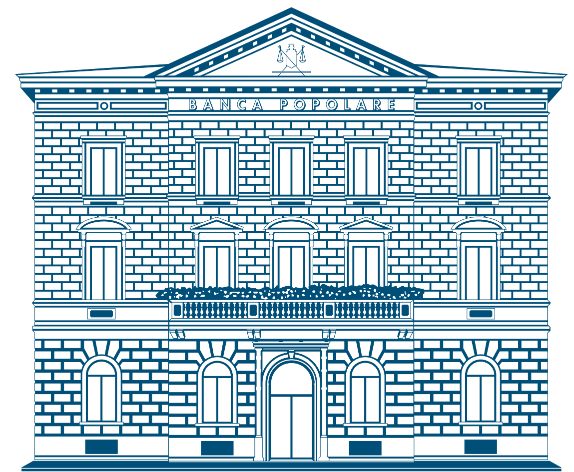
Banca Popolare di Sondrio



ANNUAL REPORT 2021

Annual Report 2021

Banca Popolare di Sondrio

Banca Popolare
di Sondrio

2021 FINANCIAL
STATEMENTS
151th YEAR

the banking group in the heart of the alps

Banca Popolare di Sondrio

Founded in 1871

ORDINARY SHAREHOLDERS' MEETING OF 30 APRIL 2022

Joint-stock company
Head Office and General Management: I - 23100 Sondrio SO - Piazza Garibaldi 16
Tel. 0342 528.111 - Fax 0342 528.204
Internet addresses: https://www.popso.it - https://istituzionale.popso.it E-mail: info@popso.it - PEC certified e-mail address: postacertificata@pec.popso.it

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Parent Company of the Banca Popolare di Sondrio Banking Group
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposits Protection Fund
Tax code and VAT number: 00053810149
Share capital: € 1,360,157,331; Reserves: € 1,380,852,212
(Figures approved at the shareholders' meeting of 30 April 2022)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio on 01 September 2021:
  - Long-term: BB+
  - Short-term: B
  - Viability rating: bb+
  - Outlook: Stable
  - Long-term deposit rating: BBB-
  - Subordinated debt: BB-

- Rating given by DBRS Morningstar to Banca Popolare di Sondrio on 15 November 2021:
  - Long-term issuer rating: BBB (low)
  - Short-term issuer rating: R-2 (middle)
  - Trend (outlook): Stable
  - Long-term deposit rating: BBB
  - Short-term deposit rating: R-2 (high)

- Rating given by Scope Ratings to Banca Popolare di Sondrio on 24 March 2022:
  - Issuer rating: BBB-
  - Outlook: Positive

This document, prepared in PDF format to facilitate the reading of the Annual financial statements, does not constitute compliance with the obligations arising from Directive 2004/109/EC (the «Transparency Directive») and Delegated Regulation (EU) 2019/815 (the «ESEF Regulation» - European Single Electronic Format). For these purposes, a special XHTML format has been developed and is available on the institutional website of Banca Popolare di Sondrio https://istituzionale.popso.it/

BOARD OF DIRECTORS

Chair	FRANCESCO VENOSTA
Deputy Chair	LINO ENRICO STOPPANI*
Managing Director	MARIO ALBERTO PEDRANZINI**
Directors	PAOLO BIGLIOLI
	ALESSANDRO CARRETTA
	NICOLA CORDONE
	CECILIA CORRADINI
	LORETTA CREDARO*
	DONATELLA DEPPERU
	ANNA DORO
	FEDERICO FALCK*
	PIERLUIGI MOLLA
	ADRIANO PROPERSI
	ANNALISA RAINOLDI*
	SERENELLA ROSSI

BOARD OF STATUTORY AUDITORS

Chair	SERENELLA ROSSANO
Standing Auditors	MASSIMO DE BUGLIO
	LAURA VITALI
Alternate Auditors	ALESSANDRO MELLARINI
	PAOLO VIDO

GENERAL MANAGEMENT

General Manager	MARIO ALBERTO PEDRANZINI
Deputy General Managers	GIOVANNI RUFFINI
	MARIO ERBA
	MILO GUSMEROLI
	CESARE POLETTI

Manager responsible for preparing the Company's accounting documents MAURIZIO BERTOLETTI

* Members of the Executive Committee

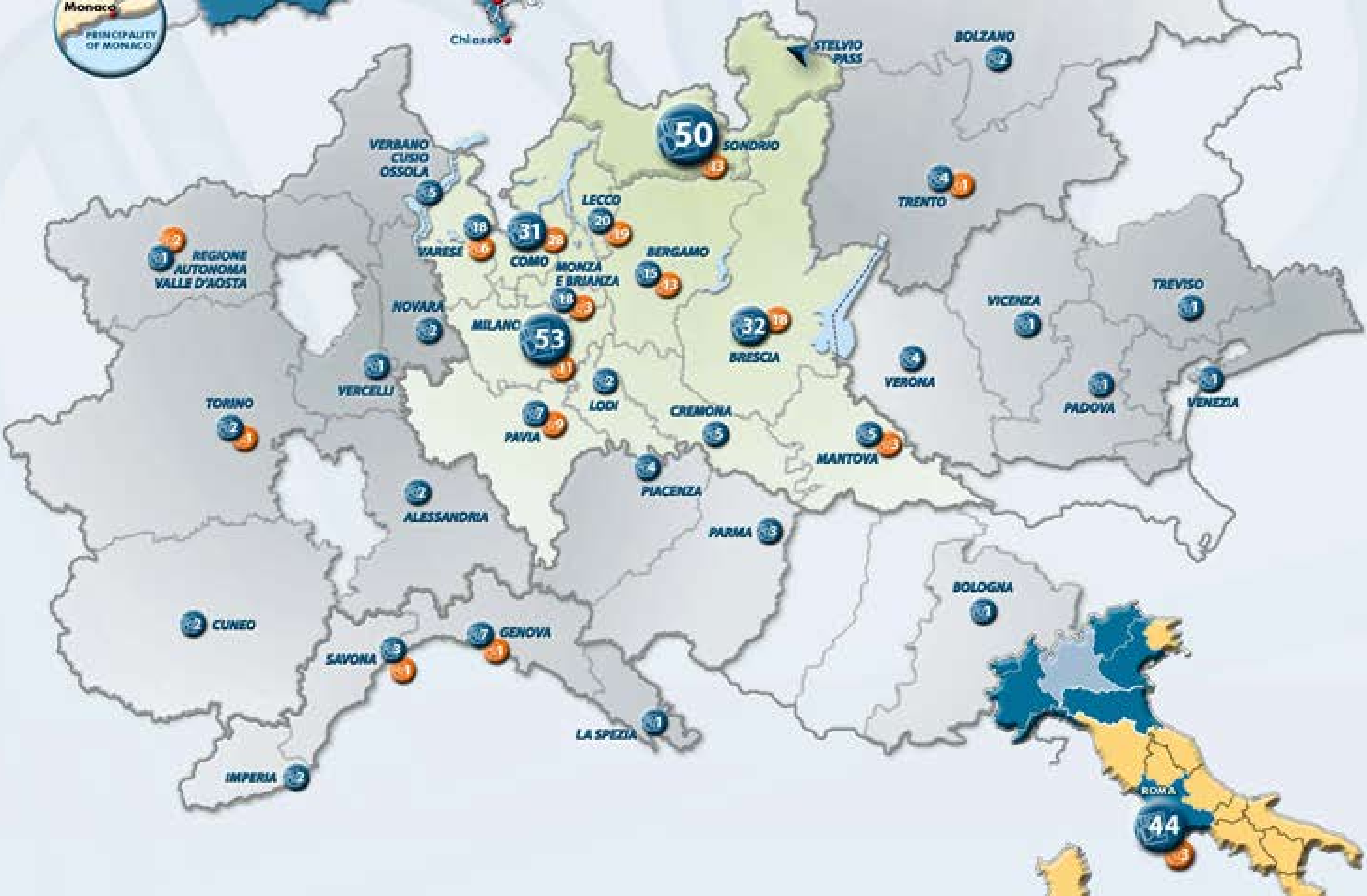
** Member of the Executive Committee and Secretary of the Board of Directors

THE BANKING GROUP IN

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

OPERATING IN THE SWISS TERRITORY
IT HAS 19 OFFICES IN 8 CANTONS,
AS WELL AS THE REPRESENTATIVE OFFICE IN VERBIER,
THE DIRECT BANKING VIRTUAL BRANCH IN LUGANO
AND THE MONACO BRANCH OUTSIDE SWITZERLAND
IN THE PRINCIPALITY OF THE SAME NAME.



For more information about all our branches, visit the website:
www.popso.it/filiali-atm

Number of branches in each province

Number of treasuries

IL GRUPPO BANCARIO

THE HEART OF THE ALPS

Banca Popolare di Sondrio

FOUNDED IN 1871

BRANCHES by province:

- 50 SONDRIO and 13 Treasuries
- 2 ALESSANDRIA
- 15 BERGAMO and 13 Treasuries
- 2 BOLZANO
- 32 BRESCIA and 18 Treasuries
- 31 COMO and 28 Treasuries
- 5 CREMONA
- 2 CUNEO
- 7 GENOVA and 1 Treasury
- 2 IMPERIA
- 20 LECCO and 19 Treasuries
- 2 LODI
- 5 MANTOVA and 3 Treasuries
- 53 MILANO and 11 Treasuries
- 18 MONZA E BRIANZA and 3 Treasuries
- 2 NOVARA
- 3 PARMA
- 7 PAVIA and 9 Treasuries
- 4 PIACENZA
- 44 ROMA and 3 Treasuries
- 3 SAVONA and 1 Treasury
- 2 TORINO and 1 Treasury
- 4 TRENTO and 1 Treasury
- 18 VARESE and 6 Treasuries
- 5 VERBANO CUSIO OSSOLA
- 4 VERONA
- 1 in BOLOGNA, LA SPEZIA, PADOVA, TREVISO, VENEZIA, VERCELLI and VICENZA
- 1 in the Autonomous Region of Valle d'Aosta and 2 Treasuries

DESKS ABROAD C/O EXTERNAL PARTNERS

• **ARGENTINA** (Buenos Aires and Mendoza) • **AUSTRALIA** (Perth and Sydney) • **BELGIUM** (Brussels) • **BRAZIL** (Belo Horizonte and Sao Paulo) • **BULGARIA** (Sofia) • **CANADA** (Toronto and Vancouver) • **CHILE** (Santiago) • **CHINA** (Hong Kong and Shanghai) • **CZECH REPUBLIC** (Prague) • **DENMARK** (Aarhus) • **DOMINICAN REPUBLIC** (Santo Domingo) • **EGYPT** (Cairo) • **GERMANY** (Frankfurt) • **GREECE** (Athens) • **GUATEMALA** (Guatemala City) • **HUNGARY** (Budapest) • **INDIA** (Mumbai) • **ISRAEL** (Tel Aviv) • **JAPAN** (Tokyo) • **LUXEMBOURG** (Luxembourg) • **MALTA** (Valletta) • **MEXICO** (Mexico City) • **MONGOLIA** (Ulaanbaatar) • **NETHERLANDS** (Amsterdam) • **PERU** (Lima) • **POLAND** (Warsaw) • **PORTUGAL** (Lisbon) • **REPUBLIC OF MOLDOVA** (Chisinau) • **ROMANIA** (Bucharest) • **RUSSIA** (Moscow) • **SERBIA** (Belgrade) • **SINGAPORE** (Singapore) • **SOUTH AFRICA** (Johannesburg) • **SOUTH KOREA** (Seoul) • **SPAIN** (Madrid) • **SWEDEN** (Stockholm) • **THAILAND** (Bangkok) • **TUNISIA** (Tunis) • **TURKEY** (Istanbul) • **UNITED ARAB EMIRATES** (Dubai) • **UNITED KINGDOM** (London) • **UNITED STATES OF AMERICA** (Chicago, Los Angeles and Miami) • **UZBEKISTAN** (Tashkent) • **VIETNAM** (Ho Chi Minh City)

Updated to 29 March 2022

Factorit

Factoring - working capital solutions, credit risk protection and accounts receivable book-keeping

Branch offices in:
• MILANO • TORINO • PADOVA
• BOLOGNA • ROMA • PALERMO
and a network of foreign correspondents in over 90 countries. Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.

Headquarter:
Milano, via Cino del Duca 12
www.factorit.it
info@factorit.it

BNT BANCA

Banca della Nuova Terra

Personal loans collateralized by the assignment of up to one-fifth of salary or pension

Offices in: • MILANO • PALERMO
• CATANIA • CALTANISSETTA • NAPOLI
• PRATO • LAMEZIA TERME (CZ)

Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.

Head Office:
Roma, via Baldo degli Ubaldi 267
www.bntbanca.it - infobanca@bntbanca.it

PrestiNuova

Agency in Financial Activities of BNT Banca

Headquarter: Roma, via Baldo degli Ubaldi 267
www.prestinuova.it - info@prestinuova.it

PIROVANO

L'UNIVERSITÀ DELLO SCI
SNOWBOARD UNIVERSITY
L'UNIVERSITÀ DELLA MONTAGNA

Quarto Pirovano Hotel
Stelvio Pass (m 2.760-3.450)
Bormio - SO

Holiday Apartments
Bormio - SO
• "Pirovano" Apartments
(CIR: 014009-REC-00017)
• "Chalet Felse" Apartments
(CIR: 014009-REC-00018)

Isolaccia Valdidentro - SO
• "Pirovano - Valdidentro" Apartments
(CIR: 014071-CIM-00053/54)

Registered and Administrative Office
Information and Booking Office
via Delle Prese 8 - Sondrio
www.pirovano.it
info@pirovano.it

SINERGIA SECONDA ■ POPSO COVERED BOND

AL CENTRO DELLE ALPI

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO
Founded in 1871

GENERAL MANAGEMENT AND HEAD OFFICE
Sondrio, piazza Giuseppe Garibaldi 16
tel. +39 0342 528111 - fax +39 0342 528204
www.popso.it - info@popso.it

FIELD OFFICES
ORGANISATION AND IT SYSTEMS: "F. Morani" Service Centre - via Ranée 511/1 - Berbenno di Valtellina (So) - fraz. San Pietro
INTERNATIONAL UNIT: lungo Mallero Luigi Cadorna 24, Sondrio
COMMERCIAL UNIT - PUBLIC ENTITIES AND TREASURY OFFICES - SUPPLY OFFICE - TECHNICAL, HEALTH AND SAFETY DEPARTMENT: corso Vittorio Veneto 7, Sondrio
PERSONNEL DEPARTMENT: corso Vittorio Veneto 36, Sondrio

VIRTUAL UNIT
corso Vittorio Veneto 7, Sondrio

BRANCHES AND TREASURIES

PROVINCE OF SONDRIO
ALBOSAGGIA via al Porto 11
APRICA corso Roma 140
ARDENNO via Libertà
BERBENNO DI VALTELLINA - fraz. San Pietro - via Nazionale Ovest 110
BIANZONE piazza Ezio Vanoni 11
BORMIO
Head Office, via Roma 131 - ang. via don Evaristo Peccedi
Branch no. 1, via Roma 64
BUGLIO IN MONTE piazza della Libertà 1
CAMPODOLCINO via Corti 67
CASPOGGIO piazza Milano 13
CEDRASCO via Vittorio Veneto 15
CEPINA VALDISOTTO via Roma 13/E
CHIAVENNA via Francesco e Giovanni Dolzino 67
CHIESA IN VALMALENCO via Roma 138
CHIURO via Stelvio 8
COLORINA via Roma 84
COSIO VALTELLINO - fraz. Regoledo - via Roma 7
COSIO VALTELLINO - fraz. Cosio Stazione - piazza San Martino 14
DELEBIO piazza San Carpoforo 7/9
DUBINO - Nuova Olonio - via Spluga 83
GORDONA via Scogli 9
GROSIO via Roma 67
GROSIO - fraz. Ravoledo - via Pizzo Dosdè
GROSOTTO via Statale 73
ISOLACCIA VALDIDENTRO via Nazionale 31
LANZADA via Palù 388
LIVIGNO
Head Office, via Sant'Antoni 135
Branch no. 1, via Saroch 728/730
LIVIGNO via Dala Gesa 557/A
MADESIMO via Giosuè Carducci 3
MADONNA DI TIRANO piazza Basilica 55
MAZZO DI VALTELLINA via Santo Stefano 20
MELLO piazza San Fedele 1
MONTAGNA IN VALTELLINA via Stelvio 336
MONTAGNA IN VALTELLINA via Cicci 36
MORBEGNO
Head Office, piazza Caduti per la Libertà 7
Branch no. 1, via V Alpini 172
NOVATE MEZZOLA via Roma 13
PASSO DELLO STELVIO località Passo dello Stelvio
PIANTEDO via Colico 43
PONTE IN VALTELLINA piazza della Vittoria 1
SAMOLACO - fraz. Era - via Trivulzia 28
SAN CASSIANO VALCHIAVENNA via Spluga 108
SAN NICOLÒ VALFURVA via San Nicolò 82
SEMOGO VALDIDENTRO via Cima Piazzi 28
SONDALO via Dr. Ausonio Zubiani 2
SONDRIO
Head Office, piazza Giuseppe Garibaldi 16
Branch no. 1, via Bernina 1
Branch no. 2, via Giacinto Sertorelli 2
Branch no. 3, Ingresso Ospedale Civile - via Stelvio 25
Branch no. 4, piazzale Giovanni Bertacchi 57
Branch no. 5, Galleria Campello 2
TALAMONA via Don Giuseppe Cusini 83/A
TEGLIO piazza Santa Eufemia 2
TEGLIO - fraz. San Giacomo - via Nazionale
TIRANO piazza Cavour 20
TRAONA via Valeriana 88/A
TRESENDA DI TEGLIO via Nazionale 57
TRESIVIO piazza San Pietro e Paolo 24
VALFURVA - fraz. Madonna Dei Monti piazza Madonna Del Carmine 6
VILLA DI CHIAVENNA via Roma 38
VILLA DI TIRANO traversa Foppa 25
VERCEIA via Nazionale 118/D

AUTONOMOUS REGION OF VALLE D'AOSTA
AOSTA corso Battaglione Aosta 79
PONT SAINT MARTIN via Emile Chanoux 45
SAINT-VINCENT via Duca D'Aosta 9

PROVINCE OF ALESSANDRIA
ALESSANDRIA corso Crimea 21
NOVI LIGURE corso Romualdo Marenco 59

PROVINCE OF BERGAMO
ALBANO SANT'ALESSANDRO via Vittorio Emanuele II 6
ALMÈ via Campofiori 36
BARIANO via Umberto I 1
BERGAMO
Head Office, via Broseta 64/B
Branch no. 1, via Vittore Ghislandi 4
Branch no. 2, via Guglielmo D'Alzano 3/E
BERGAMO - Ospedale Papa Giovanni XXIII - piazza Oms 1
BONATE SOTTO via Vittorio Veneto - ang. via Antonio Locatelli
BREMBATE via Vittore Tasca 8/10
CARVICO via Giuseppe Verdi 1
CISANO BERGAMASCO via Giuseppe Mazzini 25
COSTA VOLPINO via Nazionale 92
GAZZANIGA via IV Novembre 3
GHISALBA via Roma 41/43
GRUMELLO DEL MONTE via Roma 133
MAPELLO via Giuseppe Bravi 31
MOZZANICA piazza Antonio Locatelli
NEMBRO piazza Umberto I 1
OSIO SOTTO via Monte Grappa 12
ROMANO DI LOMBARDIA via Balilla 20
SARNICO via Giuseppe Garibaldi 1/C
SCANZOROSCIATE corso Europa 9
SERIATE piazza Caduti per la Libertà 7
TRESCORE BALNEARIO piazza Cavour 6
TREVIGLIO via Cesare Battisti 8/B
TREVIGLIO - Ospedale - piazzale Ospedale 1
VERDELLINO largo Luigi Einaudi 5
VILMINORE DI SCALVE piazza Vittorio Veneto 8

PROVINCE OF BOLOGNA
BOLOGNA via Riva di Reno 58/B

PROVINCE OF BOLZANO
BOLZANO viale Amedeo Duca d'Aosta 88 / Amedeo Duca D'Aosta Allee 88
MERANO corso della Libertà 16 / Freiheitsstrasse 16

PROVINCE OF BRESCIA
ANGOLO TERME piazza Caduti 3
BERZO DEMO via Nazionale 14
BIENNO via Giuseppe Fantoni 36
BORNO via Vittorio Veneto 25
BRENO piazza Generale Pietro Ronchi 4
BRESCIA
Head Office, via Benedetto Croce 22
Branch no. 1, via Crocifissa di Rosa 1
Branch no. 2, via Solferino 61
Branch no. 3, viale Piave 61/A
Branch no. 4, via Fratelli Ugoni 2
CAPO DI PONTE via Aldo Moro 26/A
CEVO via Roma 15
CHIARI via Consorzio Agrario 1 - ang. viale Teosa 23/B
COCCAGLIO via Adelchi Negri 12
COLLEBEATO via San Francesco d'Assisi 12
CORTE FRANCA piazza di Franciacorta 7/C
CORTENO GOLGI via Brescia 2
DARFO BOARIO TERME
Branch no. 1, corso Italia 10/12
Branch no. 2, piazza Patrioti 2
DESENZANO DEL GARDA via Guglielmo Marconi 1/A
EDOLO piazza Martiri della Libertà 16
ERBUSCO via Provinciale 29
ESINE via Chiosi 79
GARDONE VAL TROMPIA via Giacomo Matteotti 300
GIANICO piazza Roma 3
ISEO via Roma 12/E
LONATO DEL GARDA corso Giuseppe Garibaldi 59
LUMEZZANE - fraz. Sant'Apollonio - via Massimo D'Azeglio 108
MALONNO via Valle Camonica - ang. via Adamello
MANERBA DEL GARDA via Valtenesi 43
MANERBIO via Dante Alighieri 8
MARONE corso Zanardelli 3
MONTE ISOLA frazione Siviano 116
MONTICHIARI via Mantova - ang. via 3 Innocenti 74
ORZINUOVI piazza Giuseppe Garibaldi 19
OSPITALETTO via Brescia 107/109
PALAZZOLO SULL'OGLIO via Brescia 23
PIAN CAMUNO via Agostino Gemelli 21
PISOGNE via Trento 1
PONTE DI LEGNO piazzale Europa 8
PONTE DI LEGNO - loc. Passo Del Tonale - via Case Sparse 84
REZZATO via Broli 49
SALE MARASINO via Roma 33/35
SALÒ viale Alcide De Gasperi 13
SALÒ via Giuseppe Garibaldi 21
SAREZZO via della Repubblica 99
TOSCOLANO MADERNO piazza San Marco 51
TOSCOLANO MADERNO viale Guglielmo Marconi 9
VEZZA D'OGLIO via Nazionale 116
ZONE via Orti 1

PROVINCE OF COMO
ALBIOLO via Indipendenza 10
ALTA VALLE INTELVI piazza Lanfranconi 22
APPIANO GENTILE piazza della Libertà 9
ARGEGNO piazza Gianfranco Conti Persini
AROSIO piazza Montello 1
BELLAGIO via Valassina 58
BINAGO via Roma 9
BIZZARONE via Roma 14
BREGNANO via Giuseppe Mazzini 22
BRUNATE via Alessandro Volta 28
BULGAROGRASSO via Pietro Ferloni 2
CAMPIONE D'ITALIA piazza Roma 1/G
CANTÙ via Milano 47
CANZO via Alessandro Verza 39
CAPIAGO INTIMIANO via Vittorio Emanuele II 7
CARATE URIO via Regina 85
CARIMATE - fraz. Montesolaro - piazza Lorenzo Spallino
CARLAZZO via V° Alpini 59/A
CARUGO via Luigi Cadorna 32
CASNATE CON BERNATE via Roma 7
CASTELMARTE via Dante 1
CENTRO VALLE INTELVI via Provinciale 79
COMO
Head Office, viale Innocenzo XI 71
Branch no. 1, via Giorgio Giulini 12
Branch no. 2, via Statale per Lecco 70 - fraz. Lora
Branch no. 3, via Asiago 25 - fraz. Tavernola
Branch no. 4, via Indipendenza 16
DOMASO via Statale Regina 77
DONGO piazza Virgilio Matteri 14
ERBA via Alessandro Volta 3
FINO MORNASCO via Giuseppe Garibaldi - ang. piazza Odescalchi 5
GARZENO via Roma 32
GERA LARIO via Statale Regina 18
GRAVEDONA ED UNITI piazza Giuseppe Garibaldi 11
GUANZATE via Giuseppe Garibaldi 1
LAMBRUGO piazza Papa Giovanni II 4/7
LURAGO D'ERBA via Roma 58
MASLIANICO via XX Settembre 47
MENAGGIO via Annetta e Celestino Lusardi 62
MERONE via San Girolamo Emiliani 5/C
MONTORFANO via Brianza 6/B
MUSSO via Statale Regina 30
OSSUCCIO via Statale 72
PARÈ piazza della Chiesa 5/6
PIANELLO DEL LARIO via Statale Regina 32
PLESIO via Grona 85
PORLEZZA lungolago Giacomo Matteotti 15
PUSIANO via Giuseppe Mazzini - Complesso Pusiano 2000
SALA COMACINA via Statale 14/A
SAN BARTOLOMEO VAL CAVARGNA via Fontana 6
SAN SIRO via Statale 223
SCHIGNANO via Roma 8
SORICO piazza Cesare Battisti 1/A
TREMEZZO via Regina 26
TURATE via Vittorio Emanuele 14
VALSOLDA - fraz. San Mamete - piazza Roma 7/9
VENIANO via Alessandro Manzoni 5
VERCANA via Vico 3
VILLA GUARDIA via Varesina - ang. via Monte Rosa

PROVINCE OF CREMONA
CREMA via Giuseppe Mazzini 109
CREMONA
Head Office, via Dante Alighieri 149/A
Branch no. 1, piazza Antonio Stradivari 9
PANDINO via Umberto I 1/3
RIVOLTA D'ADDA via Cesare Battisti 8

