Statutory Auditors	189
Key personnel	3,511
Total	**4,296**

Key personnel *(thousands of €)*	**30.06.2023**
of which	
- short-term benefits	2,717
- benefits after employment	247
- other long-term benefits	97
- benefits due to employees for termination of employment	450
- share-based payments	-
Total	**3,511**

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.

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 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.

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 underwritten	Payables for loans received	Bonds issued	Guarantees	Commitments
30.06.2023	9,690	-	602	-	593	-
Incidence	0.13%	0.00%	0.01%	0.00%	0.15%	0.00%
	Interest income on loans granted	**Interest income on bonds underwritten**	**Interest expenses on loans received**	**Interest expenses on bonds issued**	**Commissions and other income**	**Commissions and other costs**
I sem. 2023	46	-	10	-	1	-
Incidence	0.02%	0.00%	0.01%	0.00%	0.00%	0.00%

Transactions with associated companies

(thousands of €)	Receivables for loans granted	Bonds underwritten	Payables for loans received	Bonds issued	Guarantees	Commitments
30.06.2023	9,479	-	62	-	3,863	-
Incidence	0.13%	0.00%	0.00%	0.00%	0.96%	0.00%
	Interest income on loans granted	**Interest income on bonds underwritten**	**Interest expenses on loans received**	**Interest expenses on bonds issued**	**Commissions and other income**	**Commissions and other costs**
I sem. 2023	184	-	1	-	11	-
Incidence	0.09%	0.00%	0.00%	0.00%	0.02%	0.00%

Below please find the main capital and economic transactions with Directors, Statutory Auditors and Managers with strategic responsibilities are listed below.

Transactions with Directors, Statutory Auditors, Members of the General Management and Managers with strategic responsibilities

Data as at 30.06.2023 *(thousands of €)*		Directors		Statutory Auditors		Strategic executives		Total
		Direct	Indirect	Direct	Indirect	Direct	Indirect	
Credit line granted		13,665	2,299	23	303	343	181	16,813
Loans		7,716	439	-	86	242	51	8,534
	Incidence	0.10%	0.01%	0.00%	0.00%	0.00%	0.00%	0.11%
Unsecured loans		432	-	-	2	-	5	439
	Incidence	0.11%	0.00%	0.00%	0.00%	0.00%	0.00%	0.11%
Direct funding		5,621	2,632	1,205	373	116	128	10,075
	Incidence	0.06%	0.03%	0.01%	0.00%	0.00%	0.00%	0.11%
Indirect funding		3,406	1,776	39	28	332	278	5,859
	Incidence	0.07%	0.04%	0.00%	0.00%	0.01%	0.01%	0.12%
Interest revenue		156	14	0	2	3	2	176
	Incidence	0.07%	0.01%	0.00%	0.00%	0.00%	0.00%	0.08%
Interest expense		71	14	0	3	1	1	89
	Incidence	0.09%	0.02%	0.00%	0.00%	0.00%	0.00%	0.12%
Commissions and other revenue		28	6	1	3	0	1	39
	incidence	0.05%	0.01%	0.00%	0.01%	0.00%	0.00%	0.07%

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 approved– through Board of Directors resolution of 19.05.2023, 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 website www.volksbank.it.

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 30.06.2023. In the first half of 2023, 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.

ATTESTATION OF THE CONDENSED INTERIM BALANCE SHEET

Certification of the interim financial report pursuant to art. 81 – ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions

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 Legislative Decree 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 interim financial report during the first semester of 2023.

2. We also certify that:

   2.1. the interim financial report as at 30th June 2023:

   a. has 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. corresponds to the results of the accounts and records;
   c. provides a true and fair view of the issuer's financial position and profit performance.

   2.2. the interim financial 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, 11 August 2023

The Chairman of the Board of Directors	The Manager in charge of preparing the corporate accounting documents
Lukas Ladurner	*Alberto Caltroni*
(signed on the original)	*(signed on the original)*

REPORT OF THE INDEPENDENT AUDITING FIRM

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(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim financial statements

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

Introduction

We have reviewed the accompanying condensed interim financial statements of Banca Popolare dell'Alto Adige S.p.A. comprising the balance sheet, the profit and loss account and statement of comprehensive income, the statement of changes in equity and the cash flows statement and illustrative notes thereto, as at and for the six months ended June 30, 2023. The company's parent's directors are responsible for the preparation of these condensed interim financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim financial statements.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements of Banca Popolare dell'Alto Adige S.p.A. as at and for the six months ended June 30, 2023 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Bolzano, August 11, 2023

KPMG S.p.A.

(signed on the original)

Vito Antonini
Director of Audit