PROVINCE OF CUNEO
ALBA viale Torino 4
CUNEO piazza Tancredi Duccio Galimberti 13

PROVINCE OF GENOVA
BUSALLA via Vittorio Veneto 23
CAMOGLI via Cuneo 9
CHIAVARI piazza Nostra Signora dell'Orto 42/B - ang. via Doria
GENOVA
Head Office, via XXV Aprile 7
Branch no. 1, piazza Tommaseo 7 rosso
Branch no. 2, via Sabotino 32/34 rossi
RAPALLO via Gen. A. Lamarmora 4 - ang. via San Filippo Neri
SANTA MARGHERITA LIGURE piazza Giuseppe Mazzini 40

PROVINCE OF IMPERIA
IMPERIA - Oneglia - Branch no. 1, via Giuseppe Berio 43
IMPERIA - Porto Maurizio - Branch no. 2, viale Giacomo Matteotti 8

PROVINCE OF LA SPEZIA
LA SPEZIA via XX Settembre 17

PROVINCE OF LECCO
AIRUNO via San Giovanni 11
ABBADIA LARIANA via Nazionale 140/A
BALLABIO via Ambrogio Confalonieri 6
BARZAGO viale Rimembranze 20
BARZIO via Martiri Patrioti Barziesi 11
BELLANO via Vittorio Veneto 9
BOSISIO PARINI via San Gaetano 4
CALOLZIOCORTE corso Europa 71/A
CASATENOVO via Roma 23
CASSAGO BRIANZA via Vittorio Emanuele II 2
CASTELLO DI BRIANZA via Roma 18
COLICO via Nazionale - ang. via Sacco
COLLE BRIANZA via Cantù 1
DERVIO via Don Ambrogio Invernizzi 2
ESINO LARIO piazza Gulfi 2
IMBERSAGO via Contessa Lina Castelbarco 5
LECCO
Head Office, corso Martiri della Liberazione 65
Branch no. 1, viale Filippo Turati 59
Branch no. 2, piazza XX Settembre 11
Branch no. 3, corso Emanuele Filiberto 104
Branch no. 4, viale Montegrappa 18
LECCO - Ospedale di Lecco - via dell'Eremo 9/11
LOMAGNA via Milano 24
MANDELLO DEL LARIO via Strada Statale 85/A
MALGRATE via Gaggio 14
MERATE via Don Cesare Cazzaniga 5
MERATE piazza Giulio Prinetti 6
MERATE - fraz. Pagnano - via Rimembranze 3
MERATE - Ospedale di Merate - largo Leopoldo Mandic 1
MONTE MARENZO via Colombara Vecchia 2
MONTICELLO BRIANZA via Provinciale 57
NIBIONNO - fraz. Cibrone - via Montello 1
OGGIONO via Lazzaretto 50
PESCATE via Roma 98/E
PRIMALUNA via Provinciale 66
SUELLO via Roma 10/12
VALGREGHENTINO piazza Roma 2
VALMADRERA via San Rocco 31/33
VARENNA via Corrado Venini 73

PROVINCE OF LODI
CODOGNO via Giuseppe Verdi 18/C
LODI via Giuseppe Garibaldi 23

PROVINCE OF MANTOVA
CASTIGLIONE DELLE STIVIERE piazza Ugo Dallò 25
GAZOLDO DEGLI IPPOLITI via Guglielmo Marconi 74/76
MANTOVA
Head Office, corso Vittorio Emanuele II 26
Branch no. 1, piazza Broletto 7
MARMIROLO via Tito Speri 34
SAN BENEDETTO PO via Enrico Ferri 15
SUZZARA piazza Giuseppe Garibaldi 4
VIADANA piazza Giacomo Matteotti 4/A

PROVINCE OF MILANO
ABBIATEGRASSO piazza Giuseppe Garibaldi 2
BASIGLIO piazza Monsignor Rossi 1

BUCCINASCO via Aldo Moro 9
CERNUSCO SUL NAVIGLIO viale Assunta 47/49
CINISELLO BALSAMO via Giuseppe Garibaldi 86
COLOGNO MONZESE viale Emilia 56
LEGNANO via Alcide De Gasperi 10
MELEGNANO piazza Giuseppe Garibaldi 1
MILANO
Head Office, via Santa Maria Fulcorina 1
Branch no. 1, *Porpora*, via Nicola Antonio Porpora 104
Branch no. 2, *Barona*, viale Faenza 22
Branch no. 3, *a2a*, corso di Porta Vittoria 4
Branch no. 4, *Regione Lombardia*, piazza Città di Lombardia 1
Branch no. 5, *Bovisa*, via degli Imbriani 54
Branch no. 6, *Corvetto*, via Marco d'Agrate 11
Branch no. 7, *Caneva*, via Monte Cenisio 50
Branch no. 8, *Quarto Oggiaro*, via M. Lessona - ang. via F. De Roberto
Branch no. 9, *A.L.E.R.*, via Romagna 24
Branch no. 10, *Solari*, via Andrea Solari 15
Branch no. 11, *Università Bocconi*, via Ferdinando Bocconi 8
Branch no. 12, *Baggio*, via delle Forze Armate 260
Branch no. 13, *Repubblica*, viale Monte Santo 8
Branch no. 14, *Palazzo di Giustizia*, via Colonnetta 5 - ang. via C. Battisti
Branch no. 15, *Murat*, via Gioacchino Murat 76
Branch no. 16, *Ortomercato*, via Cesare Lombroso 54
Branch no. 17, *Monumentale*, piazzale Cimitero Monumentale 23
Branch no. 18, *Fiera*, viale Ezio Belisario 1
Branch no. 19, *Giambellino*, via Giambellino 39
Branch no. 20, *Sempione*, via Antonio Canova 39
Branch no. 21, *Politecnico*, via Edoardo Bonardi 4
Branch no. 22, *Sforza*, via F. Sforza 48 - ang. corso di Porta Romana
Branch no. 23, *Certosa*, viale Certosa 62
Branch no. 24, *Piave*, viale Piave 1
Branch no. 25, *Zara*, viale Zara 13
Branch no. 26, *Lodi*, corso Lodi - ang. via S. Gerolamo Emiliani 1
Branch no. 27, *Don Gnocchi*, via Alfonso Capecelatro 66
Branch no. 28, *Corsica*, via privata Sanremo - ang. viale Corsica 81
Branch no. 29, *Bicocca*, piazza della Trivulziana 6 - edificio 6
Branch no. 30, *De Angeli*, piazza Ernesto De Angeli 9
Branch no. 31, *Isola*, via Carlo Farini 47
Branch no. 32, *Venezia*, viale Luigi Majno 42 - viale Piave 43
Branch no. 33, *Porta Romana*, corso di Porta Romana 120
Branch no. 34, *San Babila*, via Cino del Duca 12
Branch no. 35, *Loreto*, piazzale Loreto 1 - ang. viale Brianza
Branch no. 36, *Monti*, via Vincenzo Monti 41
Branch no. 37, *Vercelli*, corso Vercelli 38
Branch no. 38, *Università Cattolica del Sacro Cuore*, largo A.Gemelli 1
Branch no. 39, *Gruppo AZIMUT - Sportello Interno* - corso Venezia 48
Branch no. 40, *Politecnico - Bovisa*, via Raffaele Lambruschini 4
MILANO - Istituto Nazionale Tumori - via Giacomo Venezian 1
MILANO - ASP Golgi Redaelli - via Bartolomeo D'Alviano 78
MILANO - Bicocca - piazza dell'Ateneo Nuovo 1 - Edificio U 6
MILANO - Istituto Neurologico - via Giovanni Celoria 11
MILANO - I.U.L.M. - via Carlo Bo 1
MILANO - Pio Albergo Trivulzio - via Antonio Tolomeo Trivulzio 15
MILANO - Pirelli - via Fabio Filzi 22
PERO via Mario Greppi 13
SEGRATE via Roma 96
SEGRATE via Fratelli Cervi 13 - Residenza Botteghe
SESTO SAN GIOVANNI
Branch no. 1, piazza IV Novembre 12
Branch no. 2, piazza della Resistenza 52
TREZZO SULL'ADDA via Antonio Gramsci 10
TURBIGO via Allea Comunale 17
VIZZOLO PREDABISSI - A.S.S.T. Melegnano e della Martesana via Pandina 1

PROVINCE OF MONZA E BRIANZA
ALBIATE via Trento 35
BELLUSCO via Bergamo 5
BERNAREGGIO via Michelangelo Buonarroti 6
BRIOSCO piazza della Chiesa 5
BOVISIO MASCIAGO via Guglielmo Marconi 7/A
CARATE BRIANZA via Francesco Cusani 10
DESIO via Portichetto - ang. via Pio XI
GIUSSANO via Cavour 19
LISSONE
Head Office, via Dante Alighieri 43
Branch no. 1, via Trieste 33
MACHERIO via Roma 17
MEDA via Yuri Gagarin - ang. corso della Resistenza
MONZA
Head Office, via Felice Cavallotti 5
Branch no. 1, via Felice Cavallotti 5
NOVA MILANESE via Antonio Locatelli
SEREGNO
Head Office, via Cavour 84
Branch no. 1, via Cesare Formenti 5
SEVESO via San Martino 20
VAREDO corso Vittorio Emanuele II 53
VILLASANTA - fraz. San Fiorano - via Amatore Antonio Sciesa 7/9
VIMERCATE piazza Papa Giovanni Paolo II 9

PROVINCE OF NOVARA
ARONA via Antonio Gramsci 19
NOVARA via Andrea Costa 7

PROVINCE OF PADOVA
PADOVA via Ponte Molino 4

PROVINCE OF PARMA
PARMA
Branch no. 1, via Emilia Est 3/A
Branch no. 2, via Antonio Gramsci 28/A
FIDENZA piazza Giuseppe Garibaldi 24

PROVINCE OF PAVIA
BELGIOIOSO piazza Vittorio Veneto 23
BRONI via Giuseppe Mazzini 1
CANNETO PAVESE via Roma 15
CASTEGGIO piazza Cavour 4
CILAVEGNA via Giuseppe Mazzini 2/8
MEDE corso Italia 2
MORTARA via Roma 23
PAVIA
Head Office, piazzale Ponte Coperto Ticino 11
Branch no. 1, corso Strada Nuova 75
PAVIA - DEA - via Privata Campeggi 40
PAVIA - Policlinico San Matteo - viale Camillo Golgi 19
RIVANAZZANO TERME piazza Cornaggia 41
ROBBIO piazza della Libertà 33
STRADELLA via XXVI Aprile 56
VIGEVANO piazza IV Novembre 8
VOGHERA via Emilia 49

PROVINCE OF PIACENZA
CASTEL SAN GIOVANNI corso Giacomo Matteotti 27
PIACENZA
Head Office, via Raimondo Palmerio 11
Branch no. 1, via Cristoforo Colombo 18
Branch no. 2, piazzale Torino 16

PROVINCE OF ROMA
CIAMPINO viale del Lavoro 56
FRASCATI via Cairoli 1
GENZANO DI ROMA viale Giacomo Matteotti 14
GROTTAFERRATA via XXV Luglio
MONTE COMPATRI piazza Marco Mastrofini 11
ROMA
Head Office, *Eur*, viale Cesare Pavese 336
Branch no. 1, *Monte Sacro*, via Val Santerno 27
Branch no. 2, *Ponte Marconi*, via Silvestro Gherardi 45
Branch no. 3, *Prati Trionfale*, via Trionfale 22
Branch no. 4, *Bravetta*, piazza Biagio Pace 1
Branch no. 5, *Portonaccio*, piazza S. Maria Consolatrice 16/B
Branch no. 6, *Appio Latino*, via Cesare Baronio 12
Branch no. 7, *Aurelio*, via Baldo degli Ubaldi 267
Branch no. 8, *Africano Vescovio*, viale Somalia 255
Branch no. 9, *Casal Palocco*, piazzale Filippo il Macedone 70/75
Branch no. 10, *Laurentina*, via Laurentina 617/619
Branch no. 11, *Esquilino*, via Carlo Alberto 6/A
Branch no. 12, *Boccea*, circonvallazione Cornelia 295
Branch no. 13, *Tuscolano*, via Foligno 51/A
Branch no. 14, *Garbatella*, largo delle Sette Chiese 6
Branch no. 15, *Farnesina*, via della Farnesina 154
Branch no. 16, *Monte Sacro Alto/Talenti*, via Nomentana 925/A
Branch no. 17, *San Lorenzo*, piazza dei Sanniti 10/11
Branch no. 18, *Infernetto*, via Ermanno Wolf Ferrari 348
Branch no. 19, *Nuovo Salario*, piazza Filattiera 24
Branch no. 20, *Tuscolano/Appio Claudio*, via Caio Canuleio 29
Branch no. 21, *Nomentano*, via Famiano Nardini 25
Branch no. 22, *WFP - Sportello Interno* -, via Cesare Giulio Viola 68/70
Branch no. 23, *Ostia*, via Carlo Del Greco 1
Branch no. 24, *San Clemente/Colosseo*, via di S. Giovanni in Laterano 51/A
Branch no. 25, *Parioli*, viale dei Parioli 39/B
Branch no. 26, *Tritone*, via del Tritone 207
Branch no. 27, *Prati*, piazza Cavour 7
Branch no. 28, *Prenestino/Torpignattara*, piazza della Marranella 9
Branch no. 29, *FAO - Sportello Interno* -, viale delle Terme di Caracalla 1
Branch no. 30, *IFAD - Sportello Interno* -, via Paolo Di Dono 44
Branch no. 31, *Campus Bio-Medico di Roma - Policlinico*, via A. del Portillo 200
Branch no. 32, *Monteverde Vecchio*, via Anton Giulio Barrili 50/H
Branch no. 33, *Trastevere*, piazza Sidney Sonnino 40
Branch no. 34, *Gregorio VII*, via Gregorio VII 348 - ang. piazza Pio XI 40
Branch no. 35, *Parione*, corso Vittorio Emanuele II 139
Branch no. 36, *CONSOB - Sportello Interno* -, via G. B. Martini 3
Branch no. 37, *Trieste/Salario*, via Tagliamento 37
Branch no. 38, *Gruppo AZIMUT - Sportello Interno* - via Flaminia 133
Branch no. 39, *Policlinico Universitario Fondazione Agostino Gemelli IRCCS, largo Agostino Gemelli 8*
ROMA-BibliotecaNazionaleCentrale-vialeCastroPretorio105
ROMA - Università Foro Italico - piazza Lauro De Bosis 15

PROVINCE OF SAVONA
ALASSIO via Giuseppe Mazzini 55
ALBISSOLA MARINA via dei Ceramisti 29
SAVONA via Antonio Gramsci 54
VARAZZE via Goffredo Mameli 19

PROVINCE OF TORINO
CANDIOLO via Torino 3/A
TORINO
Head Office, via XX Settembre 37
Branch no. 1, via Luigi Cibrario 17/A bis

PROVINCE OF TRENTO
ARCO via Santa Caterina 8/C
CLES piazza Navarrino 5
RIVA DEL GARDA viale Dante Alighieri 11
ROVERETO corso Antonio Rosmini 68 - ang. via Fontana
TRENTO piazza di Centa 14

PROVINCE OF TREVISO
TREVISO corso del Popolo 50 - angolo via Giuseppe Toniolo

PROVINCE OF VARESE
AEROPORTO DI MALPENSA 2000 Terminal 1 - FERNO
BESNATE via Libertà 2
BISUSCHIO via Giuseppe Mazzini 80
BRUSIMPIANO piazza Battaglia 1/A
BUSTO ARSIZIO piazza Trento e Trieste 10
CARNAGO via Guglielmo Marconi 2
CASTELLANZA corso Giacomo Matteotti 2
CUGLIATE FABIASCO via Pagliolico 25
GALLARATE via Torino 15
GAVIRATE via Guglielmo Marconi 13/A
LAVENA PONTE TRESA via Luigi Colombo 19
LONATE POZZOLO via Vittorio Veneto 27
LUINO via XXV Aprile 31
MARCHIROLO via Cavalier Emilio Busetti 7/A
PORTO CERESIO via Giacomo Matteotti 12
SARONNO via San Giuseppe 59
SESTO CALENDE piazza Giuseppe Mazzini 10
SOLBIATE OLONA via Vittorio Veneto 5
SOMMA LOMBARDO via Milano 13
VARESE
Head Office, viale Belforte 151
Branch no. 1, piazza Monte Grappa 6
Branch no. 2, via San Giusto - ang. via Malta
VEDANO OLONA via Giacomo Matteotti - ang. via Cavour 12
VIGGIÙ via Saltrio 2

PROVINCE OF VENEZIA
VENEZIA Sestiere Santa Croce, Fondamenta Santa Chiara 520/A

PROVINCE OF VERBANO-CUSIO-OSSOLA
CANNOBIO viale Vittorio Veneto 2/bis
DOMODOSSOLA piazza Repubblica dell'Ossola 4
GRAVELLONA TOCE corso Guglielmo Marconi 95
VERBANIA - Intra, piazza Daniele Ranzoni 27
VERBANIA - Pallanza, largo Vittorio Tonolli 34

PROVINCE OF VERCELLI
VERCELLI piazza B. Mazzucchelli 12

PROVINCE OF VERONA
BARDOLINO via Mirabello 15
PESCHIERA DEL GARDA via Venezia 40/A
VERONA corso Cavour 45
VILLAFRANCA DI VERONA corso Vittorio Emanuele II 194

PROVINCE OF VICENZA
VICENZA corso Santi Felice e Fortunato 88

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Head Office: Lugano, via Maggio 1 - tel. +41 58 855 31 00
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Treasury - Updated to 29 March 2022

BANCA POPOLARE DI SONDRIO

Joint-stock company - Founded in 1871 - Official List of Banks no. 842,
Official List of Banking Groups no. 5696.0,
Sondrio Companies Register no. 00053810149 - Share capital € 1,360,157,331 euro
made up of 453,385,777 ordinary shares -
Reserves € 1,253,388,214 euro.

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio spa (the «Bank») is convened at the registered office in Sondrio, Piazza Garibaldi 16, for 10.00 a.m. on Saturday, 30 April 2022 in a single call, to resolve on the following

AGENDA

1) Approval of the financial statements as at 31 December 2021: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions; Presentation of the consolidated financial statements as at 31 December 2021;
2) Resolutions on compensation matters:
   a) Approval, in accordance with the Supervisory regulations, of the document entitled «Remuneration Policies of the Banca Popolare di Sondrio Banking Group»;
   b) Approval, pursuant to art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act), of the Report on Remuneration Policy and the Compensation Paid;
   c) Approval of the Compensation Plan, pursuant to ex art.114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Compensation Policies of the Banca Popolare di Sondrio Banking Group for 2022;
3) Authorisation to purchase and sell treasury shares pursuant to art. 8 of the Articles of Association and articles 2357 and 2357-ter of the Italian Civil Code, art. 132 of Legislative Decree 58/98, Consolidated Finance Act, and article 144-bis of Regulation no. 11971 approved by Consob resolution of 14 May 1999, and authorisation to use the treasury shares already held in service of the Compensation Plan in implementation of the Remuneration Policies;
4) Determination of directors' emoluments;
5) Appointment of five Directors for the three-year period 2022-2024.

Share capital

The share capital, fully subscribed and paid up, amounts to 1,360,157,331 euro and comprises 453,385,777 ordinary shares. Each share confers the right to one vote. The Bank holds 3,650,000 treasury shares.

Attendance at the Meeting

Pursuant to art. 83-sexies of Legislative Decree 58/98, Consolidated Finance Act, the persons entitled to participate in the meeting, exclusively through the Designated Representative according to the procedures described below, are those who will hold the right to vote at the end of the accounting day of the seventh trading day prior to the date of the meeting (21 April 2022 - «record date»), and for whom the Bank has received the relevant communication made by the authorised intermediary.

Therefore, those who will be holders of the bank's shares only after that date will not be entitled to attend and vote at the meeting.

The notice from the intermediary must be received by the Bank by the end of the third trading day preceding the date set for the Meeting (i.e. by 27 April 2022). In any case, art. 83-sexies, paragraph 4, of Legislative Decree 58/98, Consolidated Finance Act applies, and therefore the legitimacy to intervene and vote remains in case the communications are received by the Company after the deadline of 27 April 2022 indicated above, provided that they are received before the start of the works.

It should be noted that Shareholders whose shares are deposited with the Bank or with Banca Popolare di Sondrio (SUISSE) SA must also request, pursuant to article 42 of the Bank of Italy-Consob Provision of 13 August 2018, the issuance of the notice attesting to the entitlement to exercise voting rights.

Taking into account the containment measures imposed in the face of the emergency situation resulting from the Covid-19 epidemic, in accordance with fundamental principles of health protection, pursuant to the provisions of art. 106, paragraph 4, of Decree Law 17 March 2020 no. 18, as subsequently amended and supplemented, participation in the Meeting of the entitled parties will take place, without access to the meeting rooms, exclusively through the Designated Representative pursuant to art. 135-undecies of Legislative Decree 58/98, Consolidated Finance Act, in the manner described below.

Remote or postal voting procedures will not be used.

The Directors, the Statutory Auditors, the Meeting Secretary, the Representative of the Independent Auditors and the Designated Representative will participate in accordance with the containment measures established by law, including if necessary by the use of remote conferencing systems in compliance with the current instructions in force.

Participation through the Designated Representative

In accordance with art. 106, paragraph 4, Decree Law 17 March 2020 no. 18, as subsequently amended and supplemented, participation in the Shareholders' Meeting of those who have the right to vote is permitted exclusively through the Designated Representative pursuant to art. 135-undecies of Legislative Decree 58/98, Consolidated Finance Act, (the «Designated Representative») by means of conferment, at no cost for the delegating party (except for any postage costs), of a specific proxy containing voting instructions on all or some of the proposals for resolutions on the items on the agenda. The proxy will only be effective in relation to the proposed resolutions for which voting instructions were given.

The Designated Representative identified by the Bank is Computershare S.p.A., based in Milan and with offices at via Nizza 262/73, Turin.

The proxy must be granted to the Designated Representative, with voting instructions, by the end of the second trading day prior to the date of the Meeting (i.e by 28 April 2022), using the specific form available from the Bank's website at the link, https://istituzionale.popso.it/en/investor-relations/shareholders-meeting, also stating how those entitled can grant the proxy and also revoke, by the same deadline, the proxy granted and the voting instructions given. Alternatively, the proxy can be sent, within the same deadline, using the specific web application available on the Bank's website at https://istituzionale.popso.it/en/investor-relations/shareholders-meeting, prepared and managed directly by Computershare S.p.A., through which it will be possible to proceed with the guided filling in of the proxy form and of the voting instructions.

The Designated Representative may also be granted delegations or sub-delegations in accordance with art. 135-novies of Legislative Decree 58/98, Consolidated Finance Act, as an exception to art. 135-undecies of the same Decree, with voting instructions on all or some of the resolution proposals regarding the items on the agenda, by using the proxy/sub-proxy form available on the Bank's website at the address https://istituzionale.popso.it/en/investor-relations/shareholders-meetting to be sent to Computershare S.p.A. according to the terms and methods indicated in the form. The proxy/sub-proxy may also be granted by means of an electronic document signed in electronic form pursuant to art. 21, paragraph 2, of Legislative Decree 7 March 2005 no. 82 and notified to Computershare S.p.A. via e-mail at popso@pecserviziotitoli.it.

Additional agenda items and presentation of new proposed resolutions

In accordance with article 13 of the Articles of Association, shareholders who, also jointly, represent a total of not less than 2.5% of the share capital, can request additional topics to be added to the agenda, or present proposed resolutions on matters already on the agenda, within 10 days of publication of the Notice of Meeting, on the basis and with the timing established in art. 126 bis of Legislative Decree 58/98, Consolidated Finance Act.

Requests must indicate the additional topics proposed, or the proposed resolutions on matters already on the agenda and must be presented in writing, or sent by registered letter with proof of receipt to the head office of Banca Popolare di Sondrio spa, at piazza Garibaldi 16, Sondrio, or sent by certified e-mail to segreteria@postacertificata.popso.it, indicating in the subject line the wording «2022 Meeting - additional agenda items/proposed resolutions».

Requesting parties must send to the Bank – through their intermediary – the communications certifying their entitlement to exercise the right pursuant to article 43 of the Bank of Italy-Consob Provision of 13 August 2018.

Within the same term and in the same manner, shareholders requesting the integration must prepare and send to the Board of Directors of the Bank a report outlining the reasons for the new topics that they would like to propose for discussion, or the reasons for additional motions that they would like to propose on matters already on the agenda.

Any additions to the agenda or the presentation of proposals for resolutions on items already on the agenda shall be notified, by the same means of publication of this notice, at least fifteen days before the date set for the Meeting (i.e. by 15 April 2022). At the same time, the reports prepared by the parties requesting the additions and/or the new proposed resolutions will be made available to the public, together with any considerations made by the Board of Directors, in the same ways as those envisaged for the Meeting documentation.

It is not permitted to add items to the agenda for those topics on which the Shareholders' Meeting has to vote, in accordance with the law, on the proposal of the Board of Directors or on the basis of a project or a report prepared by the Board, other than those mentioned in art. 125-ter, paragraph 1, of Legislative Decree 58/98, Consolidated Finance Act.

Even if persons entitled to vote represent less than one-fortieth of the share capital, they may still present proposed resolutions individually and/or make voting declarations on items on the agenda. Given that participation at the Meeting is only allowed via the Designated Representative, these proposals must be presented – having regard for the current emergency – in the manner described above by 11 April 2022. After checking their relevance with respect to the items on the agenda, as well as their proper and complete nature with respect to the applicable regulations, the proposals will be published on the website of the Bank by 15 April 2022, so that those entitled to vote can express themselves in an informed manner, taking account of the new proposals, and therefore allow the Designated Representative to collect any voting instructions in their regard as well.

The legitimacy to formulate proposals shall be certified by the notice provided for by art. 83-sexies of the Consolidated Finance Act issued by the intermediary for the purpose of attending the Meeting and exercising the voting right.

Right to ask questions on agenda items

Those who have the right to vote may propose questions on the items on the agenda by submitting them in writing by 21 April 2022, or by sending them by registered mail with return receipt to the registered office of Banca Popolare di Sondrio spa in Sondrio, Piazza Garibaldi 16, or by sending them by certified e-mail to segreteria@postacertificata.popso.it, indicating in the subject line of the e-mail «Shareholders' Meeting 2022 - questions on agenda items».

Requesting parties must send to the Bank – through their intermediary – the communications certifying their entitlement to exercise the right pursuant to article 43 of the Bank of Italy-Consob Provision of 13 August 2018 or the communication for intervention in the shareholders' meeting pursuant to article 83-sexies of Legislative Decree 58/98, Consolidated Finance Act.

In view of the fact that participation in the Shareholders' Meeting is permitted exclusively through the Designated Representative, questions that are relevant to agenda items will be answered by 28 April 2022 in a specific section of the Bank's website. The Bank may provide a single response to questions with the same content.

The Bank will not answer questions that do not comply with the above terms, conditions and procedures.

Appointment of five Directors for the three-year period 2022-2024

With reference to item 5) on the agenda of the Shareholders' Meeting – Appointment of five directors for the three-year period 2022-2024 – it is recalled that the Board of Directors is renewed for one-third each year on the basis of seniority.

Only shareholders who, on the date of submission of the list, own – alone or together with others – voting shares representing a total of at least 1% of the share capital are entitled to submit a list. No shareholder may submit, or participate in submitting, or vote for more than one list, not even through a third party or trust company. Shareholders belonging to the same group – i.e. the parent company, the subsidiaries and the companies subject to joint control – and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree 58/98, Consolidated Finance Act, relating to the issuer's shares, may not submit more than one list, not even through a third party or trust company. A candidate may appear on only one list under penalty of ineligibility.

It is recalled that the lists of candidates for the office of director must be filed at the registered office by the twenty-fifth day prior to the date of the Meeting, i.e. by 5 April 2022.

Submitting shareholders have to prove the ownership of the required number of shares by means of specific documents issued by an authorised intermediary in compliance with current legislation, with regard to the shares registered in their favour on the day on which the lists are filed with the Bank; if not available at the time of filing the lists, such documents shall be received by the Bank by the twenty-first day before the date set for the Shareholders' Meeting, i.e. by 9 April 2022.

Lists for the election of the Board of Directors can also be submitted by certified e-mail to segreteria@postacertificata.popso.it

For any matters not specified above concerning the list voting mechanism, reference should be made to the Directors' report and to Article 23 of the Articles of Association, which is reproduced below.

""""

Article 23

Presentation of lists of candidates

1. The directors are appointed on the basis of lists containing up to the maximum number of Directors to be elected, in which the candidates are listed with progressive numbering.
2. The lists containing a number of candidates equal to or higher than three must be composed so as to ensure the minimum number of independent directors and gender balance required by the law in force from time to time in the composition of the Board of Directors resulting from the vote, taking into account – in the assignment of the sequential number to the candidates – the election mechanism set out in article 24 below.
3. Each candidate may appear on only one list under penalty of ineligibility.
4. The Board of Directors and shareholders who, alone or jointly, represent at least 1% of the share capital may submit a list, unless the law and regulations in force from time to time establish a lower percentage, to be indicated in the notice of call of the Meeting.
5. Each shareholder may take part in the submission of a list by signing at the bottom of it. A shareholder may not submit for more than one list, even through a third party or through trust companies. Shareholders belonging to the same group – i.e. the parent company, the subsidiaries and the companies subject to joint control – and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree no. 58/1998 concerning the issuer's shares, may not submit more than one list, even through a third party or trust company. In case of non-compliance, the stipulation will not be counted for any list.
6. The lists shall be filed at the registered office – also by means of distance communication – according to the methods notified in the notice of call, which allow to identify the persons who filed them, by the twenty-fifth day prior to the date set for the Meeting, or within any other term set out by the law in force from time to time.
7. The lists shall be accompanied by the information related to the identity of the shareholders who have submitted them, with an indication of the number of shares and of the corresponding total percentage held by the submitting shareholders and – within the terms set out by the law in force from time to time – by a notice proving the ownership of the equity investment, as well as by any other information required by said law. Shareholders who submit a list and who are different from shareholders holding a controlling stake or a relative majority shall also submit a statement certifying the absence of any relationship with said shareholders, which can be qualified as significant according to the law in force from time to time.
8. The ownership of the number of shares necessary to submit the lists is determined by taking into account the shares that are registered in favour of the individual legitimated person or group of legitimated persons

submitting the list, on the day when the lists are filed at the registered office. In order to prove the ownership of the number of shares suitable for the submission of lists, the persons entitled to do so shall file – together with the list – the notice issued by an intermediary authorised by law, showing the ownership of the related number of shares. The communication required in order to prove the ownership of shares may be made even after the filing of the list, provided that it is made at least twenty-one days before the date of the Meeting and according to the methods set out by the law in force from time to time.

9. Together with each list, detailed information on the personal and professional characteristics of the candidates and the list of offices held in other companies shall be filed at the registered office, as well as the declarations in which the candidates accept the candidature and, under their own responsibility, state that they are suitable for the office, by certifying, in particular, the non-existence of any reasons for ineligibility and incompatibility and the possession of the requirements set out by current legislation and by these Articles of Association for holding the office of director. Candidates shall state whether they comply with the specific independence requirements set out in the legislation in force from time to time for the position of independent director, and this quality shall be indicated in the lists.
10. Lists for which the above requirements are not observed shall be considered as not submitted. However, any irregularities in lists concerning single candidates shall not automatically imply the exclusion of the whole list, but only of the candidates to whom the irregularities refer.

Reference should be made to the recommendations made by Consob in Notice no. DEM/9017893 of 26 February 2009 with regard to the relations between lists pursuant to art. 147-ter, paragraph 3 of Legislative Decree 58/98, Consolidated Finance Act, and Article 144-quinquies of Regulation no. 11971 approved by Consob resolution of 14 May 1999, to which reference should be made.

It should also be remembered that article 20, paragraph 2, of the articles of association states that:

«The composition of the Board of Directors shall ensure collegial adequacy, as well as the presence of the minimum number of independent directors and gender balance in accordance with the legislation in force from time to time.»

For the presentation of lists, the shareholders are required to take into account the document «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio» published on the Company's website at the link https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

In this document the Board of Directors has identified the ideal composition of the board in terms of quality and quantity and the profile that candidates need to have for the office of director. This document has been made known to the Bank's shareholders, so that the choice of candidates to be submitted for the renewal of the Board of Directors can take into account the professional skills required to perform the tasks entrusted to the Board.

The lists will be made available to the public at the Company's registered office, on the authorised storage mechanism «eMarket STORAGE» (www.emarketstorage.com) and on the Company's website at https://istituzionale.popso.it/en/investor-relations/shareholders-meeting by the twenty-first day prior to the date of the Shareholders' Meeting, i.e. by 9 April 2022.

Documentation

The explanatory reports of the Board of Directors containing the proposed resolutions and documents that will be submitted to the Shareholders' Meeting will be made available at head office, on the «eMarket STORAGE» authorised storage mechanism (www.emarketstorage.com) and on the Company's website at the link https://istituzionale.popso.it/en/investor-relations/shareholders-meeting by the current legal deadline. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense.

Sondrio, 21 March 2022

FOR THE BOARD OF DIRECTORS
Chair
(Francesco Venosta)

The notice of calling was published, as required by law, on the Company's website at the link https://istituzionale.popso.it/en/investor-relations/shareholders-meeting and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 22 March 2022.

Note. The figures in this report are in euro.
Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of the same amounts expressed in different units.

DIRECTORS' REPORT ON OPERATIONS

Dear Shareholders,

Every year, before starting the meeting works, we would like to recall with some considerations, as a sign of rightful gratitude, the names that passed away after the ordinary meeting of the previous year and that were particularly close to this bank during their life. It is a tradition we want to honour again this year.

Let us start with Professor Miles Emilio Negri, born in Monticelli Pavese on 6 February 1935, passed away on 12 January 2022.

After graduating in economics and commerce from the Bocconi University in Milan, he played a significant role in the world of education as a teacher of accounting and technology at the Istituto Tecnico A. De Simoni in Sondrio for almost twenty years, a commitment that continued until 1983. His former students underline his excellent qualities as a teacher: never over the top, spontaneous in his communication, he had the ability to interpret, with a far-sighted vision, the importance of economic sciences. It is a pleasure to remember the professor also as the author, together with Astolfi, of the Course in General and Applied Accounting and the Course in Commercial and Banking Techniques, Tramontana Editore. The texts have been widely used, nationwide, in Technical Institutes for Accountants.

From 1974 to 2008, he was a tax judge at the Sondrio Provincial Tax Commission; from 1987 to 1990, standing auditor of LCS-La Centrale Servizi Spa in Milan; from 1993 to 1996, standing auditor of Commerciale Paganoni Spa in Sondrio; from 1994 to 1997, standing auditor of the Sondrio Province Supervisory Institute.

From 1990 to 1994, he was a director with the function of censor of the Bank of Italy, Sondrio branch. From 1995 to 2000, he was a director of the same branch and from 2000 to 2002, he was Managing Director.

We had the opportunity to closely appreciate his high level of preparation, professional skills, and seriousness, beginning in March 2002, as he assumed the position of director of this bank, held until 26 April 2014, during which time he held the onerous office of Deputy Chair from 2008 to 2014, with the diligence that distinguished him, with the prudence and expertise of those who leave nothing to chance.

He was a true gentleman, a man of honour. Attached to the family, to the values that it expresses, always attentive to events and respectful of all. He believed in friendship and cultivated it with thoughtful simplicity. He left his mark and a void in us at Banca Popolare di Sondrio as well.

On 26 November 2021, Knight Grand Cross Renato Sozzani of Sondrio, born in Pavia in 1932, passed away.

An entrepreneur in the hotel sector, he managed, among other things, the Caffè della Posta, the Hotel della Posta, the Grand Hotel Malenco in Chiesa Valmalenco and the Albergo Vittoria in Sondrio, with skills that were recognised by all. He held numerous positions within trade associations: president of the Union of Commerce, Tourism and Services of the Province of Sondrio, of the Hotel Association of the Province of Sondrio and of the Chamber of Commerce, Industry, Handicraft and Agriculture (CCIAA) of Sondrio. At the national level, he was a director of the National Federation of Hotels in Rome and auditor of ENASCO.

He had conquered the trust and the esteem of the people of Valtellina, of the people of Sondrio in particular, for his cordiality, for his usual good humour, for his attachment to work, for the elegant style with which he presented himself.

As for our institution, he had been appointed to the Board of Directors on 17 March 1979, a position he held for over 39 years until 28 April 2018. Of our subsidiary Pirovano Stelvio Spa, he had assumed the office of CEO in July 1985, leaving the position in September 1996 to continue as Chair, a position he exercised with dedication and enthusiasm until his passing.

Mr. Sozzani, in a certain sense, felt part of the «family» in this bank, also because of the good interpersonal relationships and even friendship established over the years with the company's top management and various employees. We highlight with pleasure the many contributions of ideas he transferred to the Board of Directors. He always did so with grace, balance and common sense.

Let us move on to Vincenzo Bonetti of Mazzo di Valtellina, a retired employee, born in Valdisotto on 4 June 1932 and passed away at the age of eighty-eight on 18 April 2021.

Hired on 1 June 1955, he was assigned to the Sondalo branch, where he had demonstrated seriousness and commitment, the reason why three years later he was assigned to manage the Mazzo agency. On 7 January 1969, he was transferred to the agency of Chiesa in Valmalenco as manager, remaining there until 29 February 1972.

He was then called to Sondrio at the central office to take responsibility for the Bursar's Office, a position he held until 31 December 1996, the eve of his retirement. He held the title of Central Deputy Director.

Upon retirement, he continued to work with this bank for twenty years, serving as Deputy Chair of Operations for the Corporate Health Insurance Fund. He carried out the task with the dedication and precision of someone who has not lost the enthusiasm of doing, of doing well.

Mr. Bonetti was a person open to dialogue and always available.

We emphasise his intelligent industriousness and great sense of belonging to the bank, to which he gave so much.

On 3 June 2021, Giancarlo Sabatti of Manerbio, born in Verolanuova on 28 July 1949, passed away at the age of seventy-one.

He had joined our staff on 2 July 2007, coming from another bank, where he had gained good banking experience. Assigned to our Brescia branch, he remained there until the end of October of that year.

He was then transferred to the Manerbio agency as deputy manager, holding the position until 31 January 2017, the date he left the bank for retirement. He was a Level 1 Middle Manager.

We remember the appreciated collaboration of Mr. Sabatti.

On 14 June 2021, Vittorio Agnoletto, born in Milan on 8 February 1940, passed away.

He was hired by our institution on 4 September 1989, with destination to the Milan office, credit sector, after having gained extensive banking experience at another institution. He remained with our bank until 31 December 1999, retiring due to age limit. His qualification was that of a Level 4 Middle Manager.

Since February 2001, he had resumed his collaboration with us, which had lasted for several years, as a consultant and as a supervisory and discount commissioner.

Mr. Agnoletto had ease of approach and uncommon insight. His professionalism blended with preparation, availability and love for the job.

We come to Claudio Piasini from Sondrio, Colda, a retired employee, born in Montagna in Valtellina on 4 July 1953 and passed away on 16 August 2021.

He joined Popolare on 1 June 1983, and had been assigned to the Bursar's Office at headquarters. Among the various tasks he carried out, there was the one, which was congenial to him – having worked for years as a mechanic, before being hired by us – of maintenance of the machine fleet: he carried out the task with passion and precision. He was placed in the third area, second level (former head of department).

Of Claudio Piasini we underline the good character and the availability.

Carlo Romeri of Tirano, born 6 April 1942, passed away 27 September 2021.

He joined the staff of our institution on 1 March 1960 and was assigned to the Tirano branch, where he worked until 13 August 1970, after which, transferred to Sondrio, the central office, he worked at the Centro Ufficio Portafoglio (CUP), then at SOSI – Portfolio Management – and, from October 1987, at the Credit Service until 30 September 1996, the day he retired. He belonged to the third area, third level (former Deputy Office Manager).

His has been a long and industrious collaboration.

Edoardo Faldarini of Sondrio (area of Mossini), born 27 June 1938, passed away on 29 December 2021.

Hired on 7 March 1960, he was placed in the Accounting Office at Headquarters and remained there 9 years. Except for a brief experience at the Delebio branch, he then worked at various offices and services of the head office, including the Risk Center and Portfolio, until May 1982, when he was transferred to the Talamona agency and, later, to the Morbegno branch. In 1986, he was assigned to the Sondrio office until 31 January 1997, the day before his retirement. He had the title of deputy office manager, which is to say third area, third level.

He was attached to family and the values that make it strong and united. We would like to highlight the good work he has done in multiple areas.

Giovanni Gusmeroli of Sernio, born in Tirano on 15 September 1952, passed away on 25 January 2022.

He joined our staff on 17 March 1976, and was assigned to the Credit Department of the headquarters. On 6 September of that year he was transferred to the Tirano branch and on 28 January 1991 he took up service at the Sondrio office until 15 December, after which he was again sent to the Tirano branch. On 31 March 2017, his employment terminated due to retirement. Deputy Office Manager, was classified in Area 3, Level 3.

He was measured in his words and courteous, which, for a cashier such as Mr. Gusmeroli, is a positive aspect, an added value.

We highlight his long and faithful collaboration.

Ambrogio Antonioli of Grosio, born 1 December 1926, passed away on 21 April 2021.

In his long, hard-working life he dedicated himself to agriculture, paying particular attention to cattle breeding and dairy products. He attended the most important local livestock fairs and also those outside the province. His work as a promoter of the Bruna Alpina breed had allowed him to get to know many countries, so much so that he used to make jokes in different languages. Mr. Antonioli was also known for having been the inventor and producer of the so-called «grana di Grosio cheese», for which he was proud.

Among the tasks he carried out, we remember those of deputy chair and promoter of the «Latteria Turnaria» of his town, of president of the Provincial Alpine Brown Association, of member of the Mortirolo Tunnel Committee. He was a long-time honour guard at the Pantheon in Rome, serving a few days a year.

As for our institution, we recall the fruitful role as a supervisory and discount commissioner for the Grosio agency from 16 April 1992 to the end of May 2016.

On 6 October 2021, notary Pierluigi Corradini of Bormio, born in Cavalese (TN) on 15 September 1944, passed away.

After graduation, he had worked at Università Cattolica del Sacro Cuore in Milan as an assistant. In the same university and in that of Parma he had been professor of Civil Law. He became a notary public and practised his profession for forty years in Bormio, a town to which he was very attached. In the same he left his mark for skill, prudence, competence.

Outside of his normal activity, he has held positions as a member of the Sondrio Notary Council and the Notary Fund; as president of the Rotary Club of Bormio Contea, of which he was co-founder; as advisor and treasurer of the Ski Club of Bormio in the 1980s. In every field, in addition to his organisational skills, his character of a kind, gentle and generous person was evident. He was a man of noble simplicity and refined culture.

He was close to our institution for various reasons, one of which is configured in the assumption of the Office of notary in charge for our various meetings, starting with that of 2013 and then, continuously, from 2015 to 2019, tasks always performed with great scruple and unexceptionable professionalism.

Let us move on to Gino Strada, born in Sesto S. Giovanni on 21 April 1948 and passed away on 13 August 2021 in Normandy.

He graduated in medicine at the University of Milan and, after his first professional experiences in Italy and abroad, from 1989 to 1994, he worked as a surgeon with the International Committee of the Red Cross in many warring nations.

Gino Strada was at one with Emergency, the Non-Governmental Organisation of Milan that he founded with Carlo Garbagnati in 1994 – with the collaboration of his enterprising late wife Teresa Sarti – to support and cure those whose most basic rights are trampled upon, to help those who suffer, those who are not protected in any way.

Surgeon Gino Strada treated and saved lives for free until the end of his days, and he did it mostly in war contexts, risking his life, always supported by ideals of peace, of love for humanity (omnia amor vincit).

On 3 February 2012, Gino Strada, having accepted our invitation, came to the headquarters of this bank in Sondrio and in the Fabio Besta hall gave an unforgettable lecture on the theme so dear to him «Emergency: an experience of medicine and solidarity», talking, at the end of the impassioned speech, with the large audience present. This event was a triumph and had aroused a large echo even outside the Valtellina and Valchiavenna.

On 7 October 2021, at the threshold of 78 years, Professor Salvatore Veca, a well-known Italian philosopher and academic, born in Rome on 31 October 1943, passed away in Milan.

Graduated in philosophy in 1966 at the University of Milan, he initially worked in the same university as a voluntary assistant. He was then a CNR scholar and assistant professor of Theoretical Philosophy. From '74 to '75 he was professor of Political Philosophy at the University of Calabria. It was then a succession of teaching assignments and other prestigious tasks at multiple universities. His publishing efforts have been extensive and important.

Of the many awards to his person, all prestigious, stands out the gold medal of civic merit by the city of Milan, awarded in 2012.

Man of deep culture, style, generous.

Professor Salvatore Veca held Popolare di Sondrio in high esteem and appreciated its cultural initiatives, such as the edition of the Notiziario aziendale, on which he had written, and the meetings for commemorations of personalities and other events. He had applauded our acquisition, at a Christie's auction in 1996, of the substantial Vilfredo Pareto Fund. When the idea of producing a publication on this economist and sociologist of the past arose, our valuable volume «Vilfredo Pareto (1848-1923) – L'Uomo e lo Scienziato», Scheiwiller edition, came to light in 2002. Among the authors of the work there is also Professor Salvatore Veca, who wrote a chapter in which a crucial moment of paretiano's thought is faced, that of the passage from economics to sociology. This aspect was highlighted by the author himself during the presentations of the book, which took place that year in Sondrio in our Sala Besta and in Milan at the Università Commerciale Luigi Bocconi.

Our feeling of renewed gratitude to the professor goes hand in hand with an emotional remembrance.

On 5 December 2021, Demetrio Volcic, Italian journalist and politician, born on 22 November 1931 in Ljubljana, Slovenia, passed away in Gorizia.

An employee of RAI-Radiotelevisione Italiana since 1956, he became a special correspondent in Trieste in 1964 and a foreign correspondent in 1968, a task that led him to provide Italians with news on historical events of great importance that occurred beyond the historic Iron Curtain.

After the role of special envoy in the Soviet Union, from 1993 to 1994, he was director of TG1, the most important news programme of RAI. In 1995, he was coordinator of the journalistic editorial staff of CNR radios.

He was professor of Political Doctrines and International Politics at the University of Trieste in 1994, where he graduated in Economics when he was young.

In 2006, he was awarded an honorary degree in Public Relations by the University of Udine.

A man of culture, he has written several successful books.

In spite of his heavy commitments, he had accepted the invitation to come to Sondrio at our bank for a conference, which was held on 22 February 1992. Theme of the meeting «The metamorphosis of the U.R.S.S.; actuality and perspectives». The event was attended by a large and qualified audience.

On 1 January 2022, Professor Francesco Forte – politician, economist and academic – born in Busto Arsizio on 11 February 1929, passed away in Turin, where he resided.

In 1939, he arrived with his family in Sondrio, the city where he spent the years of his youth and where he attended with profit the classical studies at the Liceo G. Piazzi. In 1947, after winning the competition for admission to the prestigious Ghislieri College in Pavia, he enrolled in Law at the University of Pavia. He also took some courses in Political Science and the Institute of Finance at the same university. He graduated at the age of 22, discussing a thesis in Finance, with highest honours, plus press mention.

He has been a valued professor at multiple universities. In 1954, he became substitute of Ezio Vanoni at the University of Milan. In 1961, he became Professor of Finance at the University of Turin, having been chosen by Luigi Einaudi to succeed him.

Attracted by the world of politics, he dedicated himself to it with commitment throughout his life. Among the most important positions held, we recall those of Minister of Finance from 1982 to 1983 and Minister without Portfolio for the Coordination of Community Policies from 1983 to 1985.

In Bormio he was mayor from 16 June 1988 to 16 September 1991.

Of easy pen and vast culture, he has written many books and collaborated with periodicals and newspapers, including Il Giorno, La Stampa, Il Sole 24 Ore.

Prepared person, serious, clear, very easy-going.

He showed closeness to our bank, and not just in words. Several times he had come to our headquarters in Sondrio as a lecturer, speaking about the unforgettable statesman from Valtellina Ezio Vanoni, for whom he had great admiration: May 1978; June 2003, together with President Giulio Andreotti; October 2010 at a round table. He also wrote several articles for our Newsletter and gave an authoritative contribution, with a lucid and documented contribution, to the realisation of an extensive monograph on Luigi Einaudi, published in the 2008 Annual Report, financial year 2007, of BPS (SUISSE) SA of Lugano, our subsidiary.

We remember Professor Francesco Forte with sincere regret.

Italian politician, economist and academic Professor Antonio Martino of Rome, born in Messina on 22 December 1942, passed away on 5 March 2022.

He graduated in law in 1964 at the University of Messina and was appointed, following a selection at European level, Harkness Fellow of the Commonwealth Fund for the years 1966-1968, specialising in Chicago.

For years, he had taught the course on monetary history and policy at the Faculty of Political Science at La Sapienza University in Rome. He had been a professor of political economy at the LUISS University of Rome and dean of the same from 1992 to 1994.

Since 2014, he was secretary of the Scientific Committee of the Italy USA Foundation and since May 2021, honorary president of the Milton Friedman Institute.

Alongside his teaching, he had a great passion for politics, so much so that, during his long presence in parliament, he was Minister of Foreign Affairs from 1994 to 1995 and Minister of Defense from 2001 to 2006.

Educated man and of easy pen, he produced numerous publications of value. In spite of his many commitments, on 24 May 2004, he came to Sondrio to this bank and opened the cycle of our conferences of that year, speaking on the theme «Europe of Defense», a topic of extraordinary topicality then as now. The interesting meeting was attended by a large and qualified audience.

After this list, the thought sadly runs to death, a mysterious event connected to life. The literature of every age is full of the subject. Two examples for all. Socrates: «Death, as it seems to me, is nothing but the separation of two things, the soul and the body, from each other.» And Leonardo da Vinci: «As a well spent day brings happy sleep, so life well used brings happy death.»

SUMMARY OF RESULTS

Dear Shareholders,

2021 was also largely «affected» in all its dynamics, economic, political and social, by the pandemic. After the previous year, when Covid-19 broke into our way of living, working and thinking, the year 2021 represented the moment in which we gradually became aware of the need to find a way to live with the virus, taking advantage of the periods of calm to restore economic activity and social space and establishing valid strategies of resistance for the moments of greatest recrudescence of the pandemic. Thus, the measures of total closure, effective from a health point of view, but extremely penalising for economic and social relations, were put back in the armamentarium.

The results of this continuous and difficult search for a valid compromise between what one would like to do and what one can do have not been lacking. Thanks in part to far-reaching revisions of prevailing financial and fiscal policies, the global economy has regained momentum. In the European Union, following the suspension of the Stability Pact and the launch of the Next Generation EU programme, there was a marked recovery, especially as the summer season approached, which was particularly strong in Italy.

It may be that the experience of 2020, in which Italy was the first European country to be violently hit by the Covid-19, has served to operate with determination and prudence, it may be that Italians are at their best in the most difficult situations, but the fact remains that in the year under review, the national economy achieved results beyond expectations. An unthinkable ability to react, which, also thanks to the impressive financial resources made available at European level, makes concrete the possibility of starting a path of development at the end of which our economic system will be not only stronger and more modern, but, it is hoped, also more attentive to the values of solidarity and social cohesion.

In a situation of lights and shadows, our bank has operated with great attention to the needs of the communities and territories it serves, with the aim of mitigating the effects of the economic and financial crisis caused by the pandemic. This is reflected in the data contained in the chapter «Loans to Customers» of this report relating to the interventions implemented in favour of customers both in compliance with government measures and in adherence to initiatives promoted by ABI at banking system level and, finally, on a voluntary basis.

At the end of the year, the transformation of the bank into a joint-stock company – with the withdrawal of only 17 shareholders for 12,676 shares equal to 0.0028% of the share capital – was also an opportunity to reiterate in the new Articles of Association that Popolare di Sondrio, in pursuing the objective of creating value in the medium-long term, recognises itself in a vision of market solidarity, in which profitability is flanked by other objectives, the expression of an assumption of lasting responsibility towards the context of belonging for the enhancement of its identity.

For their part, the accounting data provide a representation of a dynamic and profitable year: profit rose to 212.099 million, +182.63%; a very satisfying result, the best in our history, the result of the commitment of our staff, consisting of 2,866 units, an increase of 67. The income result is supported by the solidity of our assets, testified by ratios that place us at the top of the national level.

The key figures are summarised below.

Total assets came in at 49,636 million, +9.74%. Capital and reserves, including valuation reserves and net profit of the period, amounted to 2,831.99 million, +7.23%.

Direct deposits rose 10.19% to 35,850 million, while loans to customers amounted to 25,040 million, +3.91%.

RESULTS IN BRIEF

(millions of euro)

Balance sheet	31/12/2021	31/12/2020	Change %
Loans to customers	25,040	24,097	3.91
Loans and receivables with customers measured at amortised cost	24,606	23,715	3.76
Loans and receivables with customers measured at fair value through profit or loss	434	382	13.53
Loans and receivables with banks	4,846	4,895	-0.99
Financial assets that do not constitute loans	13,707	10,541	30.04
Equity investments	613	613	-0.10
Total assets	49,636	45,231	9.74
Direct funding from customers	35,850	32,534	10.19
Indirect funding from customers	38,970	33,052	17.91
Direct funding from insurance premiums	1,909	1,717	11.19
Customer assets under administration	76,730	67,303	14.01
Other direct and indirect funding	18,574	15,400	20.61
Equity	2,832	2,641	7.23

Income statement	31/12/2021	31/12/2020	Change %
Net interest income	447	406	10.00
Total income*	903	744	21.31
Profit from continuing operations	302	112	169.19
Profit (Loss) for the year	212	75	182.63

Key ratios (%)**		
Cost/income	51.52	56.91
Net interest income/Total assets	0.90	0.90
Net financial income/Total assets	1.55	1.18
Net interest income/Total income	49.51	54.60
Administrative expenses/Total income	51.01	58.87
Profit for the year/Total assets	0.43	0.17
Bad loans/Loans and receivables with customers	0.75	1.42
Loans to customers/Direct funding	69.85	74.07

Capital ratios		
CET1 capital ratio	17.53%	17.77%
Total capital ratio	21.27%	20.31%
Free capital	2,050	1,797

Other information		
Number of employees	2,866	2,799
Number of branches	350	349

* Total income is represented as per the reclassification made in the table commenting on the income statement,
** The ratios indicated were calculated using the figures shown in the table commenting on the income statement,

Banca Popolare di Sondrio FOUNDED IN 1871

BPS (SUISSE)
Banca Popolare di Sondrio (SUISSE)

Factorit

BNT BANCA
Banca della Nuova Terra

PrestiNuova

POPSO
COVERED BOND

SINERGIA
SECONDA

PIROVANO
L'UNIVERSITÀ DELLO SCI
SNOWBOARD UNIVERSITY
L'UNIVERSITÀ DELLA MONTAGNA

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the banking group in the heart of the alps

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Net interest income was 446.84 million, +10%; net fee and commission income reached 309.83 million, +12.13%. Reclassified total income amounted to 902.59 million, +21.31%.

The Banca Popolare di Sondrio share closed the year with a significant increase: +68.09%. At 31 December 2021, the shareholding structure consisted of 163,580, including 154,383 shareholders and the remaining shareholders. Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Banca della Nuova Terra spa and the other companies of the Banking Group have contributed to expanding and qualifying our commercial offer, with positive economic results.

INTERNATIONAL ASPECTS

In 2021, as in 2020, the international economic cycle moved in the opposite direction to the pandemic: every decline in the pandemic was matched by a recovery in production, and every resurgence of the virus was matched by a slowdown in production dynamics.

The measures adopted to safeguard public health, first and foremost the vaccination campaigns, have made it possible to significantly contain restrictions, so much so that the engine of the production system has been able to return to high levels, also driven by the very significant support measures guaranteed by the interventions of the State and monetary authorities.

The international economy was thus able to register sustained growth in 2021, the result, however, of dynamics that are not homogeneous among the various areas and characterised, as mentioned at the beginning, by alternating accelerations and slowdowns.

The general economic recovery, which became evident early in the year, continued throughout the first half of the year. This was followed in the third quarter by a widespread slowdown that involved – with the exception of the euro zone – both the major advanced and emerging economies. Contributing factors were the spread of the Delta variant in the US, restrictive measures to protect public health in Japan and the downturn in the real estate sector in China.

In the last part of the year, the more advanced economies showed significant signs of recovery, while emerging countries appeared less dynamic. The United States thus recorded annual GDP growth of around 5.6%, in line with the increase estimated worldwide, the United Kingdom was credited with +6.9% and Japan settled at around +1.8%.

World trade, whose overall progress in 2021 is indicated at 10.8%, has slowed somewhat since the summer, partly due to continuing bottlenecks in production chains, of which the shortage of semiconductors is the best known example. Other difficulties arose from global problems in the logistics sector, which led not only to major delays in the delivery of goods, but also to a very significant increase in maritime freight rates.

Inflationary pressures became increasingly significant during the course of the year, driven, in particular, by energy-related prices, especially oil and gas. Of course, other factors, such as the strong recovery in consumption and the aforementioned bottlenecks in international value chains, also contributed to this. In the US, prices showed a 7% climb in December 2021, so that the Federal Reserve started the removal of monetary accommodation.

Stock markets benefited from the improvement in the underlying scenario. Progress in vaccination campaigns, stronger growth, and highly expansive fiscal and monetary policies have provided solid prerequisites for the rise in prices. Towards the end of the year, disturbing elements were represented by the Omicron variant and the sustained dynamics of inflation, which raised fears regarding the possible revision of expansive monetary policies. However, on Wall Street the S&P 500 index recorded a performance of 26.89% and the European stock exchanges also achieved remarkable results. Growth in the Japanese market was much lower, as was that of emerging countries, in some cases conditioned by local factors, such as the crisis in the real estate sector in China.

In the euro area, the economic slowdown took hold towards the end of the year due to the rise in the number of infections and the consequent introduction of stricter containment measures, after having made significant advances in the middle quarters that lead to an estimated GDP growth rate of just over 5% at the end of 2021. Among the most dynamic economies, France stands out, with a very significant 7% increase, followed closely by Italy, +6.6%, and Spain, +5%. The German economy was much less positive, with a downturn in the last quarter and a modest +1.4% at the end of the year, partly due to production difficulties in the automotive sector, which was plagued, among other things, by a lack of components.

The level of inflation has once again caused concern: in December, the change in consumer prices in the euro area was 5%, the highest value since the start of Monetary Union. About half of this trend is attributable to the energy component alone.

At its meeting on 16 December 2021, the European Central Bank considered that the progress in the economic recovery and the progress towards the medium-term inflation target allowed for a reduction in net purchases of financial assets, but considered that monetary accommodation was still necessary.

For its part, the European Union continued to provide important financial resources as part of the Next Generation EU programme, an indispensable tool for supporting and boosting economic recovery in the entire euro area.

Thanks to the gradual easing of health measures to counter the pandemic, the economy of the Swiss Confederation experienced a positive growth process in 2021, which could have been higher had it not been for the problems already mentioned at international level and linked to difficulties in the logistics sector and bottlenecks in the supply chains in the last quarter. In any case, at the end of 2021, Swiss GDP is estimated to increase by between 3.3 and 3.5%. Particularly positive were the figures relating to foreign trade, which set a new record in exports, significantly increasing the trade surplus.

Throughout 2021, the Swiss National Bank continued its expansionary monetary policy, which helped support the dynamics of the production cycle.

Euro

First January marked the twentieth anniversary of the physical introduction of the euro – coins and banknotes – in an area that, if in 2002 had twelve leading countries, has gradually expanded to include the current nineteen, with their 340 million total inhabitants.

A currency widely appreciated by them, which has consolidated over time its international role and now looks to a future that could soon give it the features of a currency, at least in part, digital.

In the physiological succession of annual fluctuations, 2021 saw a general depreciation of the euro against almost all the major currencies, especially Anglo-Saxon currencies: 6.53% against the British pound, 7.70% against the US dollar, against which it had, however, gained 9.23% the previous year.

It is the different orientation of the central banks that provides the most convincing explanation: while the UK was the first to raise the reference rate, the US Federal Reserve itself was progressively affected by inflationary pressures, initially considered transitory, more intense than those faced by the ECB.

Thus, the euro/dollar rate, which opened the year at a high of around 1.23%, experienced a prolonged decline in the second half, ending at 1.1326, not far from the lows.

The more limited devaluation of the euro by 4.36% against the Swiss franc followed the previous year's much smaller devaluation. Similarly, the rise of 3.08% in the Japanese yen was a repeat of the similar rise in 2020.

Finally, the significant retreat in 2021 on the Chinese renminbi (-10.32%) reflected Beijing's effective management of the impacts of the pandemic on its economic system.

ITALY'S ECONOMIC SITUATION

In 2021, the Italian economy experienced strong growth, partly as a result of a cyclical rebound, after the onset, in 2020, of the Covid-19 crisis, but, in embryo, also due to a more structural component, supported by specific incentives, connected with the double ecological and digital transition.

Thus, the increase in GDP stood at 6.6%, driven by investment which grew by 17%, well beyond a simple recovery of the ten percentage points lost the previous year. Approximately eleven had been, even, those suffered by private consumption, whose incomplete recovery (+5.2%), also supported by online channels, explains that of the entire Product, which, in total, had left nine points on the field.

The foreign channel benefited from the reactivation of international trade, with sufficient balance between the high percentages of increase in exports (+13.3%) and imports (+14.5%), and with the maintenance of a positive balance, albeit slightly down, at 50 billion from 63 billion in the corresponding period of 2020.

Against this backdrop, unemployment fell back below current levels at the onset of the Coronavirus: the indicator for the entire population aged between 15 and 74 years fell to 9.1% in the fourth quarter. The improvement is even more intense for young people, between the ages of 15 and 24, who at the beginning of the year had a figure of around 35%, well above the pre-pandemic level, and who subsequently saw a drop to 28% in the last three months.

As for the debated price dynamics, there has indeed been a shift from a situation of creeping deflation to one, quite the opposite, of overheating. This is not an Italian peculiarity. On the contrary, the underlying trends are linked to the international markets for energy and certain raw materials, the supply of which has been unable to keep up with the strong demand triggered by the general recovery in economic activity.

If anything, our country, which at the end of 2020 had perfectly realigned itself with the level (-0.3%) of the euro area in terms of the harmonised consumer price index, did see subsequent growth up to +4.2% last December, but returned below the EU average by almost one point, as at the end of 2019.

What is certain is that, having recognised the pernicious implications of inflation, it was rather its prolonged absence, together with that of economic growth, that nourished a problematic context for the sustainability of debts, whether private or state.

In this last respect, the fundamental Italian public finance balances, expressed as a ratio of GDP, thanks to the vigorous increase in the latter, have shown greater improvements in comparison with 2020 than those forecast by the Government in the Economic and Financial Document: the incidence of net debt has fallen from 9.6 to 7.2%, that of public debt from 155.3 to 150.4%.

For the current year, the Budget Law envisages further downturns: the deficit, in particular, should fall to 5.6%, a value that incorporates, however, 1.2 percentage points more than the trend, due to an expansive maneuvre – over 20 billion in absolute terms – aimed at pushing GDP growth up to 4.7%.

The substantial resources associated with the National Recovery and Resilience Plan (NRRP) will be added gradually. Despite the fact that these are funds which, to a large extent, will also have to be repaid, the stability of the national solvency was reaffirmed by a spread which, after having fallen below 100 basis points, rose again to end up at the maximum, but remaining below the comfortable threshold of 140.

THE ITALIAN BANKING MARKET

For Italian banks, the differential between the yield on interest-bearing assets and the cost of funding (from households and non-financial companies) reached a new low of 1.23% in 2021.

The yield on interest-bearing assets fell from 1.82% to 1.68%, while the cost of funding confirmed a greater rigidity, falling only from 0.49 to 0.45% and thus preventing intermediaries from compensating for the lower return – without taking into account losses on receivables – on their investments.

A less and less convenient activity, the traditional banking one, whose volumes, among other things, could not benefit from the boost that, the year before, extraordinary phenomena had impressed on both sides of the balance sheet.

Thus, deposits reduced their growth rate by one third, to +5%, reflecting the dampened liveliness of deposits (+6.1%) and, in particular, of current accounts (+9.7% after +14.1% in 2020); by contrast, the recession in bonds became less severe, down 4.4%.

With regard to indirect business, the nominal value of debts securities under custody also fell slightly again, by -2.3%. On the other hand, the portfolio of assets under management with banks increased by 2.7% – here the data refer to the third quarter – in a context which, including also stock brokerage firms and asset management companies, increased overall by 3.8%.

During the entire year, an even greater increase was recorded by Assogestioni with regard to mutual funds (of Italian and foreign law), whose assets rose from 1,133 to 1,263 billion, thanks to net inflows and capital gains of around 65 billion each.

The pace of lending to households and non-financial companies came to a complete standstill between September and November, to finally recover at +1.3%. Still better than pre-pandemic 2019, when the figure was even negative by 3.3 percentage points, while now, after starting the exercise on positive values above 3%, it has gradually reset, however without returning to the minus sign.

The same cannot be said for the business component alone, which had risen to around 6% by the end of 2020, and is now down by 0.7%, so that the modest overall advance was the result of the opposite trend in the household component, which accelerated to 3.5%. Within this context, the limited recovery in consumer credit (+1.3%) was boosted by the increase in loans for home purchases (+4.7%).

That same overall result derives, on the other hand, in the subdivision of loans by time period, from a still favourable trend, even if much weaker (+1.7%), of those over one year, whose greater relative weight made it possible to compensate for the decline (-0.9%) of short-term loans.

The evolution of credit quality, still supported by public and private support measures, appeared comforting, showing, however, just in the end, a reversal of the recessionary trend in the incidence measures of net non-performing loans: thus, that on total loans, after further retreating from 1.21% in December 2020 to 0.89% last September, in the next two months, rose again to 1.02%; at the same time, the ratio on capital and reserves, which fell from 6.01% to a low of 4.40%, then rebounded to 5.05%. Refreshingly, however, the two indices returned to closing figures of 0.86% and 4.42% respectively.

The associated drop in adjustments could prove to be ephemeral, making 2021 an exceptional year for the banking system as well, pushing profits above ten billion.

The ordinary component, on the other hand, measured by the operating result, would now present a much more limited progress, among other things ascribable to a containment of costs – in the personnel component more than in the operating ones, burdened by necessary expenses in the technological sphere – in the face of an immobility that, apart from a growth in some commission items, would have continued to afflict the revenues, outside and inside the interest margin.

THE PROVINCE OF SONDRIO'S ECONOMY

As is customary, the financial statements include a special section on the economy of the province of Sondrio, a territory to which the bank feels particularly tied.

We start the brief report with the primary sector. The provincial viticulture is mainly practised on the strip of the Rhaetian side from Ardenno to Tirano. It is an activity that costs hard work and it is not adequately compensated in economic terms, as it is practised almost like in the past, since it is not possible to use self-propelled mechanical means, because of the harsh territorial typology where the vineyards are located. The 2021 harvest took place in the first fortnight of October. Even if the low humidity in the soil in June and the drought of the summer months have worked against it, the vintage, all in all, has been positive, also thanks to the wise interventions of the viticulturists. The bunches, formed by juicy and firm berries, however of small size, were rather light, but very healthy, fragrant and with a pleasant aspect, therefore of high level. A total of 38,530 quintals of grapes were delivered to wineries for vinification, of which 4,885 Sforzato di Valtellina DOCG, 24,017 Valtellina Superiore DOCG, 4,678 Rosso di Valtellina DOC and 4,950 Alpi Retiche IGT.

Another important sector concerns the cultivation of apples. The anomalous spring frosts have damaged the blossoming of apple trees, especially in the Ponte area, the most important in the province of Sondrio for this sector, but also in the Tiranese area. The insidious and voracious Asian bedbug, which arrived in the Valley a few years ago and is still present everywhere, has also contributed to the negativity. The fact is that the average drop in production was over 30%. As for the data, the transfer of apples to the Melavì cooperative in Ponte in Valtellina, with the homonymous IGP brand the fruit is marketed, amounted to 111 thousand quintals in total. The quantity concerning the most appreciated varieties was 40 thousand quintals for Red Delicious, 35 thousand for Golden Delicious, 14 thousand for Gala, 8 thousand for Rockit and 3 thousand for Fuji.

One of the «small fruits» which is invading the markets is the American blueberry, whose cultivation is constantly growing in Valtellina, being facilitated by the acidity of the soil and by the dry climate. The Valtellina blueberry of this species is also appreciated abroad, so much so that it is normally exported to Switzerland in considerable quantities. In the approximately 100 hectares of land used for the cultivation of this fruit, 800 tons of product were harvested in 2021.

Provincial agriculture, carried out by specialised companies, employs a good number of workers, several of whom are young. The latter, with their enthusiasm and contribution of fresh, innovative ideas, increasingly enhance the sector. Livestock breeding is mainly made up of cattle, but there are also sheep, goats and horses. Forage production remains as important as ever to the local economy. The good or bad outcome depends mainly on the weather which, unfortunately, in 2021 has rowed against it, and heavily. The first mowing, which encompasses 60% of annual production, proved to be quantitatively modest. The second cut was completely missed, while the third and fourth went well, but insufficient to remedy the now compromised vintage. Production of fodder corn, the local crop of which is rather limited, was good, but it certainly could not make up for the insufficient amount of hay. Several farmers have therefore had to buy fodder from outside the province, whose prices, which have risen by up to 40%, have caused great economic hardship. On the other hand, the proverb «rare commodity expensive» is always relevant.

In the province of Sondrio, of the 220 mountain pastures, half of which have the «CE Marking», 50 are producers of the renowned Bitto DOP cheese. The season got off to a late start due to extended cold weather in early 2021 and late snowfall, which kept pastures whitewashed for a long time. The continuation went well: a little rain and warm weather kept the soil thriving, giving abundant and substantial grass, so the season could continue until early October. The activity at high altitudes has given good results, not only as regards the production of cheese, butter and ricotta to be brought down to the valley, but also for the many visits to the mountain pastures by vacationers, who, on the occasion, have purchased their delicious dairy products in good quantities.

Among local cheeses, the ones protected by DOP mark are Valtellina Casera, semi-fat cheese produced all year round, and the mentioned Bitto, high quality fat cheese, made in summer on mountain pastures with cow's milk and the addition, for about 10%, of goat's milk. The Consortium for the Protection of Valtellina Casera and Bitto reports that 211,000 fire-branded wheels of Valtellina Casera were produced and 17,300 of Bitto. Demand for the latter product was extremely high, as it normally is, so it could not be met in full.

A mention to the honey sector is a must, if only because in the province there are almost 13,500 hives. In 2021, due in part to difficult weather conditions, there was a budget in the red, at an all-time low. Nothing else to add except the bee-keepers' dismay.

As for the secondary sector, it should first be noted that 2021 was the year of recovery, and this was due to mass vaccinations against the Coronavirus and the subsequent decisive improvement in health, thanks to which companies gradually returned to the path of growth.

The industrial sector relies on efficient and lively medium, small and very small companies, which, at the end of the year, numbered 13,685, an increase of 0.9%. In the first quarter, production increased by 4.2% and turnover by 8.1%; in the second quarter, the increases were 16.7% and 21.2% respectively; in the third quarter, by 12.8% and 10.2%. However, the consequences of the pandemic have been severe for textiles, with production falling by as much as 30-40% compared to late 2019/early 2020. Clothing quite bad as well. Thus, employment was negatively affected.

A quick mention of Bresaola, the typical local air-dried, salted beef that boasts the PGI brand, which is produced by several companies, all certified. The vintage was satisfying, according to expectations.

As for the building sector, a satisfactory revival can be observed, mainly due to interventions on buildings with use of state bonuses. A slowdown occurred in the last few months of the year due to shortages of certain materials and skilled labour.

Handicrafts, heavily decimated by the crisis, with numerous closures, had a rather stunted start to the year, before rebounding in the second quarter, but in a spotty manner, and continuing a timid recovery for the rest of the year.

Now we come to the service sector, which includes commerce and tourism. In Valtellina and Valchiavenna, non-food commerce has been suffering for some time, also because young people, but not only them, prefer online purchases. The disaffection to the traditional stores is a consequent reality; and the sales no longer attract, once very waited for and appreciated.

The food trade, in the first quarter, recorded a contraction in turnover equal to 4.1%, due to stagnant domestic demand and the absence of winter tourism, due to the closure of hotels and ski resorts. As the situation changed, the sector gradually grew, although not very noticeably. Good sales of packaged foods, which are now a trend.

Foreign trade, i.e. exports, started off badly in the first quarter, then rebounded strongly in the second, slowing slightly in the rest of the year, however still remaining in the positive area.

As far as tourism is concerned, first of all, it is necessary to point out that winter tourism, including skiing weeks, was totally lost at the beginning of 2021, since hotels and ski-lifts were closed. Thus – ironically – the snow pack, as abundant as it seldom is, did not bring any benefit to the sector.

With the warm weather and the removal of the bans, the various resort areas, even the not-so-famous ones, have filled to overflowing. Almost totally absent, however, are foreign tourists for the well-known discouraging reasons related to the pandemic and restrictive rules.

Towards the end of the year, with the reawakening of the virus and the invasion of the Omicron variant, cancellations by vacationers began to flow in, partially replaced by sudden and unexpected arrivals, which did not, however, allow businesses to compensate. In any case, something was recovered.

With reference to the road system, the contracting of the works for the Tirano ring road should be underlined, which has been talked about for years. With reference to the 2026 Winter Olympics, XXV edition, for which Bormio will be one of the leading stations, the interventions to be implemented for an appropriate adjustment of the road system are being defined. It will be the visiting card for those who – athletes, organisers, journalists, sports fans – will travel the State Road 38 to the Magnificent Land. It is therefore advantageous, as well as necessary, to carry out these works in time and well, also because the awaited sports event is full of expectations also in terms of image.

* * *

Dear Shareholders,

After briefly recalling the main events of 2021 and tracing a picture of the reality in which our company was set up and developed, let's move on to illustrate the operations and results of Banca Popolare di Sondrio in its 151st year.

TERRITORIAL EXPANSION

The direct and constant relationship between the bank and the communities served by its branches is one of the founding elements that has allowed it to create and progressively develop a business model characterised by its roots in the territory, the stability of its social base, the profitability of its management, as well as its strong and recognised identity, which continues to be a distinctive factor greatly appreciated by a vast and heterogeneous clientele.

The main reason for Popolare di Sondrio's constant commitment to expanding and strengthening its sales network lies in what has been briefly stated above, assisted in this by the other companies of the Group, all equally committed to seeking and enhancing direct relationships with customers.

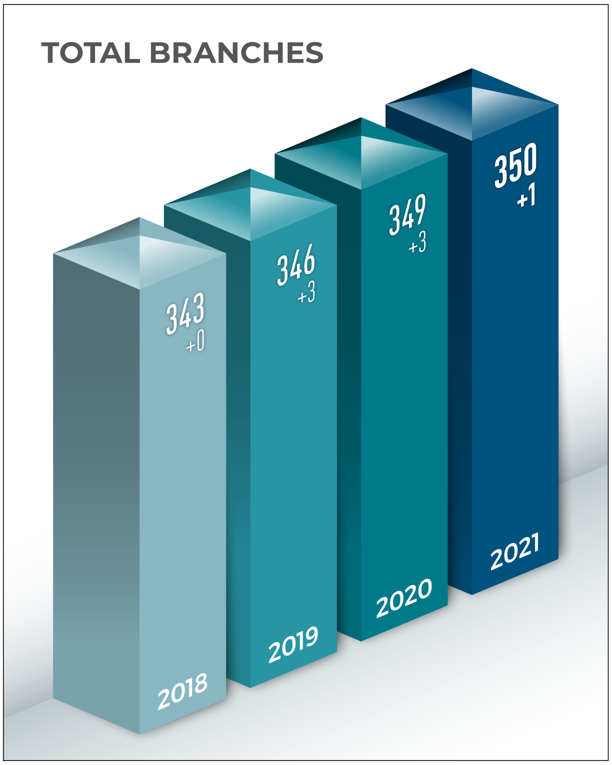
Even in a year like 2021, still strongly marked by the lingering Covid-19 pandemic, which has led to limitations and imposed safety measures for access to addictions, our intention was expressed in giving operational continuity to the territorial oversights.

The strengthening of telematic channels for access to banking services – increasingly used by customers, even for increasingly complex transactions – has gone hand in hand with the enhancement in branches of the services with greater added value, in which quality and level of personalisation are guaranteed by dedicated professional figures, as well as by an organisational structure capable of making immediate use of the support of central specialist functions.

In fact, we see multi-channelling as an element of enrichment of the methods of access to the bank's services and products, without the branch network losing, but rather privileging even more, its essential function as manager of the most qualifying relationships with customers. The latter is free to choose, according to its preferences, the most suitable instrument to meet its banking needs.

The year 2021 saw the opening of a single branch: agency no. 40 in

Milan, which brought the total number of branches to 350, in addition to the 132 branches specialising mainly in the provision of treasury services to entities and institutions. The commercial structure also benefited from measures aimed at improving the layout of agencies and, in some cases, their location in more commercially viable locations.



The new Ambrosian agency ensures our services to teachers, students and all the staff of the university campus located in the Bovisa district, which is undergoing a process of recovery and urban redefinition. Bovisa is located in the northern part of Milan and in that area, in particular between the railway stations of Bovisa and Villapizzone, the Municipality of Milan is planning the establishment of a new Science and Technology Park, dedicated to innovation and research, where laboratories and research centers on energy and sustainable mobility will be built together with private residences and commercial structures. The new branch operates in synergy with agency no. 21 in Milan, located near the headquarters of the Milan Polytechnic in Piazza Leonardo da Vinci.

Lastly, 543 ATMs contribute to our local presence, 1 more than the previous year.

FUNDING

Even in 2021, the fundamental problem for many savers was to find a form of allocation of their resources that would ensure a return that, while small, was at least positive. A problem that the surge in inflation in the last months of the year has made even more pressing. It is precisely the price race, which does not seem destined to end in a temporary flare-up, that tends to penalise the choice of those who have tended to favour liquidity alone. This preference is understandable in a situation of general uncertainty and also stems from the desire of many to establish resources that can be activated immediately in cases of unforeseen need.

A consequence of the pandemic crisis, in which Covid-19 acted among other things as a multiplier of the savings rate. An effect that Italy shares with many other countries in the euro area. Indeed, throughout the Eurozone, a strong preference for liquidity persists, which in the last five years has seen its incidence in the household portfolio increase to 34% of total financial assets in June 2021.

territorial expansion

MILAN BRANCH 40

Via Raffaele Lambruschini 4

Agency no. 40 in Milan brought the total number of branches to 350, in addition to the 132 branches specialising mainly in the provision of treasury services to entities and institutions.

In this scenario, the overbearing resurgence of inflation, mentioned above, poses a problem not only for savers, but for the entire economic and financial system. In fact, it is a question of evaluating how to make the best use of those enormous financial resources which, parked in an unproductive manner, penalise not only their holders, but also the entire economic system, which would have great need of those resources to face the challenges it faces, the most immediate of which is certainly the consolidation of the current recovery, but among the many others, the digital and environmental transition immediately come to mind.

In this general scenario, our bank has operated with the full awareness that the saver must be put in the best conditions to make informed and conscious investment choices, in line with the individual's propensity for risk. In this perspective, we have made available a complete and competitive commercial offer, able to satisfy both the most basic and the most sophisticated needs. This, together with the enviable solidity reconfirmed by the various capital ratios, allowed the bank to significantly increase its work with customers also in the year under review.

Direct funding, comprising balance sheet liability items 10b «customer deposits» and 10c «securities issued», stood at 35,850 million, +10.19%.

Indirect from customers, at market values, totalled 38,970 million, +17.91%, thanks in particular to the positive performance of financial markets. Direct funding from insurance premiums reached 1,909 million, +11.19%.

Total funding from customers stood at 76,730 million, +14.01%.

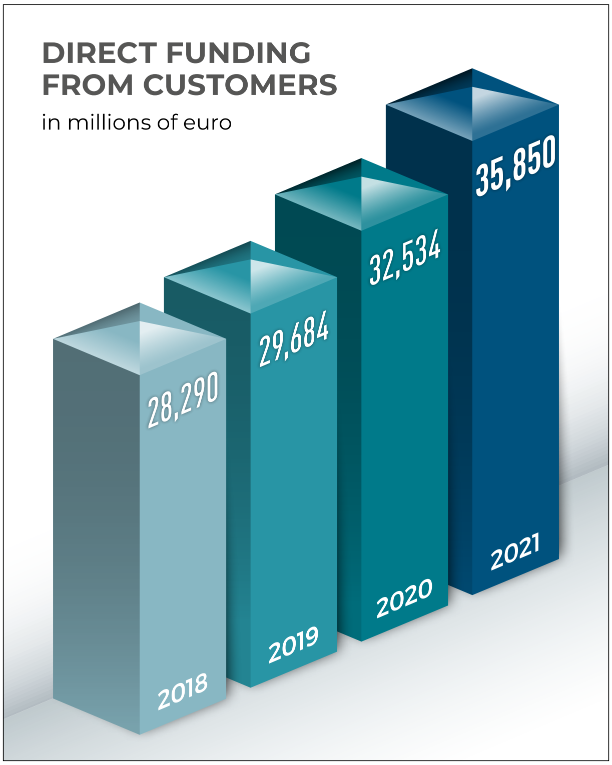
Deposits from banks amounted to 9,689 million, compared with 8,859 million. This exposure is largely linked to longer-term refinancing operations with the European Central Bank for a total of 8,874 million, which are described in the chapter on securities and treasury activities. Securities under administration lodged by banks have increased from 6,541 to 8,885 million, +35.83%.

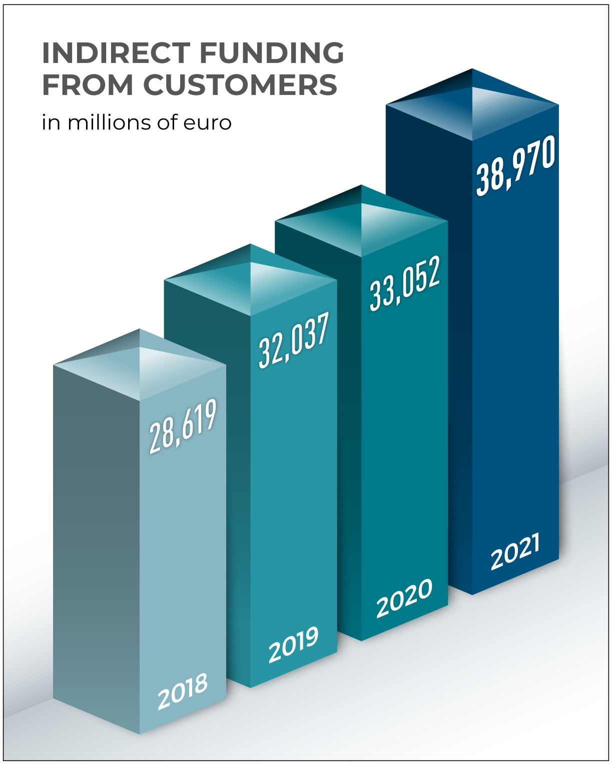
Total funding from customers and banks therefore amounts to 95,304 million, +15.24%.

The table of «Direct funding from customers» shows the various elements using different criteria and in greater detail than tables 1.2 and 1.3 in Section 1 Part B – Liabilities of the notes to the financial statements.

Considering the individual components, current accounts in euro and foreign currency rose to 31,288 million, +9.32%, and make up 87.27% of all direct funding. Bonds have increased by 33.42%, to 3,547 million. This increase is largely related to the issuance of the bank's first Senior Green Bond of 500 million on July 7 and the Tier 2 bond of 300 million issued on November 18. Time deposit accounts have fallen to 345 million, -29.82%. Savings deposits have fallen slightly by -1.67% to 357 million. Bank drafts amounted to 127 million, -15.21%. The item represented by liabilities for leasing, deriving from the accounting method provided for by IFRS 16, amounted to 186 million, -3.79%, while the items repurchase agreements and certificates of deposit were not present.

As regards asset management, please see the chapter on treasury and trading activities.





DIRECT FUNDING FROM CUSTOMERS

(thousands of euro)	31/12/2021	Compos. %	31/12/2020	Compos. %	Change %
Savings deposits	357,487	1.00	363,556	1.12	-1.67
Certificates of deposit	–	–	471	–	-100.00
Bonds	3,546,867	9.89	2,658,514	8.17	33.42
Repo transactions	–	–	55,422	0.17	-100.00
Bank drafts and similar	126,836	0.35	149,595	0.46	-15.21
Current accounts	30,671,063	85.55	28,034,924	86.17	9.40
Time deposit accounts	345,260	0.96	491,941	1.51	-29.82
Current accounts in foreign currency	616,388	1.72	585,592	1.80	5.26
Lease liabilities	186,304	0.53	193,634	0.60	-3.79
Total	**35,850,205**	**100.00**	**32,533,649**	**100.00**	**10.19**

TOTAL FUNDING

(thousands of euro)	31/12/2021	Compos. %	31/12/2020	Compos. %	Change %
Total direct funding from customers	35,850,205	37.62	32,533,649	39.33	10.19
Total indirect funding from customers	38,970,336	40.89	33,052,277	39.97	17.91
Total direct funding from insurance premiums	1,909,353	2.00	1,717,184	2.08	11.19
Total	**76,729,894**	**80.51**	**67,303,110**	**81.38**	**14.01**
Due to banks	9,689,119	10.17	8,858,608	10.71	9.38
Indirect funding from banks	8,884,756	9.32	6,541,248	7.91	35.83
Grand total	**95,303,769**	**100.00**	**82,702,966**	**100.00**	**15.24**

LOANS TO CUSTOMERS

Despite the significant economic recovery, lending dynamics have been subdued on the whole. The weakness of the demand for financing from businesses is also justified by the ample liquidity accumulated in the last two years. On the other hand, loans to households expanded at a sustained pace, with particular reference to mortgages for the purchase of homes.

For their part, credit supply conditions have remained very tight.

On the subject of loans to customers, the significant support provided to households and businesses during the severe economic and financial crisis caused by the Covid-19 pandemic was reiterated. Our bank, together with the companies of the Group, promptly activated, from March 2020, a series of interventions for the benefit of the customers and territories that we serve. This was both in compliance with the government measures introduced mainly by the «Cura Italia» Decree and the Liquidity Decree, and the ABI initiatives promoted at banking system level, as well as on a voluntary basis for certain categories of customer and types of contract that, in most cases, did not qualify for the other forms of assistance mentioned above.

The main initiatives include the granting of moratoria/suspensions on loans granted for the benefit of households and businesses: between March 2020 and 31 December 2021, there have been over 24 thousand cases of forbearance for a residual debt in terms of principle of approximately 4,750 million, mostly attributable to the Cura Italia Decree in support of SMEs (58% of residual debt) and to households (18% of residual debt). These cases of forbearance have expired and customers have substantially resumed regular payment of their instalments. Also worth noting in the initial stages of the emergency, the immediate activation of measures to buffer liquidity needs resulting from the limits on business operations imposed by the Authorities. This involved short-term personal loans and temporary cash lines to replace unused self-liquidating credit lines, as well as loans and rescheduling payments of sector contributions for professionals enrolled in pension funds that have special agreements with the bank. There was also our adhesion to the agreement to regulate the granting of advances of the sums due by INPS to workers in the Redundancy Fund as a result of the health emergency. Subsequently, with the introduction in April 2020 of the Liquidità Decree, all types of financing were activated for the benefit of the companies envisaged in art. 13 (Central Guarantee Fund for SMEs) and art. 1 (SACE). Particular emphasis is placed on the substantial numbers relating to the loans referred to in art. 13: overall, at 31 December 2021, there were nearly 23 thousand proposals approved for a total of 2,600 million, including loans fully guaranteed by the State for an amount up to 30,000 euro (more than 16,000 cases for around 330 million), also put in place through Confidi, mainly in the province of Sondrio, and ISMEA. In addition, surveys were carried out to identify the economic sectors worst hit by the crisis, with in-depth analyses at the level of the loan portfolio of individual geographical areas; therefore, assessments were performed on the quality of the bank's portfolio and the ability of customers to meet their financial commitments in a context of uncertainty

LOANS TO CUSTOMERS

(thousands of euro)	31/12/2021	Compos. %	31/12/2020	Compos. %	Changes %
Current accounts	3,060,847	12.22	3,125,666	12.97	-2.07
Foreign currency loans	830,194	3.32	608,137	2.52	36.51
Advances	404,734	1.62	379,927	1.58	6.53
Advances subject to collection	227,339	0.91	190,531	0.79	19.32
Discounted portfolio	2,225	0.01	2,906	0.01	-23.43
Agricultural loans	11,239	0.04	10,561	0.04	6.42
Personal loans	239,406	0.96	240,958	1.00	-0.64
Other unsecured loans	11,659,491	46.56	11,195,468	46.46	4.14
Mortgage loans	7,666,061	30.62	7,225,929	29.99	6.09
Bad loans	188,921	0.75	342,053	1.42	-44.77
Repo transactions	–	0.00	67,273	0.28	-100.00
Fixed-yield, no debt	749,180	2.99	707,971	2.94	5.82
Total	**25,039,637**	**100.00**	**24,097,380**	**100.00**	**3.91**

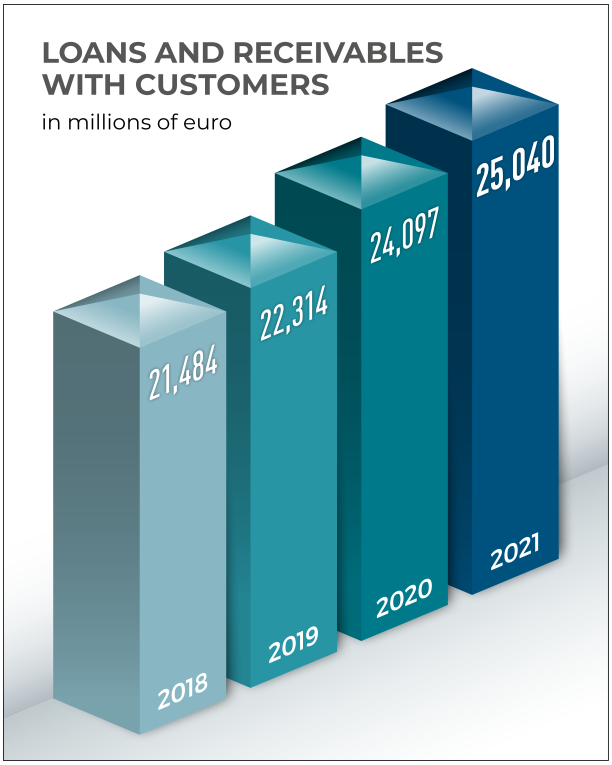
such as the current one. Moreover, ordinary lending to cover the financial needs of businesses and households has continued, confirming the focused attention paid to serving our local communities.

Loans to customers, as shown in the table below, constitute a restatement of the balances reported in the balance sheet and consist solely of loans, with the exclusion of securities, except for those that do not constitute a financial investment because of their nature. They are equal to the sum of the loans included in line item «40. financial assets measured at amortised cost - b) loans and receivables with customers» and line item «20. financial assets measured at fair value through profit or loss - c) other financial assets mandatorily measured at fair value». Overall, loans to customers total 25,040 million, +3.91%.

The various types have contributed to total customer loans to a different extent.

The principal line item refers to unsecured loans that, following an increase of 4.14% to 11,659 million, now represent 46.56% of total lending. In turn, mortgage loans total 7,666 million, +6.09%, representing 30.62% of the total. This last item includes loans assigned but not derecognised in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met. Current accounts are -2.07% slightly lower at 3,061 million. Loans in foreign currency rose sharply to 830 million, +36.51%. Advances with recourse also increase to 227 million, +19.32%, as did other advances, +6.53% to 405 million; personal loans substantially stable, -0.64% to 239 million. Repurchase agreements, which represent the use of temporary excess liquidity with institutional counterparties, are not present, while in the comparative year they amounted to 67 million. Fixed-yield, no debt securities amount to 749 million, +5.82%, and relate to customer loan securitisations carried out by Banca della Nuova Terra spa, a subsidiary, and by Alba Leasing spa, an affiliate, also including the securities issued, as part of the sale of NPLs with reference to SPV Diana, POP NPLS 2020 and POP NPLS 2021. The ratio of loans to direct funding from customers has thus fallen to 69.85%, from 74.07%.

Aggregate net impaired loans decreased to 776 million, compared to 1,032 million in 2020, a reduction of 24.78%, following the 31.93% reduction in the previous year. The aggregate is 3.10% (4.28%) of loans to customers. The contraction is largely due to the sale of NPL receivables completed during the year, but also reflects the positive effects of the policy of strengthening the company structures responsible for disbursing, managing and monitoring credit.



The total amount of adjustments relating to impaired loans was 997 million, -13.51%, corresponding to 56.23% of the gross amount of the same, compared to 52.77% of the previous year and 57.97% in 2019, given the latter which reflects the physiological effect, if we can define it so, of the massive sale carried out. Adjustments for the period, including losses from disposals, fell sharply and gross impaired loans fell from 2,185 million to 1,773 million, -18.83%. In turn, the ratio of gross NPLs to gross loans, the so-called NPL Ratio, fell from 8.60% to 6.78%. The table provides an overview of non-performing and performing loans, compared with amounts at 31 December 2020.

NON-PERFORMING AND PERFORMING LOANS TO CUSTOMERS

(thousands of euro)		31/12/2021	31/12/2020	Absolute changes	Changes %
Non-performing loans	Gross exposure	1,773,228	2,184,712	-411,484	-18.83
	Loan loss adjustments	997,021	1,152,795	-155,774	-13.51
	Net exposure	**776,207**	**1,031,917**	**-255,710**	**-24.78**
– Bad loans	Gross exposure	712,064	1,050,424	-338,360	-32.21
	Loan loss adjustments	523,143	708,371	-185,229	-26.15
	Net exposure	**188,921**	**342,053**	**-153,131**	**-44.77**
– Unlikely-to-pay loans	Gross exposure	1,041,451	1,117,241	-75,790	-6.78
	Loan loss adjustments	471,796	442,047	29,749	6.73
	Net exposure	**569,655**	**675,195**	**-105,540**	**-15.63**
– Past due and/or overdrawn exposures	Gross exposure	19,713	17,047	2,666	15.64
	Loan loss adjustments	2,082	2,377	-295	-12.41
	Net exposure	**17,631**	**14,670**	**2,961**	**20.18**
Performing loans	Gross exposure	24,368,921	23,227,466	1,141,455	4.91
	Loan loss adjustments	105,491	162,003	-56,512	-34.88
	Net exposure	**24,263,430**	**23,065,463**	**1,197,967**	**5.19**
Total loans and receivables with customers	Gross exposure	26,142,149	25,412,178	729,971	2.87
	Loan loss adjustments	1,102,512	1,314,798	-212,286	-16.15
	Net exposure	**25,039,637**	**24,097,380**	**942,257**	**3.91**

Net non-performing loans, adjusted for write-downs, amounted to 189 million euro, -44.77% (-48.69% in the comparison period), corresponding to 0.75% of total loans to customers, compared to 1.42% at 31 December 2020. This is an important result that brings us below the system after years in which the bank was at higher levels and follows the massive divestment transactions carried out in 2020 and this fiscal year. The adjustments to cover estimated losses on bad loans went from 523 million, -26.15%, million, representing 73.47% of the gross amount of such loans compared with 67.44% the previous year. This coverage remains among the highest in the banking system.

Considering the amounts written off in prior years against bad loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 90.34%.

Probable defaults fell, net of write-downs, to 570 million, -15.63%, corresponding to 2.28% of total loans to customers, compared to 2.80% in the previous year. The related adjustments amounted to 472 million, +6.73% on the comparison period, when they amounted to 442 million. The current coverage ratio of 45.30% compares to 39.57% last year. The reduction in total provisions is linked to the transfer to bad loans of positions that already had a high level of coverage and also to the closure of sale transactions.

Impaired past due loans, determined in accordance with supervisory regulations, amounted to 18 million, +20.18%, and represented 0.07% of total loans to customers, compared to 0.06% in the previous year. The various moratorium measures always have an impact.

Provisions for performing loans totalled 105 million, down 57 million (-34.88%) on the previous year's figure – on a like-for-like basis – and amounted to 0.43% of the same, compared to 0.70% in the previous year. The decrease reflects more favourable prospective scenarios, but also the activity carried out by the Loans department and the NPE Unit on the most important moratorium positions coming to maturity, aimed at identifying possible criticalities and which concerned in particular the stage 2 positions, i.e. those most exposed to the winds of the crisis. Provisions on stage 2 positions of 60 million are 57.25% of adjustments and decreased in the year by 53 million.

Adjustments totalled 1,103 million overall, -16.15%.

TREASURY AND TRADING OPERATIONS

Stock markets

The year under review was marked by a further improvement in the underlying scenario for international financial markets. This, thanks to the consolidation of the same factors that had determined the recovery from the lows of spring 2020, the height of the pandemic. In fact, the strengthening of growth with the gradual reopening of economic activities, progress in the vaccination campaign and persistently expansive fiscal and monetary policies have contributed to consolidating the climate of confidence among investors, leading to a clear strengthening of risk appetite.

Towards the end of the year, the surge in inflationary dynamics raised fears regarding the possible removal of the extraordinary stimuli adopted by the central banks; in addition, the upsurge of the pandemic, with the spread of the Omicron variant, clouded the reference framework for the stock markets. Consequently, the main markets showed a significant increase in volatility, in some cases downgrading the remarkable results achieved during the year.

In the United States, Wall Street ended 2021 with a double-digit performance, +26.89% for S&P 500, which reached new all-time highs. The support deriving from corporate profits, on average higher than consensus, proved to be almost constant throughout the year, as did the confirmation of the strength of the economic recovery, further proven by the solidity of the labour market.

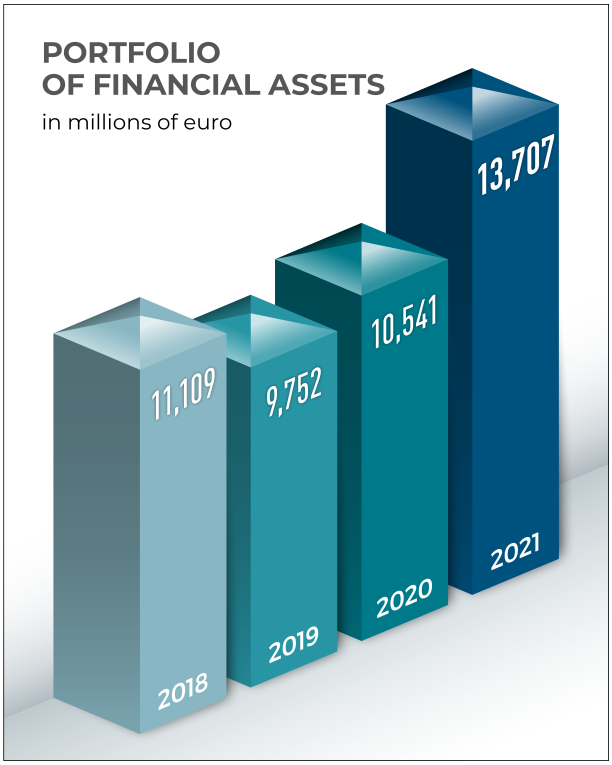
In Europe, too, the exchanges were positively tuned, also benefiting from the support of the various countries through Next Generation EU. The Euro Stoxx 50 index closed the year with a result of +20.99%, which brings it back to the levels of the beginning of 2008. In Milan, Piazza Affari scored a significant, +23%.

In Japan, the stock market has often moved against the trend of Western markets. Among the factors that have had a negative impact are a relatively less favourable epidemiological situation and difficulties in economic recovery caused by weak domestic consumption and the slowdown in Asia. Against this backdrop, the Nikkei rose by 4.91%.

In emerging countries, the picture was more gloomy due to the lower diffusion of vaccines and fears of monetary tightening by the Federal Reserve. Last but not least, turbulence produced by certain specific local factors, but with possible consequences beyond national borders, including the spectre of major defaults in the Chinese real estate sector and the financial crisis in Turkey, had a negative impact. As a result, the MSCI Emerging Markets Local index declined by 2.29% in 2021.

2021 was a year marked by weakness in international money and bond markets, albeit in a fluctuating context. The phenomenon that most affected activity relates to the prospect of central banks withdrawing monetary stimulus in response to rising inflation. In fact, the rise in commodity prices (with oil set to appreciate by 50% in 2021) and the persistence of numerous rigidities in the international supply chain have pushed consumer prices in the United States to their highest level in almost 40 years (in December at 7% on an annual basis); similarly, in the Eurozone they reached 5%, which represents the highest level since the introduction of the euro.

In this context, the monetary authorities, especially the Federal Reserve, have shown a less accommodating approach than in the past by reducing liquidity stimuli in the future. Consequently, governmental curves have definitely risen. In the USA rates rose by around 60 cents, reaching 0.70% on the two-year maturity and 1.50% on the ten-year maturity. In Germany the dynamic was similar, albeit with less vigour, given Frankfurt's more cautious stance on a restrictive turnaround. As a



result, two-year government rates rose by a handful of cents to the -0.65% area, while a broader movement affected ten-years, which rose by about 40 bps around -0.20%.

As regards Italy, Fitch's upward revision of the rating on our sovereign debt from «BBB-» to «BBB», as well as Standard&Poor's improvement of the outlook from «stable» to «positive», should be noted. Nevertheless, in the last months of the year the market suffered from the expectation of the reduction in ECB purchases and the political uncertainty regarding the election of the Head of State. During the period, two-year government yields rose by around 40 bp to -0.05% and ten-year yields by over 60 bp to 1.15%. Therefore, the 10-year BTP Bund spread widened beyond 130 cents.

At 31 December 2021, the bank had three T-LTRO loans outstanding with the ECB for a total of 8,874 million. The first transaction was entered into for 4,368 million on 24 June 2020, with a maturity date of 28 June 2023 and an early repayment option from 29 September 2021. The second, for the amount of 806 million, was finalised on 24 March 2021, with maturity on 27 March 2024 and early repayment option from 30 March 2022. The third was granted on 29 September 2021 (at the same time as the early repayment of two tranches of, respectively, 1,600 million, maturing in December 2022, and 2,100 million, maturing in March 2023) for 3,700 million, maturing on 25 September 2024 and with the option of early repayment from 29 June 2022. If the targets assigned by the ECB on net loans disbursed are met, all transactions provide for a funding rate of -0.50% (for the period from 24 June 2020 to 23 June 2022, the rate is -1%).

Liquidity remained particularly abundant throughout the year. The exposure to this risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. The stock of high quality financial assets that can be refinanced with the ECB, net of the haircuts applied, was substantial.

During the period under review, treasury operations favoured recourse to the Deposit Facility at the ECB, remunerated at -0.50%, to deposit excess liquidity; conversely, the volume of repo activity with institutional counterparties in the screen-traded market (MMF - Money Market Facility), organised via Cassa di Compensazione e Garanzia (the clearing house), has declined steadily.

At 31 December 2021, the portfolio of financial assets comprising financial instruments other than securitisations totalled 13,707 million, following an increase of 30.04% compared to the previous year. The increase in the securities portfolio is mainly due to the use of part of the excess liquidity held in the treasury. The increases concerned government and corporate securities, mainly senior preferred financials, green and social, mainly in the HTC segment. The following table summarises the various amounts involved and the percentage changes.

FINANCIAL ASSETS (FIXED-YIELD, NO DEBT ED EQUITY, NO VARIABLE-YIELD, EQUITY SECURITIES, MUTUAL FUNDS AND DERIVATIVES) BY PORTFOLIO

(thousands of euro)	31/12/2021	31/12/2020	Change %
Financial assets held for trading	202,413	169,743	19.25
of which, derivatives	27,399	38,940	-29.64
Other financial assets mandatorily measured at fair value	822,687	687,371	19.69
Financial assets measured at fair value through other comprehensive income	3,098,860	2,617,073	18.41
Assets, non liabilities measured at amortised cost	9,582,964	7,066,538	35.61
Total	**13,706,924**	**10,540,725**	**30.04**

As mentioned previously, the overall portfolio recorded a significant increase compared with the end of 2020 (+30.04%), mainly attributable to financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, in line with the recent past.

Operations focused on the purchase of floating-rate Italian government securities and, to a lesser extent, on foreign government securities and corporate bonds, mainly ESG (Environmental, Social, Governance).

Floating-rate and inflation-indexed government securities total about 5.7 billion euro.

The duration of the bond portfolio has increased slightly compared with 2020 and stands slightly above 4 years, while the modified duration is decreasing, and coming in at 2.30%.

Financial assets held for trading

The trading portfolio, which represents an insignificant part of the total securities portfolio (1.28%), amounted to 202 million, +19.25% from 170 million at the end of 2020.

Operations focused on Italian and European equities, mutual funds (Etf) increased sharply with a view to increasing the diversification of investments. The exposure to fixed-rate Italian government bonds did not change much.

(thousands of euro)	31/12/2021	31/12/2020	Change %
Fixed-rate Italian government securities	24,255	25,440	-4.66
Equity securities	65,378	66,970	-2.38
Mutual funds	85,381	38,393	122.39
Net book value of derivative contracts	27,399	38,940	-29.64
Total	**202,413**	**169,743**	**19.25**

Other financial assets mandatorily measured at fair value

The financial assets mandatorily measured at fair value amounted to 823 million, +19.69% from 687 million at the end of 2020.

The portfolio remains mainly concentrated on mutual funds in euro and, to a lesser extent, in foreign currencies. The share in bond mutual funds, further increased compared to last year, is prevalent. There are also units in real estate, balanced and flexible mutual funds.

(thousands of euro)	31/12/2021	31/12/2020	Change %
Other bonds	3,159	3,857	-18.10
Mutual funds in euro	787,491	654,866	20.25
Mutual funds in foreign currency (USD)	32,037	28,648	11.83
Total	**822,687**	**687,371**	**19.69**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (Held To Collect and Sell) has increased significantly overall since the end of 2020, rising to 3,099 million, +18.41%.

During the period, exposure to floating-rate Italian government bonds was increased to 1,792 million, up +72.40% from the end of 2020, and representing 57.83% of the segment. On the other hand, the fixed-rate component, both Italian and foreign government bonds, fell sharply. The overall weight of Italian government bonds on the segment stands at 68.84%.

Bank and other bonds also declined, while equities showed little change.

(thousands of euro)	31/12/2021	31/12/2020	Change %
Floating-rate Italian government securities	1,792,012	1,039,429	72.40
Fixed-rate Italian government securities	341,230	431,999	-21.01
Foreign government securities	372,902	479,828	-22.28
Bank bonds	334,019	372,950	-10.44
Other bonds	161,284	191,925	-15.97
Equity securities	97,413	100,942	-3.50
Total	**3,098,860**	**2,617,073**	**18.41**

Assets, non liabilities measured at amortised cost

The securities measured at amortised cost that are classified among the financial assets measured at amortised cost (Held To Collect) amounted to 9,583 million, following a rise of 35.61% from 7,067 million at the end of 2020.

Analysis of the portfolio reveals increases of 1,944 million in floating-rate Italian government securities (+184.40%), 180 million in foreign government securities (+10.67%), of 251 million in bank bonds (+46.74%), 359 million in other bonds (+90.78%) and 37 million in other public administration bonds (+34.29%). The operations carried out in the period mainly concentrated on the purchase of government bonds at a variable rate, with the aim of increasing the amount and the percentage impact on the sector; in addition, investments in bonds that meet the so-called ESG (Environmental, Social and Governance) criteria were favoured: green bonds, social bonds and sustainability bonds.

(thousands of euro)	31/12/2021	31/12/2020	Change %
LOANS AND RECEIVABLES WITH BANKS	**787,249**	**536,485**	**46.74**
Italian bank bonds	572,117	378,270	51.25
Foreign bank bonds	215,132	158,215	35.97
LOANS AND RECEIVABLES WITH CUSTOMERS	**8,795,714**	**6,530,053**	**34.70**
Floating-rate Italian government securities	2,997,900	1,054,114	184.40
Fixed-rate Italian government securities	3,032,885	3,286,480	-7.72
Foreign government securities	1,867,113	1,687,063	10.67
Other public administration bonds	144,227	107,397	34.29
Other bonds	753,589	394,999	90.78
Total	**9,582,963**	**7,066,538**	**35.61**

Asset management

The year under review was very favourable for the asset management industry, with steady growth over the twelve months thanks to the stable positive balance between subscriptions and redemptions and the brilliant dynamics of the financial markets. The positive performance of equity and balanced funds stands out, while the performance of monetary funds was negative, inevitably weighed down by the modest level of returns. It is also worth noting the strong interest in instruments characterised by an ESG footprint.

The assets managed in various forms by the bank total 6,113 million, +12.56%, of which 4,713 million, +13.30%, relates to mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; assets managed by the Bank total 1,400 million, +10.17%.

EQUITY INVESTMENTS

The portfolio of equity investments was essentially unchanged during the year. In addition to the other members of the Banking group, these investments principally relate to the suppliers of products and services that functionally support the commercial activities of the Bank. The following comments relate to our subsidiaries.

At 31 December 2021, investments totalled 613 million, essentially unchanged.

Banca Popolare di Sondrio (SUISSE) SA (100%). This is a Swiss bank based in Lugano, set up in 1995.

Despite having to deal with a difficult general economic situation, due to the restrictions caused by the emergency measures aimed at containing the pandemic, our Swiss subsidiary has continued to operate profitably, showing great capacity for adaptation and reaction. Proof of this is the increase in intermediated assets and the increase in net profit, which rose to 22.4 million francs, +11%.

The development of aggregates was positive. Customer deposits total CHF 5,613 million (+9%), with direct deposits of CHF 3,535 million (+9%) and indirect deposits of CHF 2,078 million, (+10%).

Loans to customers rose to CHF 5,083 million (+6%), of which CHF 4,527 million (+6%) with mortgage guarantees almost entirely secured on residential property.

The subsidiary has increasingly consolidated its role as a local bank. To date, the network consists of 20 physical branches located in 8 cantons and the Principality of Monaco, plus the Representative Office in Verbier (VS) and the virtual Direct Banking unit.

Factorit spa (60.5%). The company operates in the factoring sector; it finances and manages commercial, domestic and international receivables, also with collateral.

In a year still marked by the pandemic context, in line with the objectives set, the subsidiary's activity focused first of all on increasing the volumes of intermediated and disbursed loans, paying particular attention to the efficiency of the service and the quality of credit, both premises for improving profitability.

From a commercial point of view, development action aimed at corporate customers was confirmed and increased, with specific reference to the needs of companies operating in the sectors that have benefited most from the recovery in global demand, which proved to be rapid and more intense than expected, driven above all by the sharp recovery in goods. Operations were also expanded in the area of receivables due from the Public Administration. All this, always relying on the network of the Parent Company and concentrating commercial action in the most economically important areas of the country (Lombardy, Northern Italy and Lazio). The commercial activity continues to benefit from the investments made in distribution capacity, specialisation of the offer, technology and from the decisive acceleration given by the pandemic to the digitalisation processes.

Factorit ranks among the leading companies in the sector, being the 4th Italian operator (1st among its direct competitors, being the factors that belong to medium-sized banking groups), with a 6.1% share of turnover.

The year, the forty-third, closed with a profit of 16.2 million, up from 2020, thanks to increased volumes, increased lending and the quality of the credit provided.

Banca della Nuova Terra spa – BNT spa (100%). It constitutes the Group's «product factory» for the granting of loans secured by salary-backed loans (CQS), pension-backed loans (CQP) and delegation of payment (DEL). As for the traditional activity of disbursement to farmers of advances on contributions provided by the Common Agricultural Policy (CAP Advances), in 2020 this was already temporarily interrupted due to the different way in which Agea manages EU contributions to farmers, much faster and more streamlined than in the past.

The subsidiary's activity therefore focused on increasing operations in the sector of assignments of one-fifth of salary, a segment that in 2021 recorded an 8.7% growth in volumes financed at national level, as was the case for all consumer credit due to the «rebound» on 2020 hit by the health crisis.

Against this backdrop, BNT continued its growth path, exceeding 62 million euro in net disbursements.

The improvement in the processes and procedures underlying the placement of products continued unceasingly, which still takes place mainly through the bank's branch network and the activation continued of an ever-increasing and qualified series of agreements with public bodies, private companies and insurance partners of high standing to support the business.

Investments dedicated to the digitalisation of processes were also important, which allowed, during construction, to activate advanced methods of distance selling, managing to well control the market even in the most acute phases of the pandemic.

Alongside the traditional network, consisting of bank branches and territorial offices, in 2021 the distribution channel was expanded to agents and brokers, focusing mainly on the newly established PrestiNuova srl - agency in financial activity, which will make use of collaborators present throughout the country. The project, which is in a progressive phase of realisation, is aimed at giving life to a national operator in the sector of salary-backed loans and not only. Distinguished by operational efficiency, transparency, ethics and product quality, it aspires to become a recognised player in the consumer credit sector, supporting the financial needs of employees, pensioners and families.

BNT ended the year with a profit increase of 2.2 million.

Pirovano Stelvio spa (100%), better known as the university of skiing and mountains, is active in the hotel sector at the Stelvio Pass and in Bormio with the management of a vacation home.

Pirovano Stelvio spa is the driving force behind the Stelvio ski area as, in addition to continuing its summer skiing activities, it pursues education in the mountains and in the environment of the Stelvio National Park, in collaboration with the Park's managing body.

The year 2021, thanks above all to management decisions based on the utmost prudence, closed with a significant containment of the loss compared to the previous year, which was heavily penalised by the pandemic emergency.

Most of the events that used to be organised during the summer season have been cancelled due to bans imposed to combat the spread of Covid.

To Renato «Tato» Sozzani, historic president of Pirovano Stelvio spa who passed away on 26 November 2021, a special thanks for the energy and passion he lavished in managing the activities of Pirovano Stelvio.

Sinergia Seconda srl (100%). This is a real estate company. The subsidiary mainly carried out functions related to the real estate needs of Banca Popolare di Sondrio and its Banking Group. During the year in question, activities continued both for the acquisition of real estate assets, in particular in the context of the management of impaired loans of the Parent Company, and for the management and therefore sale of properties deriving from similar transactions, completed in previous years, for the which interested parties were found.

The banking properties held by Sinergia Seconda Srl are rented, on market terms and conditions, to members of the Banking Group. Based on contractual agreements, Sinergia Seconda srl also manages and maintains the units rented for other purposes.

In 2021, the economic results of the financial statements returned to positive after the losses recorded in 2020 due to the prudential write-down of the value of the equity investments held in Immobiliare Borgo Palazzo srl and Immobiliare San Paolo srl. The properties acquired over the years are subject to activities aimed at facilitating their sale at market prices, also through the identification of more suitable uses.

Popso Covered Bond srl (60%). This company was formed in relation to the issue of covered bonds.

Its object is the purchase for valuable consideration from the bank of land and mortgage loans, also identifiable en bloc, which constitute assets separate for all purposes from those of the company itself. As part of the covered bond issue programme implemented by the bank in compliance with current legislation, the investee company (transferee) manages the activities for which it is responsible, also in line with corporate requirements, as a guarantee for the subscribers of the securities.

Its results should close around break even.

Rajna Immobiliare srl (50%). This real estate company is owned jointly with Credito Valtellinese.

It is owner of a condominium portion in Sondrio, in a central area and with large areas on the ground floor. The entire property is leased to two tenants.

The company's results are positive.

Related-party transactions

Transactions with related parties are governed by the «Regulation for transactions with related parties» issued by Consob resolution no. 17221 dated 12 March 2010 and subsequent amendments. The information required by this regulation is provided below. Also by the Supervisory Provisions for Banks, issued by the Bank of Italy with Circular no. 285/2013 and subsequent amendments, third part, chapter 11, Risk activities and conflicts of interest towards related parties.

Among other things, both regulations provide for the approval and publication of internal regulations, available on the company's website at https://istituzionale.popso.it/en/governance/corporate-governance-reports.

Related-party transactions, as identified in accordance with IAS 24 and the Consob Regulation, form part of the Bank's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred. These transactions amount to 13.02% of total loans to customers and banks and financial assets and 0.78% of direct deposits from customers and banks.

In compliance with disclosure obligations prescribed in article 5 of the Consob Regulation, during the period 1 January to 31 December 2021, the Bank's corporate bodies decided the following transactions of greatest significance:

– Banca della Nuova Terra spa, subsidiary; renewal of lines of credit for a total of 6,000 euro repayable on demand and 320,000,000 euro with maturity 21/12/2022; resolution of 30/03/2021;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; revolving facility for guarantees in favour of residents of up to 850,000 euro repayable on demand; renewal of lines of credit totalling 2,220,072,000 euro repayable on demand; resolutions of 22/07/2021;
– Banca della Nuova Terra spa, subsidiary; revolving facility for the finance area of 320,000,000 euro maturing on 25/09/2024; renewal of lines of credit for 11,500 repayable on demand; resolutions of 15/10/2021;
– Factorit spa, subsidiary; revolving facility for guarantees in favour of residents of up to 160,000,000 euro repayable on demand; renewal of lines of credit totalling 3,085,101,500 euro repayable on demand; resolution of 18/11/2021.

No transactions with related parties in the period under review, whether of greater or lesser significance, have had a significant impact on the financial position or results of the Bank. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Bank's 2021 balance sheet or results with regard to the related-party transactions carried out during 2020; in any case none were atypical, unusual or not on market terms.

In relation with the Consob Communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Bank's economic results and cash flows. The notes to the financial statements (Part H, «Transactions with related parties») a summary table also shows the credit facilities granted to and guarantees given on behalf of Directors, Statutory Auditors and the General Management, as required by article 136 of Legislative Decree no.385 of 1 September 1993.

During 2021 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circular DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those – not arising in the ordinary course of business – that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

With regard to the remuneration paid by the bank and its subsidiaries and associates to Directors, Statutory Auditors, the General Manager and Managers with strategic responsibilities, and to their investments in the bank and its subsidiaries, reference is made to the compensation report prepared pursuant to art. 84-quater of the Consob Regulation issued in Decision no. 11971 dated 14 May 1999 and subsequent amendments.

REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE

The «Report on Corporate Governance and the Ownership Structure» required by art. 123-bis of Decree 58/98 (Consolidated Finance Act) is available (in Italian) in the Corporate Information («Informativa Societaria») section of the Bank's website at the link https://istituzionale.popso.it/en/governance/corporate-governance-reports. This document reports, among other things, the fact that the Bank has not adopted the Code of Conduct approved by the Committee for Corporate Governance.

INTERNATIONAL UNIT

In a global scenario in which the impact of the pandemic was less severe than in the previous year, international trade regained strength. However, alongside the Covid-19, there have been obstacles of a different nature, linked not only to the persistence of unresolved crises at geopolitical level, but also to bottlenecks in production chains, in some cases stretched out of proportion due to delocalisation processes, and difficulties in the logistics sector. The latter, as already mentioned in the part of this report dedicated to international calls for tenders, have, in particular, led to major delays in the delivery of goods and also to a very significant increase in sea freight.

World trade, despite a marked deceleration in recent months, nevertheless posted annual growth of 10.8%.

On international markets there was strong pressure on oil and gas prices, with immediate and very heavy repercussions on the already considerable energy costs for families and businesses. Within commodities, industrial metals prices were affected by recovery-related increased demand and supply bottlenecks. Significant increases also occurred in the agricultural sector: oats, coffee, sugar and orange juice led the increases. Here too, as in other sectors, price increases have been amplified by speculative maneuvres.

On the foreign exchange market, the most important element for us was the depreciation of the euro against the US dollar, which fell from 1.23 to 1.13 during the year. The Turkish lira suffered a sharp loss in value, determined by a difficult economic situation and the rate cut made by the Central Bank of that country.

As for Italy, exports made significant progress and have traditionally been a strong driving force for the national economy.

In the aforementioned context, our bank has worked to best exercise its role of qualified support to companies interested in operating in the foreign sector. The attention dedicated to the evolution of the markets and its main protagonists, not separated from the intense and frequent contacts with companies, has facilitated us in proposing new products and services that can represent an added value for us and for our customers. In this context, there is the partnership agreement with Alibaba, a well-known Chinese multinational company active in the field of e-commerce, which will allow our customers to undertake a path of commercial development in foreign markets through the platform made available.

Always guided by the desire to offer valid support to operators in the processes of growth in the markets, we have finalised an important agreement of collaboration with the ICE Agency, a government agency for the promotion and internationalisation of Italian companies. Thanks also to the widespread network of offices that the Agency has all over the world, this agreement is a valid tool to support and strengthen our action in favour of companies, even the smallest ones.

The new «Internationalisation Services» unit aims to support companies in the process of expansion abroad in all possible forms, including: the search for new customers or suppliers; the creation of companies with foreign partners; the opening of branches or the creation of joint ventures; assistance in initial contacts with foreign counterparts through on-site desks; access to precise information on existing markets and business opportunities; the acquisition of technical skills; and updates on procedures and regulations related to foreign trade.

Together with the Italian Chambers of Commerce Abroad, numerous country presentations have been organised online regarding foreign markets of particular interest. During these webinars, up-to-date information on local macroeconomic scenarios and driving sectors was provided.

In agreement with the European Economic Interest Grouping (EEIG) Coopération Bancaire pour l'Europe (CBE) based in Brussels, an online seminar was organised on «The new European programming 2021-2027» aimed at explaining the financial policies of the European Commission in the period indicated. It should be noted that the related package of proposals provides for appropriations for economic, social and territorial cohesion amounting to around 330 billion euro.

With its representative office in Shanghai, our subsidiary Sintesi 2000 srl is an important reference point for customers interested in the Chinese market. Numerous companies took advantage of the specialised customised services for the on-site development of their business during 2021. Through Sintesi 2000 srl we have also overseen a virtual stand within the digital edition of «Belt & Road Exhibition» dedicated to commercial and institutional relations between Italy and China.

The propensity to search for continuous improvement in the quality of services offered to customers, which has always distinguished our International Service, has been finalised by obtaining a new Quality Certification, which is added to the previous five acquired over the years and which cover the most important and delicate operational sectors in international operations.

Still on the subject of quality, in 2021 customer satisfaction surveys were carried out to find out how satisfied counterparties were with the payment of foreign pensions and the use by corporate customers of trade finance services and the services provided by the Exchange Center. The results were particularly satisfying, reaching 99% positive evaluations.

The technological and organisational aspects that support operations have received a great deal of attention. Significant improvements have been made to the digitalisation of processes related to documentary credits. Innovations include the fact that we were among the first Italian banks to be admitted by Swift to the new GPI-Global Payments Innovation system, which enables timely tracking of the status of payments.

Overall, in 2021 our International Service carried out important initiatives at the service of Italian companies that produce and export, placing at their disposal a network that manages relationships with 1,580 foreign banks in 157 countries.

COMMERCIAL SERVICES AND PROJECTS

In the year under review, influenced by the repercussions of the pandemic, but oriented towards recovery, we worked on all fronts to offer functional services to accompany customers in this period of transition. New products have therefore been prepared and existing ones updated, in order to guarantee simple and versatile answers to the various needs, within a context that is increasingly European and oriented towards environmental and social responsibility issues.

We would like to underline how the transformation into a joint-stock company pushes us to consolidate our way of being and working in our new role. The determination to continue along a path undertaken at the time of the Unification of Italy is still aimed, as a priority, at meeting the needs of families and businesses, especially small and medium-sized ones, in the territories served. Every initiative and every product are therefore consistent and in line with this philosophy that has confirmed its value to the change of historical contexts, events and fashions.

We would now like to tell you about our main initiatives during the year.

Customers have made increasing use of the digital bank, driven by the events linked to the pandemic and supported by the wide variety of operations available, which allow remote operations comparable, in many areas, to those offered by branches.

The disposition functions available through SCRIGNO Internet Banking are many. By way of example we mention the execution of transfers, even instantaneous ones, with immediate settlement for the counterparty, the recharging of prepaid cards, F24 payments necessary for the payment of taxes, IMU, Tari, Tasi and excise duties, payments to the Public Administration via the «pagoPA» service, which also allows the payment of car tax stamps, and finally the new function of recurring transfers, a tool for making provisions of a defined amount and with a fixed frequency towards the same recipient, useful, among other things, for utilities, university fees, school contributions and monthly rent payments. The possibility of remotely scheduling through SCRIGNO an appointment with one's own branch attests finally the particular care of the bank in maintaining close and constructive relationships with the customer.

SCRIGNO *Internet Banking*

Towards the end of the year, an innovative information service called SCRIGNO budget was introduced, aimed at private clients, which makes it possible to carry out aggregate analyses of all banking relationships and provides for the automatic classification of expenses according to the classic categories of a family budget. The service allows viewing the movements of current accounts and account cards, including those of third-party banks, according to the methods provided for by PSD2 regulations, as well as Nexi credit cards issued through Banca Popolare di Sondrio.

Important, for security purposes, was the release of the authentication mode via push notification SCRIGNO IdentiTel, which allows to check in a simple and secure way the operations, before authorising them directly with biometrics.

A further service that can be activated through our digital bank, useful for those who use bicycles or scooters, is Easy bike, the insurance solution of Europ Assistance Italia spa that offers complete assistance for moving around in total safety.

Arca Fondi Sgr

In 2021, Arca Fondi SGR expanded its offer with the marketing of the predetermined maturity funds «Arca Multi-Strategy Prudente 2026» V-VI-VII-VIII and «Arca Opportunità Green 2026» I-II-III-IV, of the ESG (Environmental, Social and Governance) fund «Arca Oxygen Plus» and of the alternative PIR – Individual Savings Plan with tax benefits – called «Arca Economia Reale Opportunità Italia».

The range of innovative investment solutions offered by Sidera Funds SICAV has also been enriched with a new sub-fund, called «Balanced Growth», which operates in a flexible and multi-asset logic to seek the best investment opportunities on a global scale.

Popso (Suisse) Investment Fund SICAV

With reference to Popso (Suisse) Investment Fund SICAV, the placement of «Sustainable Dividend Europe» and «Sustainable Equity Switzerland», two new products in «sustainable» sub-funds, managed with the collaboration of Vigeo-Eiris, an international provider of ESG research and services, was launched.

Arca Vita

With regard to the insurance investment products of Arca Vita and Arca Vita International, the possibility of diversification within the multi-branch line «Ingegno» was improved with the addition of a further 40 new funds to the investable universe; funds selected from leading management companies, some of which are focused on investment opportunities linked to sustainable development, i.e. paying attention to the achievement of the needs of future generations. The offer has been enriched with the introduction of «AVI Take Care», a unit-linked policy that combines the financial features typical of class III policies – financial investments with the benefits of a life policy – with absolutely new elements that allow the customer to protect also its own sphere of values and affections. In fact, the policy allows allocating part of investments to future projects, not only personal, but also dedicated to loved ones.

Arca Assicurazioni

The constant attention to the health sector has led Arca Assicurazioni to study a new insurance solution to cover accidents and illness called «SìPrevisto».

Nexi

The payment card market has evolved significantly in recent years, moving from purely technological innovation to the combination of value-added services with payment functions. With this in mind, the Nexi Debit Premium was launched in July 2021, a metal debit card with high spending ceilings that, in addition to traditional services, offers dedicated insurance and exclusive services such as fast track at Italian and European airports, concierge, telephone assistant for booking hotels, airline tickets, travel and much more.

www.popso.it

The corporate website «popso.it», first created in 1995, has been joined over time by specialised sites, such as «popsoimmobili.it», a showcase of properties for sale by the bank and third parties, and the portal of cultural and recreational initiatives «nonsolobanca.popso.it». Regarding the latter initiative, an account named «nonsolobanca POPSO» has recently been switched on the social network Instagram. The presence is aimed at disseminating events, cultural and recreational initiatives using images appropriately related to concise content that can stimulate further knowledge.

RISK MANAGEMENT

The bank has faced another difficult year, following its tradition, by pivoting on a prudent and conservative business model, based both on growth and on safeguarding the balance of its equity, financial and economic structure. All of this is based on the «risk culture» that underlies daily actions and unifies the behaviour of the entire organisational structure, starting with the top management, the operational structure and the structure dedicated to controls.

In strict compliance with the rules, the decision-makers benefit from the responsibility and awareness of the risks they are taking on and from the growing investments aimed at refining skills, strengthening the quality and quantity of the organisational structures of the control functions, and preparing increasingly sophisticated and innovative tools.

The Risk Appetite Framework (RAF), which expresses the target values for risk propensity and associated warning mechanisms in the event of deviation from these values in the bank's various areas of operation – first and foremost credit and financial markets – well reflects, through figures, the desire to refrain from jeopardising the solidity of the Group and the individual entities that make it up.

In order to monitor the various types of risk we use, just to mention the main ones, 14 primary level indicators (covering risk areas linked to capital adequacy and the structure of liabilities, liquidity, credit quality and profitability) and 27 complementary level indicators (specific for credit and counterparty risks, market risks, operational, reputational and non-compliance risks, interest rate risk).

The alert system, known as Early Warning, is activated in a timely, appropriate and precautionary manner. The mesh is tight, however it must be continually thickened as negative events that could violate it evolve and are always lurking.

Credit and counterparty risk

In the area of credit, we are dedicating ourselves, with adequate investments and resources, to improving, in accordance with the Guidelines dictated by the European Banking Authority (EBA/GL/2020/06 - «Final Report Guidelines on loan origination and monitoring» issued on 29 May 2020), the activities of granting, disbursement and monitoring of our credits, according to a logic of progressive adoption of criteria marked by greater specialisation and objectivity. Criteria that, in any case, take due account of the so-called «soft news» available to operators acting in the territories in direct contact with the companies and families entrusted.

It is clear that if the credit granted is provided well, it will prevent deterioration to the benefit of both the bank and the customer. At the time of requesting a new credit line or at the time of reviewing existing ones, a precise and rigorous preliminary investigation of the creditworthiness of the counterparty (company, private individual or other financial intermediaries) is supplemented, for larger practices (OMR - Major Transactions), by a check on the availability of the bank's capital and the levels of risk concentration both from a «single name» and sector perspective. A similar procedure is followed for so-called «leverage transactions» aimed at verifying the adequacy of the prospective cash flows generated by the company.

In this context, there is a continuous comparison between the control areas and the business areas, in order to maintain a high level of surveillance, especially in cases where the beneficiaries of the credit operate in production sectors that are more exposed to the effects of the crisis caused by the pandemic.

It is a matter of maintaining a balance between return and risk, as the marginal contribution of risk must be adequately compensated on the economic side.

The procedural system of second-level controls on credit processes, aimed at assessing the efficiency and quality of monitoring action, the consistency of loan classification, the adequacy of the relative coverage through amortization and depreciation and the effectiveness of recovery action for exposures no longer collectable, has been the subject of an important evolutionary project that has made it possible to increase the intensity and extent of these controls.

With regard to the application of the regulations regarding the identification of positions subject to concessionary measures (so-called «forborne measures»), although implemented in credit management processes through automated mechanisms for identifying and proposing possible situations of financial difficulty for the customer being assessed, it leaves room for subjective interpretations on the basis of which to agree or disagree with respect to the outcome of the automatic proposal. The degree of solidity of these subjective evaluations, measured by adherence to concrete, verifiable data and the result of a conscious and critical assessment of the effective degree of risk of the customer, matured in a context of profitable and transparent dialogue, represents the fundamental discriminating factor for effectively preventing situations of deterioration of credit quality or the occurrence of reclassification events towards worse administrative statuses.

Positions with parties that have taken advantage of moratoria and/or have been assisted by a public guarantee are subject to ongoing monitoring. This is done by observing the performance of a series of indicators grouped in a dedicated dashboard. Particular vigilance is placed on transactions of significant size and whose debtor has a rating below the average.

With regard to rating models, the risk parameters underlying them (Probability of Default, Loss Given Default, Exposure at Default) have been updated to bring them into line with the new EU concept of «default» (so-called «new DoD») in force since last January, also incorporating some observations raised by the Supervisor in 2019 during the validation of the rating system and in compliance with specific EBA Guidelines on models. In the course of the work, the potential impacts on capital that the changes made to the above parameters could generate were estimated. An application package including an in-depth description of the methodology followed, the internal regulations of reference, the set of processes and IT procedures supporting the management of lending activities, the underlying data and the system of controls in place, has been submitted to the ECB, which through subsequent inspection activities is ascertaining its effective application.

The supervisory controls, thorough and strict, help to improve the performance of statistical models and are a stimulus to optimise the management and control processes: challenging work both during, to respond to the requests of the inspection teams, and after to remedy, within defined deadlines, the weaknesses detected. All this is adequately rewarded by the greater effectiveness of the system as a whole.

Market risk

With regard to market risks, understood as the possibility of suffering losses in value due to decreases in assets and/or increases in liabilities caused by the adverse trend of financial markets, in relation to trading in financial instruments, currencies and goods, significant changes have been made to monitoring techniques and systems. The main one consists in the adoption, starting from January 2021, of a new internal metric for the measurement of risk positions on financial assets included in the «banking book» with accounting valuation at amortised cost, replacing the pre-existing statistical Value-at-Risk (VaR) metrics, in order to detect, for this portion of the proprietary portfolios, the risk components of a purely credit type; the new indicator of «stressed expected loss» (sECL), calculated according to a methodology similar to that established in application of the accounting standard IFRS 9 for the determination of the loss forecasts on the financial instruments in the portfolio, has been considered more representative of the typical risk profile of this type of investment in securities, which are more stable than those oriented towards market trading.

During the year, the limit system did not show any significant violations, thanks to a simple portfolio mainly centered on national government bonds and a framework of less volatility observed compared to the previous year, despite the persistence of a certain degree of uncertainty linked to the evolution of the pandemic and, more recently, to the expectations of inflation growth.

As of the third quarter of the year under review, the bank was also required to comply with the reporting requirements of the European Capital Requirements Regulation (CRR2) as part of the Basel Committee's Fundamental Review of the Trading Book (FRTB), which introduced new standards for calculating the minimum capital requirement for market risks. In order to adequately implement the new FRTB facility, it was necessary to initiate a dedicated project that involved various services of the bank since the beginning of 2021. The application of the new regulations has led to a radical change in the metrics for measuring the capital requirement according to a more prudential and risk sensitive approach, as well as a precise definition of the distinction for prudential purposes between portfolios of financial assets (trading and banking book) and stricter constraints for movements between them.

Interest Rate Risk

The monitoring of the exposure caused by fluctuations in interest rate levels relies on monthly analyses of both the sensitivity of the economic value of defined categories of corporate assets and liabilities to unexpected changes in market rates and the sensitivity of the income generated by them, supplemented if necessary by targeted impact studies. The quantitative methods applied allow the bank to detect specific risk metrics, both of an operational and regulatory nature, quantified on multiple rate evolution scenarios, which are compared with an organic system of limits and pre-alert thresholds.

The parameters on which the behavioural models of «sight items» are based – models that aim to quantify the persistence of active and passive deposits with no maturity and their elasticity in adapting to movements in market rates – have been re-estimated during the year with the inclusion of more extensive samples of historical data.

In order to ensure the adequacy of all the behavioural models of the kind present in the internal measurement systems (models of «on-demand items» and «pre-payment»), a review was also carried out of the overall process of retrospective verification of their effectiveness (so-called «backtesting»), even through the setting of specific tolerance limits. In addition, in order to monitor better the life cycle of the above models, new criteria have been introduced for reviewing the need to re-estimate the parameters for reasons other than mere time-based obsolescence or the failure of backtesting.

Liquidity risk

Even in a context characterised by abundant liquidity, ensured by a remarkable propensity of customers to save, with a consequent increase in the volumes of on-demand deposits, and by the persistence of expansive monetary policies by the European Central Bank, the short and medium-term situation was constantly assessed as usual.

Concerning the short-term (so-called «operational»), dedicated surveys ensure daily monitoring of the cash flow dynamics typical of treasury operations, as well as the amount of cash reserves made up of funds deposited with central banks and the revenues potentially obtainable from the assets in the portfolio as they can be readily transferred on the market or can be transferred, if necessary, in the form of collateral in central refinancing operations. In addition, the impact of various stress scenarios on the final operating liquidity situation is determined on a monthly basis; these scenarios are reviewed annually to determine their effectiveness and robustness and updated, where appropriate.

Medium/long-term (structural) liquidity is monitored every month to ensure that the harmonious matching of funding and lending is maintained; in particular, surveys are conducted on the structural balance of the financial statements, with a focus on aspects of risk such as, for example, the concentration profile of funding. In addition to intercompany lending, intra-day liquidity movements are also monitored constantly and the specific summary metrics defined by the Basel Committee for Banking Supervision are quantified at the end of every month.

Operational and IT risk

With regard to operational risks, the collection of losses continued with intensity according to various levels of analysis aimed at identifying, within the business lines, where deficiencies are hidden and where interventions are necessary to remedy them. The organisational revision adopted to deal with the pandemic has, among other things, led to a strong push in the direction of digital transition, with increasing recourse by customers to online banking services; this has made it advisable to maintain suitable standards of security and processing capacity of the company's IT infrastructure, in order to guarantee adequate levels of service and for the purpose of monitoring the risks deriving from more intensive recourse to information and communication technologies.

The extensive use of services for sharing documents and for work communications – including fast messaging and, in particular, video conferencing systems – has made it possible to carry out work meetings effectively and remotely, to the extent that it has radically changed the habits of both internal and external collaboration, protecting the health and safety of customers and employees.

In order to facilitate the monitoring of potential critical points linked to the use of digital devices and systems, during the year, a new set of indicators was developed to predict the possible manifestations of IT risk. Under the guidance and coordination of the Parent Company, these activities involved all the ICT contact personnel within the Group, in order to share a wealth of methodologies, metrics and common operating procedures to be applied, in accordance with the principle of proportionality, in order to monitor trends in the exposure on a uniform basis.

An intense and laborious activity was then completed – started in 2019 – to review and adjust the set of contractual agreements in place between the bank and supplier companies, to ensure full alignment with the new regulatory provisions on outsourcing and consolidate management oversight of the risks arising from the use of third parties to carry out corporate processes and services. This activity was accompanied, with particular regard to the so-called essential or important supplies, by a contextual in-depth analysis – with the synergic contribution of technical structures (e.g. in the field of IT security and privacy) and control – of the associated legal, IT and non-compliance risk profiles.

With regard to the maintenance of business continuity in the face of external threats (not least that linked to the spread of new pandemic waves), it is recalled that in December the annual «global test» of the Business Continuity Plan was carried out with a positive outcome. This work, including both technical and organisational tests, involved running critical processes at one of the back-up sites, with the simulation of such risk scenarios as the destruction or inaccessibility of structures and buildings in which essential equipment or operating units are located, and also the non-availability of infrastructure, personnel and important documentation. Similar checks concerned specific IT resources whose use mitigates the risks associated with the non-availability of critical IT systems, as part of the disaster recovery plan. Several data and functionality restoration tests were completed successfully over the past twelve months, involving various components of our IT system. Remote working resources were also used in these activities.

The existence of such a plant has proved to be of valid support for the analyses, also requested by the competent authorities, of the impacts on corporate operational resilience to the risks associated with the spread of the Covid-19 virus, and in consideration of possible logistical and organisational measures to mitigate the effects on the ability to continue normal business activities.

Reputational and money laundering risk

The growing competition linked to the dissemination of innovative technologies and the will to promote credit, financial and commercial policies more and more oriented towards «sustainability» objectives (even more so in a context, the current one, marked by the uncertain evolution of the epidemiological emergency) represent real challenges that the bank, strong in its 150 years of history, will be called to face, focusing even more on its identity and directing future strategies in the conduct of business. Choices that inevitably affect potential exposure to the risks under consideration.

With the help of tried and tested analytical techniques, the bank continued to constantly monitor its reputation profile. The second-level control is carried out in an eminently qualitative manner, supplemented, where available, by quantitative surveys and information; it provides, on the one hand, for the identification of risks that are potentially harmful for the company's image and, on the other, for the assessment of the extent of the perceived risk in perspective. In this context, specific attention is paid to the examination of potential sources of reputational impact that can be traced back to the adoption, by the personnel in charge, of improper or opportunistic conduct to the detriment of customers. The low level of losses, even calculated in perspective terms through the use of statistical models designed for such analysis, and the low number of complaints made by customers are the best thermometer of the attention paid in daily operations to this delicate matter.

For its part, the specialist control represented by the anti-money laundering function, despite the complex health situation we continue to experience, has continued its rigorous monitoring of the risks that still insist on the part of financial intermediaries due to possible embezzlement – also perpetrated through online channels – and the corrupt phenomena linked to the continuation of the pandemic, with particular reference to specific economic sectors. Similarly, internal controls were stepped up regarding the appropriateness of beneficiaries' use of subsidies granted as financial relief following the country's difficult financial and production situation. Departments and operating units were made aware of the main indicators of behavioural anomalies and asked to promptly report any critical issues in order to follow them up in compliance with legal and regulatory provisions. With reference to the evolution of the regulatory framework against money laundering and financing of terrorism, the Function has, as always, ensured a careful monitoring of the regulatory sources, taking care of the updating of the internal provisions and of the connected computer systems, in order to safeguard the risks that the bank could assume, also due to the possible media resonance that unorthodox behaviours could have.

Non Compliance Risk

The past year confirmed the consolidation of the central role of the Compliance Function in relation to the company's need to ensure compliance within a complex and constantly evolving regulatory framework. The Function continued to operate according to its consolidated model for the management of the risk of non-compliance with the regulations – the so-called «widespread compliance» model –, implemented with the collaboration of Specialist and qualified Deans. Representatives appointed to govern particular regulatory areas not directly supervised by the Function itself. In the last year, this operating model underwent further and ongoing progress in terms of both the depth and diversification of the analyses performed.

The monitoring and examination of regulatory measures to assess the applicability of innovations and the related organisational impact of the main changes introduced is always of the utmost importance. This is done in order to promote the correct internal implementation, pursuing, in particular, specific objectives in terms of making all personnel responsible and spreading a corporate culture based on principles of correctness, not dissociated from those of honesty.

Important verification and control activities were carried out to assess the degree of compliance of company operations with hetero and self-regulation provisions. For example, important issues such as the provision of investment services, insurance brokerage, transparency in the execution of transactions and the provision of banking and financial services, cash management, the processing of personal data and the provision of payment services were examined in depth.

The ex ante activity is particularly intense, which supports the increasingly significant consultancy contribution of the Compliance Function for the achievement and consolidation of adequate levels of operational compliance in the development of organisational systems and procedures consistent with sector regulations. Also important are the preventive checks on so-called «innovative» processes and projects for the purposes of assessing and managing the risk of non-compliance deriving from new operations, as well as participation in the review, analysis and validation phases of internal regulations in order to ascertain their consistency with the standards in force.

During the year under review further refinements were made to the operational management of compliance activities which benefited, among other things, from the use of IT tools and platforms for the selective sharing of information, data and documents with the aim of more rationally managing the control of risks linked to regulatory non-compliance, optimising and automating the various stages of monitoring and control. Experience and expertise in managing the risk of non-compliance have been strengthened, facilitated by the use of a specific application tool to support the recording of activities carried out and the tracking of actions to mitigate any weaknesses in organisational and operational procedures. This resulted in significant improvements in performance related to the effective coordination and improved organisational management of audit activities.

ESG risks (Environmental, Social & Governance)

The bank is making great strides in the long process started in recent years to give more and more substance to the system of processes, methodologies and procedures for the governance and control of risks related to environmental, social and corporate governance sustainability issues (so-called «ESG risks»).

In particular, as far as climate and environmental risks are concerned, intermediaries have been called upon by regulators and supervisors to integrate them more and more proactively into their business strategies and risk management structures, in order to control, mitigate and represent them adequately on the basis of their significance in compliance with the relevant regulatory requirements. In this context, «significant» banking institutions had to conduct a self-assessment on the instructions of the Supervisory Authority, aimed at ascertaining alignment with the expectations of good practice defined with the publication in November 2020 of the «ECB Guide on Climate and Environmental Risks».

In this regard, the bank has decided not to create specific organisational control measures for these risks within the risk management structures, but rather to integrate the necessary control activities, under appropriate coordination, into the specialist offices which continuously deal with, supervise and monitor the risk in the round. To date, the most critical issues derive from the difficulty of having sufficient and duly integrated information aimed at capturing those sources of risk that could arise for the bank through a series of transmission channels, such as, for example, exposure to companies with high carbon emissions and/or located in areas subject, to a high or increasing extent, to so-called physical risks. This is a constantly evolving process which, in order to be successful, requires the convinced collaboration of customers, data sources processed by reliable specialised operators, the retrieval from the banks' archives of all the information needed for the analysis.

The European Central Bank, in order to improve the availability and quality of data useful for the measurement and management of climate risks, launched an EU-wide stress test (ECB Climate Stress Test) Starting from january of this year, also aimed at assessing the degree of preparedness of European institutions – including ours – to deal with economic and financial shocks arising from climate risk. The stress test does not aim at promoting or failing the participating banks, nor will it have direct implications on their capital levels; it will serve more than anything else, first and foremost for the promoting Authorities, to identify best practices in the sector, appreciate the degree of maturity of the internal stress test frameworks that banks use to assess their exposure to climate risks, and meet the requirements related to the fulfilment of regulatory obligations in terms of «environmental sustainability» and adaptation to climate transition.

Other relevant risks

The main controls include those relating to strategic and business risks, as well as the risks of conflicts of interest that could arise from transactions with so-called «related parties» and to risks connected with investments in corporate equity investments, implemented by verifying aggregate exposure levels in relation to current internal and regulatory limits.

These controls are implemented by checking the aggregate exposures in relation to the internal and regulatory limits. With regard to the former and in application of the provisions of the 9th update to Circular no. 263 dated 27 December 2006 «New prudential supervisory instructions for banks», published by the Bank of Italy on 12 December 2011, which updated Title V – Chapter 5 on «Risk activities and conflicts of interest with related parties», now in Part Three – Chapter 11 of Circular no. 285 of 17 December 2013 «Prudential supervisory instructions for banks», the checks carried out are covered by the «General regulation of the risks deriving from related-party transactions», which describes policies and processes that mitigate the risks accepted at banking group level in relation to related parties. In accordance with the regulatory requirements, the policy is reviewed when necessary, at least every three years and is made available for inspection by the Authorities upon request.

The updated Regulation is made available to the Shareholders' Meeting and is published on the company website at the address https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

The system of internal controls

The so-called third-level controls, entrusted to the Internal Audit Function, are aimed at monitoring the adequacy of the company's organisational structure and the correctness of its conduct, as well as the functionality of the overall internal control system, including IT equipment. This task is entrusted to an organisational unit that is not involved in the performance of any operational task and is separated from the other functions in charge of control activities, working under the direct supervision of the Board in order to guarantee the autonomy and independence of its mandate.

The internal audit activity carried out takes the form of the definition of a multi-year plan of checks, is developed through a structured process of checks and findings, and then concludes with regular monitoring of the findings made. This task is, moreover, carried out at the level of the Banking Group, given that the product companies Factorit and Banca della Nuova Terra have entrusted the parent company, on an outsourcing basis, with the performance of internal auditing tasks for their respective companies; the Swiss-registered subsidiary BPS (SUISSE) SA, operating under a third-party jurisdiction, is, on the other hand, equipped with an autonomous third-level structure, while still maintaining a connection with the homologous function of the parent company in terms of information and methodology.

Also in 2021, the work of the Internal Audit Function was impacted by the Covid-19 emergency, having maintained, for distancing needs, an organisational approach that included frequent recourse to smart-working, a solution that has indeed implied remote checks and verifications, but that has not particularly limited the activity carried out, as proven by the fact that the action plan has been fulfilled, in line with what was planned. Direct focus on the business processes most affected by the crisis and the setting up of a control activity carried out almost entirely at a distance were the main responses of the Audit Function to the threats of the pandemic.

The past financial year also saw the conclusion of a number of projects aimed at strengthening the size of the Function and developing its methods, with a series of process innovations that gradually became fully operational. In this sense, the creation of the ICT Audit Office is important, as it is a direct expression of the path undertaken to achieve greater internal specialisation, in the face of an increasingly extended scope of action. In the same way are to be read both the intense training process aimed at keeping constantly updated the professional skills of the Function, as well as the internal enhancement of specialised teams of auditors, focused on the main areas of intervention; last but not least, we mention the project initiative aimed at the automation of the control framework through the adoption of metrics and indicators to identify the areas at greater risk (data analytics).

With regard to the activities carried out in 2021, the audits were carried out uniformly across the Group's components; in terms of the areas involved, of particular note are the credit monitoring chain, risk management controls and IT security aspects. In addition, the heterogeneous projects and the different internal work sites, in which Internal Audit, as a third-level control function, is constantly called upon, are proof of a contribution increasingly requested not only at the level of audits in the strict sense.

As in the past, constant attention was paid to the credit process, which continued to represent a primary sphere of investigation, under various profiles, including in particular the investigations regarding the internal rating system. In addition, checks were also carried out on the company's IT systems, including those of the other companies in the Banking Group, all the more so in view of the current context that is bringing increasing attention to aspects such as IT security, cyber crime and the effectiveness/efficiency of outsourced ICT processes.

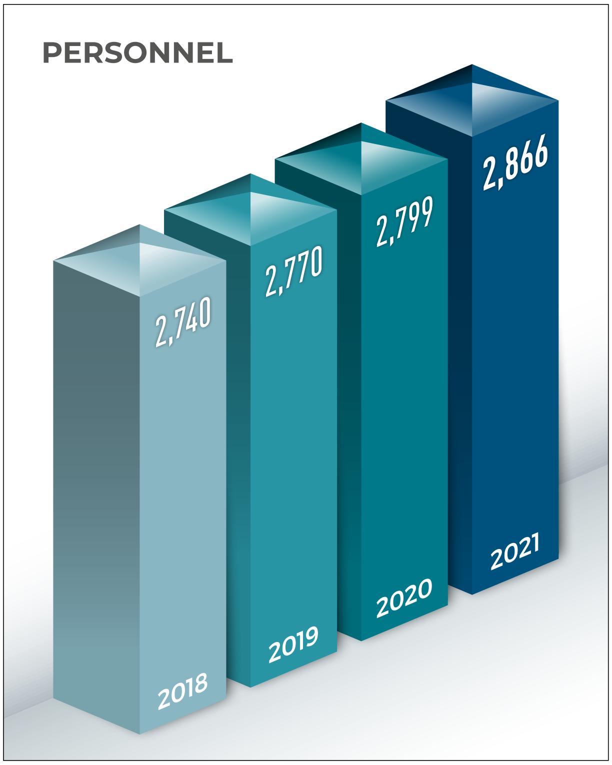
The issues of internal control play a central role also pursuant to Legislative Decree no. 231/2001, which is why a specific prerogative of the Internal Audit Function concerns direct participation in the work of the Supervisory Body set up to implement the aforementioned Decree, of which the Manager is also a member, which is combined with discussions with the representatives of the Supervisory Authorities and with the Internal Control Bodies of the different components of the Group.

In addition to the above, insofar as they are aimed at ensuring widespread monitoring of corporate risks, traditional controls regarding the correct operation of the sales network and central organisational units, which, although conditioned by the impossibility of conducting on-site visits, have always been aimed at ascertaining the regularity of operations and compliance with corporate directives by the various business units.

HUMAN RESOURCES

The development and affirmation of a company such as ours hinges on the quality of its staff, which, in relations with customers, a fundamental hub of banking activity, is a distinctive factor recognised and appreciated by the market.

In this context, our Personnel, a primary asset for the company, are affirmed for their style, their ability to interpret and satisfy the needs of their customers and their attachment to the institution; factors that are consolidated over time.



In conveying the professional qualities and values of the company to the younger generation, the work of the most experienced employees is fundamental, as they ensure the perpetuation of a tradition of rigour and correctness, associated with an innate culture of risk. This is a significant and complementary contribution to the role played by corporate training, oriented towards providing technical and behavioural content aimed at accompanying resources in the maturation of the skills required by the various «jobs» existing in the bank and at encouraging managerial development processes.

As for new recruits, these are the result of the delicate phases of resource selection, which, as per our rule, mainly concern new graduates and undergraduates.

Also in 2021, the main activity of the Personnel and Organisational Models Service consisted in guaranteeing the coverage, with balance, of the staffing requirements of the branches and central services, with particular regard to the corporate control functions and initiatives aimed at strengthening the control of key processes such as, for example, those linked to the management of credit in all its phases.

As usual, activities also focused on the objective of ensuring optimisation of staffing levels, in terms of the size and suitability of professional profiles.

Below are listed some figures on the bank's staff, the bank's staff, which we would like to mention as they show the measures of what, rightfully, is its most precious asset.

At the end of 2021, the Bank employed 2,866 persons, up by 67, +2.39%; 74% of them work in the branch network and the other 26% at the central offices. The average age of employees, 41 years and 11 months, and the average length of service, 17 years and 7 months, increased by 3 months and 1 month, respectively.

With regard to training, the persistence of the pandemic emergency has led us to continue organising remote learning courses (virtual classrooms/ webinars), which have been combined with multimedia tools. In 2021, the training sessions involved 1,987 employees with the first method, for a total of 47,660 man hours, while the second involved 2,150 employees, for a total of 79,675 man hours.

As for the issues to which particular attention was dedicated, mention should be made of anti-money laundering, the management of climate and environmental risks (ESG), the risk of non-compliance with regulations, MIFID II and insurance brokerage. Training in this area is partly designed to help personnel obtain sales accreditation, as envisaged by the IVASS Regulation.

Distance learning was privileged for the credit sector, with particular focus on the EBA Guidelines on the granting and review of loans, and for the offer of banking products/services. Multimedia courses were preferred for regulatory topics related to privacy, cybersecurity, bank liability under Legislative Decree 231/01, transparency, MIFID, market abuse and anti-money laundering.

As many as 332 new recruits benefited from specific training activities dedicated to them. Via a combination of remote and multimedia courses, they completed sessions in various areas, such as the laws governing the employment relationship, branch activities, safety at work, banking regulations and techniques, bank products and services, introduction to lending, the securities markets and international business.

Internships organised in collaboration with technical institutes and universities in areas covered by the bank have remained suspended due to the pandemic.

Relations with the Trade Unions continue to be based on reciprocal respect.

Information on the protection of the health of employees and customers following the health emergency due to the Covid-19 pandemic

During the year under review, in relation to the continuation of the Covid-19 pandemic, the measures adopted by the bank, already at the beginning of the health emergency, to safeguard the health of employees and to ensure business continuity remained active.

Throughout 2021, the smart working mode of operation for employees was maintained, in addition to, where necessary, the rotation of employees within the central offices and branches. The training activities planned for the staff were fully guaranteed and provided through the use of virtual classrooms.

In order to be able to work in complete safety, all personnel were provided with personal protective equipment (masks) and safety devices (sanitising gels for the person and sanitising products for surfaces). In order to ensure safe operation, plexiglass protection screens were installed both in the front office or direct contact with the customer and in the offices to separate the workstations of colleagues.

The bank, in full compliance with the regulations and the highest safety standards for workers and customers, has always ensured the continuity of the service, including physical services, without having to resort to massive closures and guaranteeing, in compliance with the regulations in force, access to essential banking services, especially for those less inclined to use digital channels.

Nonetheless, customers have been constantly made aware of the possibility of using the services offered by the online bank, both for dispositions and for consultancy and assistance.

These operating procedures were communicated by means of dedicated information displayed at branch entrances and by publication on the company website.

The «Company Crisis Committee», active since the beginning of the pandemic, has continued to keep Group personnel and the bank's administration informed of the initiatives gradually undertaken in implementation of government, regional and sector indications, thus imparting organisational and operational instructions to all personnel, also shared with the Company Doctor and the Workers' Safety Representatives. Internal communication also took place via the publication of a dedicated «bulletin» on the Company's intranet. The measures adopted helped to contain the risk of contagion in the company population, even in the most critical phases of the emergency.

PROMOTIONAL AND CULTURAL ACTIVITIES

Always convinced of the importance of «communicating», also in the year under review we have worked to let the general public know who we are, what we do and what products and services we offer. For this purpose, we have produced and disseminated advertising material and publications, taking care of their content and elegance, in addition to extensive online information.

Our cultural activity has been contained, due to the pandemic, for which rules and restrictions had to be observed in meetings. However, we have tried not to lose intensity and quality, starting with the company newsletter which, with a new graphic layout, is even more pleasant. Among other things, the magazine has brought to the attention of its many readers highly topical issues, such as those relating to climate change and environmental sustainability, included in the special section Il Pianeta che cambia (The Changing Planet). The magazine also dedicated a good amount of space to the 150th anniversary of the founding of the bank, which was established on 4 March 1871.

Our institution has decided to join the many Italian celebrations in honour of Dante Alighieri, on the 700th anniversary of his death. To this end, we have organised, at the Teatro Sociale of Sondrio, «DantedìValtellina» – this is the name of the initiative –, together with our own Luigi Credaro Library, with the collaboration of the Sondrio Territorial School Office and with the patronage of the Treccani Italian Encyclopedia Institute and the Accademia della Crusca. The event took place on first October at the Teatro Sociale of Sondrio.

The event was conceived to coincide with the 150th anniversary of the founding of this Banca Popolare, mentioned above: 150 years of success, constant expansion, closeness to the territories covered and their development; a history based on the values of «popular» credit and a sense of belonging to the community.

The morning was reserved for students of the last high school classes of the province of Sondrio and their teachers: 230 physically present and 400 via streaming. Meeting Theme: «Dante: why we cannot do without.» In the afternoon, the conference «Dante's Universes» was held, with numerous speakers, all of great depth. Antonio Patuelli, president of the Italian Banking Association, gave his authoritative contribution via streaming, recalling, among other things, that Popolare di Sondrio has always been a promoter of culture, and has demonstrated this, as it could not have been done better, even in the 150th anniversary of its foundation with the initiative «DantedìValtellina».

It was an integral part of the event «DanteQui. Testimonies of the Supreme Poet in the cultural places of Sondrio», a bibliographic, artistic and documentary exhibition, set up in Sondrio, inside the Lambertenghi Palace of this bank, by our Library Luigi Credaro, with the collaboration of the Municipality of Sondrio, the Valtellinese Museum of History and Art (MUSA) and the Civic Library Pio Rajna, with the patronage of the already mentioned Istituto dell'Enciclopedia Italiana Treccani.

The event gave life to an intense day, articulated, of exceptional calibre, a day also honoured by the President of the Republic Sergio Mattarella with the significant award of a medal.

The subsidiary Banca Popolare di Sondrio (SUISSE) SA published in its 2021 Financial Statements – year 2020 –, in the space reserved for culture, an interesting monograph on Gualtiero Marchesi, a great contemporary Italian chef, whose motto, summarising the work programme of his long existence, was: «Cooking is a science in itself. It is up to the cook to make it an art.»

The appointment with the Invitation to the Palace initiative, now in its twentieth edition, conceived by ABI to allow visits to the works of art «hidden» inside the buildings of the banks, was respected. On Saturday, 2 October 2021, culture enthusiasts were able to consult our well-stocked art collection online at www.popsoarte.it, accompanied by clear explanatory cards. The valuable works are located both in the offices of the head office and of the general management of the bank, as well as in the branches and in the library named after Luigi Credaro.

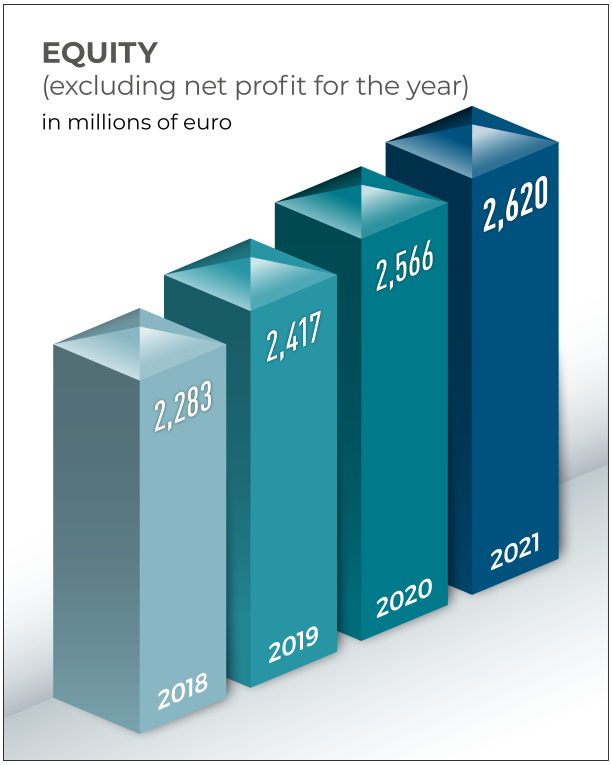
As in the past, contributions were made for social purposes and to assist certain cases of serious human distress, with a preference for the province of Sondrio. As a result of the Solidarity Current Account, we allocated sums to AISLA, UNICEF, AVIS, AIRC and ADMO.

EQUITY

Shareholders' equity at 31 December 2021, inclusive of valuation reserves and the profit for the year, amounts to 2,831.987 million. Compared with the total at 31 December 2020 of 2,641.049 million, this represents an increase of 191 million, +7.23%. The change derives essentially from the recognition of profit for the year, as well as from the increase in reserves resulting from the good performance by financial markets.

The share capital, which consists of no. 453,385,777 ordinary shares without par value, amounts to 1,360.157 million, unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million.



Equity reserves rose to 1,153.959 million, +4.69%; the increase of 52 million derives from the allocation of part of the profit for the year 2020 and from the inclusion of capital gains/losses on Equity, non variable-yield securities sold which were already, in part, in the valuation reserves. In this regard, it is recalled that the Shareholders' Meeting held on 11 May 2021, called to approve the 2020 financial statements and the allocation of the profit, approved the distribution of a dividend, paid starting from 26 May 2021, 0.06 euro for each of the 453,385,777 shares outstanding at 31 December 2020, taking into account the recommendation made by the ECB.

The valuation reserves, representing the net between gains and losses recorded on financial assets measured at fair value through other comprehensive income (FVOCI) and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a positive net balance of 52.088 million, with an improvement of 4.37% on the end of 2020, when they were positive for 49.906 million, due to the positive trend in financial markets. Treasury shares in portfolio remained unchanged and amounted to 25.322 million.

As regards capital adequacy, new harmonised rules for banks – the Regulation (EU) no. 575/2013 (CRR) and EU Directive 2013/36 (CRD IV) and subsequent updates – and Circular 285/13 of the Bank of Italy define the general limits for capital ratios that came to 7% for the CET 1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio.

Using the information gathered in the context of the prudential review and assessment process, the ECB can set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the bank was notified in a communication dated 13 December 2019 of the Supervisory Board's decision regarding the new minimum coefficients applicable for 2020 starting from 1 January. At the end of the annual SREP review and prudential assessment process carried out in 2020, these ratios were confirmed and have to be met also in 2021, as revised by the ECB's decision regarding additional Pillar 2 P2R coverage starting from 12 March 2020.

The minimum capital levels required of our Banking Group are:

– a minimum requirement of Common Equity Tier 1 Ratio of 10%, calculated as the sum of the Pillar 1 regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%), and an additional Pillar 2 requirement (3%);
– Tier 1 Capital ratio of 11.50%, being the sum of the Pillar 1 regulatory minimum (6%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (3%);
– a minimum requirement of Total Capital Ratio of 13.50%, calculated as the sum of the Pillar 1 regulatory minimum requirement (8%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (3%).

While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank.

The European Central Bank, in view of the Covid-19 emergency, with a communication dated 8 April 2020, provided with effect from 12 March 2020 that the additional Pillar 2 «P2R» requirement must be met for a minimum of 56.25% by Common Equity Tier 1 capital (CET 1) and 75% by Tier 1. At the same time, the possibility of operating temporarily under the Capital Conservation Buffer has been foreseen as an additional measure of flexibility. As a result, for 2021, the minimum required Common Equity Tier 1 Ratio is 8.69%, the minimum required Tier 1 Capital Ratio is 10.75%, while the minimum Total Capital Ratio remains unchanged at 13.50%.

On 3 February 2022, at the conclusion of the annual SREP («Supervisory Review and Evaluation Process») conducted in 2021, notification was received from the European Central Bank of the new decision regarding the prudential requirements to be met on a consolidated basis, effective as of 1 March 2022. The additional Pillar 2 Requirement or «P2R» is 2.77%, down from the previous 3.0%. The new ratio, to be held in the form of primary Tier 1 capital (CET 1) for at least 56.25% and Tier 1 capital for at least 75%, includes a quota of 0.02% as an increase in the second pillar requirement for impaired exposures. Consequently, the minimum required Common Equity Tier 1 Ratio is 8.56%, the minimum required Tier 1 Capital Ratio is 10.58%, and the minimum required Total Capital Ratio is 13.27%.

Since 2017, the ECB has been providing the bank with «Pillar 2 Guidance», which acts a guide to the future evolution of the Group's capital. This parameter is confidential, by contrast with the two minimum requirements, and – based on guidelines issued by the ECB – is not deemed relevant for the determination of distributable dividends.

Consolidated own funds for supervisory reporting purposes, including part of the profit as at 31 December 2021, amounted to 3,785 million (phased-in) and 3,760 million (fully phased).

In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their Tier 1 capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of IFRS 9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided (i.e. percentages of computability decreasing over time, from 95% in 2018 to 25% in 2022, up to its total zeroing in 2023), while for those related to the Covid-19 emergency, they will be applied to the value of CET 1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025.

The following are the requirements referring to the Group as at 31 December 2021 (phased-in) and (fully phased):

Group's capital ratios	Phased-in	Fully Phased
CET 1 Ratio	15.78%	15.67%
Tier 1 Capital Ratio	15.83%	15.72%
Total Capital Ratio	18.88%	18.77%

The Leverage Ratio was 5.84% applying the transitional arrangements (phased-in) and 5.25% according to the criteria to be applied at the end of the transition (fully phased).

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Bank carried out an impairment test on the entire structure. The results of this test showed that the economic value of the Group was 3,929 million, which was 659 million more than its consolidated equity of 3,270 million. Further details are provided in Part F «Information on equity» of the notes.

The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2020:

– *equity/direct funding from customers*
  7.90% compared to 8.12%

– *equity/loans and receivables with customers*
  11.31% compared to 10.96%

– *equity/financial assets*
  20.66% compared to 25.06%

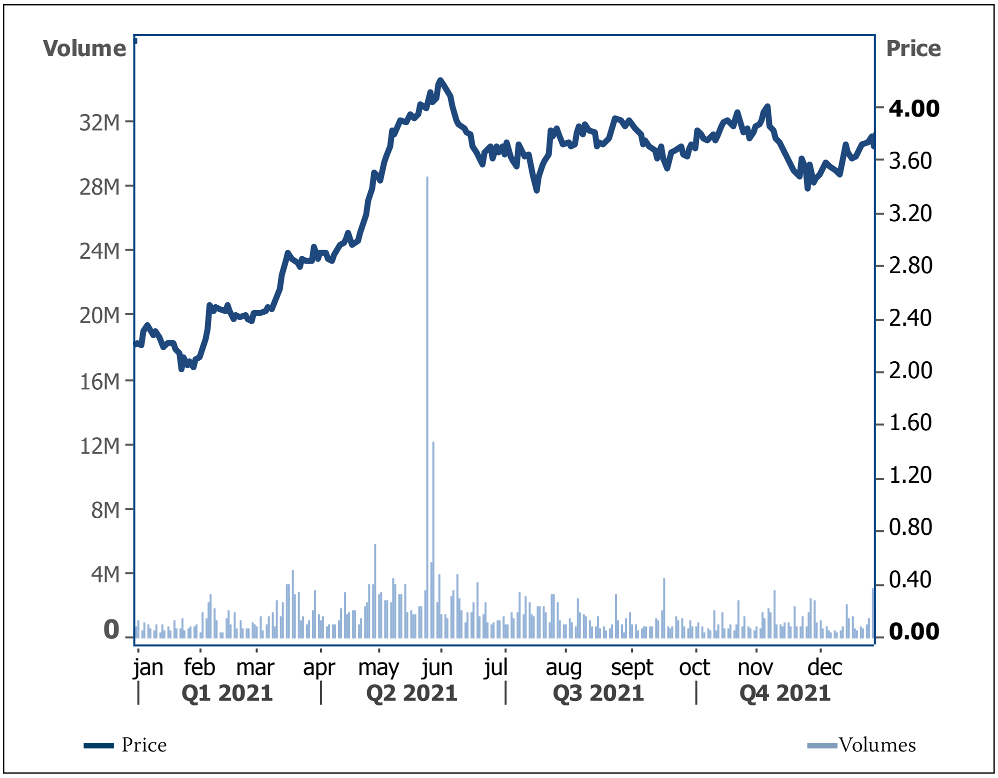
– *equity/total assets*
  5.70% compared to 5.84%

– *net bad loans/equity*
  6.67% compared to 12.95%

BANCA POPOLARE DI SONDRIO STOCK

The Banca Popolare di Sondrio share, traded on the Euronext Milan market of Borsa Italiana, part of the FTSE Italia All-Share index, closed the year 2021 with a positive performance of 68.09%, marking a reference price on 30 December of 3.698 euro, compared to 2.20 euro at the end of 2020. The general FTSE Italia All-Share index recorded a rise in the period of 23.71% and the FTSE Italia All-Share Banks sector index progressed by 35.90%.

BANCA POPOLARE DI SONDRIO stock - Euronext Milan Market of Borsa Italiana



Source REFINITIV EIKON

The average daily volume of securities traded on the Euronext Milan market of Borsa Italiana during the year was equal to 1.574 million shares, an increase compared with 1.247 million in 2020.

As regards the 3,650,000 treasury shares held at 31 December 2021, their carrying amount of 25.322 million was unchanged since the end of 2020, as no purchases or sales were made.

At 31 December 2021, the shareholding structure consisted of 163,580, including 154,383 shareholders and the remaining shareholders.

Applications for admission as a member received during the year 2021, during which this bank still had the legal form of a joint stock cooperative company, were examined by the Board of Directors in accordance with the law and the articles of association (as per art. 2528, last para., of the Italian Civil Code). In particular, art. 9 of the Articles of Association stated that: «The Board of Directors decides on applications for admission as a member by adopting a suitably-reasoned resolution, having regard for the interests of the bank, the spirit of the cooperative movement and the requirements of the articles of association», taking into account the guidelines laid down by the Board.

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group, detailed in the table below, has been assessed by the rating agencies Fitch Ratings, DBRS Morningstar and Scope Ratings.

The ratings shown here refer to Fitch Ratings' decision of 1 September 2021, as well as the assessments expressed by DBRS Morningstar and Scope Ratings on 15 November 2021 and 31 March 2021, respectively.

FITCH RATINGS – issued on 01/09/2021

	RATING
LONG – TERM	
It is a measure of the probability of default and expresses the bank's ability to meet medium to long-term financial commitments. It is expressed on a scale from AAA to D, for a total of 11 levels.	**BB+**
SHORT – TERM	
It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within 13 months. The measurement scale includes seven levels (F1, F2, F3, B, C, RD and D).	**B**
VIABILITY RATING	
It evaluates what the bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from AAA to D, for a total of 11 levels.	**bb+**
SUPPORT	
It expresses Fitch's assessment of the likelihood that an external entity will offer support to the bank if the latter needs it. The measurement scale includes five levels from 1 (highest) to 5 (lowest).	**5**
SUPPORT RATING FLOOR	
This expresses Fitch's assessment of the minimum level below which it will not lower the issuer's long-term rating in the event of it being in financial difficulty, in consideration of the propensity of potential backers (State or institutional owner) to help the bank in such circumstances. The scale of values associated with it reflects that of the long-term ratings. A further possible score, represented by the No Floor (NF) indicates that, according to Fitch, it is unlikely that help will come from outside (probability of a support intervention less than 40%).	**No Floor**
LONG-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB-**
SHORT-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of uninsured deposits maturing in the short term. It is expressed on a scale similar to that used for the short-term rating (F1, F2, F3, B, C, RD and D).	**F3**
SENIOR PREFERRED DEBT	
It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	**BB+**

SUBORDINATED DEBT	
It is a measure of the probability of default of subordinated bonds that is expressed using a scale from AAA to D.	**BB-**
OUTLOOK	
It is a prospective assessment of the possible evolution of the issuer's ratings over a period of 1 to 2 years.	**Stable**

DBRS Morningstar – issued on 15/11/2021

	RATING
LONG – TERM	
It is a measure of the probability of default and expresses the bank's ability to meet medium/long-term financial commitments. It is expressed on a scale from AAA to D.	**BBB (low)**
SHORT – TERM	
It measures the ability of the organization to which the rating is assigned to meet payments due in the short term. The measurement scale includes six levels (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (middle)**
INTRINSIC ASSESSMENT	
It reflects the opinion of DBRS on the intrinsic fundamentals of the bank assessed on the basis of quantitative and qualitative elements. It is expressed on a scale from AAA to CCC.	**BBB (low)**
SUPPORT ASSESSMENT	
It reflects DBRS's view on the likelihood and predictability of timely external support for the bank in case of need. The measurement scale includes four levels from SA1 (best) to SA4 (worst).	**SA3**
LONG-TERM DEPOSIT RATING	
IIt is a measure that expresses the vulnerability to default of medium/long-term uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB**
SHORT-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of short-term uninsured deposits. It is expressed on a scale similar to that used for the short-term rating (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (high)**
LONG-TERM SENIOR DEBT	
It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	**BBB (low)**
SHORT-TERM DEBT	
It is a measure of the probability of default of short-dated bonds that is expressed using a scale from R-1 to D.	**R-2 (middle)**
SUBORDINATED DEBT	
It is a measure of the probability of default of subordinated bonds that is expressed using a scale from AAA to D.	**BB**
TREND	
It is a prospective assessment of the possible evolution of the long-term rating assigned over a period of 1-2 years.	**Stable**

Scope Ratings – issued on 31 March 2021

	RATING
ISSUER RATING	
It is a rating on the bank's ability to meet its contractual financial commitments in a timely and complete manner. It is expressed on a scale from AAA to D.	**BBB-**

OUTLOOK It is a prospective assessment of the possible evolution of the issuer rating assigned over a period of 12-18 months.	**Stable**

INCOME STATEMENT

In the year under review, the recovery of the economy came earlier and to a greater extent than expected, despite the uncertainties associated with the Delta and Omicron variants of the Covid-19 pandemic.

In this favourable context, our bank achieved the best result in its long history. 2021 closed with a profit of 212.099 million, an increase of 182.63% compared with 75.045 million the previous year.

The good result derives first of all from the strong recovery of the results linked to the activity in securities, but also from the positive trend of the «core» activity and from the reduction of the adjustments on receivables from customers, despite the presence, also in the year under review, of a significant derisking activity.

The comments on the various items refer to the data shown in the «Summary income statement» below. Note that they have been reclassified with respect to those shown in the tables foreseen in Bank of Italy provision no. 262/2005.

Net interest income

Net interest income increased by 10%, coming in at 446.843 million compared to 406.217 million. The expansive monetary policy, which continued throughout the year, kept government bond rates at low levels, in many cases with negative yields, as well as interbank indices, also at unprecedented levels, significantly impacting customer loans at variable rate. The overall differential between lending and borrowing rates decreased further compared to the comparison period.

Interest income showed good growth: 554.081 million, +10.98%. The increase is to be attributed, in the presence of a substantial stability of the customer component, to the accounting of negative interest for approximately 83 million relating to the T-LTRO III refinancing operations in place with the ECB, which is carried out having practically reached the targets set by the Central Bank, and to the substantial growth of interest on securities thanks to the greater weight of the portfolios. Interest expense amounted to 107.238 million, +15.26%. The increase in the latter, despite a significant reduction in those connected with short-term deposits, is affected by the cost of bond issues and the significant increase in the cost of negative rates on liquid assets with the ECB.

Net fee and commission income showed a good trend, amounting to 309.828 million, +12.13%. This is an almost generalised increase in the various components, generated by the recovery in economic activity, and which particularly affected those linked to the placement of securities funds and insurance products, for the role of custodian bank and for guarantees issued, as well as those relating to collections and payments. Fees and commissions on orders and loans decreased.

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our SHAREHOLDERS

Dividends received amounted to 22.263 million compared to 21.118 million, +5.42%; the distribution of dividends by Banca Popolare di Sondrio (SUISSE) SA, Arca Holding spa and Arca Vita spa during the year is significant.

The result of financial activities, relating to the securities portfolio and currency and derivative transactions, was a positive contribution of 123.660 million compared with 40.358. This sub-total represents the sum of reclassified income statement items 80-100-110, as detailed below. Financial markets maintained a generally positive tone during the year, partly due to the continuation of a highly accommodating monetary policy stance.

The portfolio of assets held for trading (item 80) generated a positive result of 50.590 million, compared with a negative one of 6.519 million. Against losses from trading in securities of 15.918 million in the previous year, there were profits of 11.485 million, while exchange gains rose from 23.669 million to 24.897 million, +5.19%. The net difference between capital gains and losses was positive for 8.517 million, compared with -11.489 million the previous year. The result of the derivatives business was positive for 5.746 million, compared with -2.544 million. Exchange differences remained negative, going from 237 thousand euro to 53 thousand euro.

The profit/loss on sale/repurchase (line item 100), reclassified, was positive for 49.318 million compared with 48.677 million. This amount of the year does not include 2.702 million of losses from the sale of NPL loans, which were reclassified to adjustments to loans and financial assets. In its breakdown, envisaged by IFRS 9, it is made up as follows: result from financial assets valued at amortised cost 35.580 million; financial assets measured at fair value with an impact on comprehensive income 13.756 million; financial liabilities -0.018 million.

The net gain on other assets measured at fair value through profit or loss (item 110) amounted to 23.753 million compared to a loss of 1.800 million.

Income from banking activities

Income from banking activities amounted to 902.594 million, +21.31%, reflecting the good performance of all its components and in particular by the result of the securities business, as mentioned previously. Within this aggregate, the weighting of net interest income was 49.51% compared with 54.60%.

Despite the positive signals coming from the economic situation, the risks and uncertainties to which the bank was exposed as a result of the evolution of the Covid-19 pandemic led to the need to adequately reflect them in the internal risk measurement and management processes and to classify exposures based on the appropriate risk stages provided for by IFRS 9, also taking into account the future termination of public support measures currently available. The templates used in the preparation of the adjustments have been implemented accordingly.

The adjustments/write-backs for credit risk on the exposures to customers, banks and securities totalled 135.154 million, compared with 208.264 million, -35.10%, in the prior year. Following the reclassification mentioned above, the amount of the comparison period included 49.394 million of the losses incurred in the two sales of NPLs during the year (Diana Project, POP NPLS 2020), 4.035 million of charges again linked to the sale and 15.511 million of provisions for guarantees given and commitments. During the year, a massive sale of NPL loans called POP NPLS 2021 was finalised, with a reclassification of losses on disposal of 2.702 million, related charges of 1.509 million and a release of provisions set aside in previous years for guarantees and commitments of 15.397 million was recorded. The finalisation of the NPL loan assignment operations is in line with the bank's policy on the reduction of NPL loans and responds to the recommendations of the ECB which, with the «Guidelines on the management of NPLs» made public, invited banks that have accumulated high levels of (gross) NPLs to adopt clear and realistic strategies to reduce their stock of NPLs.

In its components, the sub-item «adjustments to financial assets measured at amortised cost», which come from exposures to customers and banks in the form of loans and securities, reclassified for the above losses and charges from the sale, amounted to 145.462 million, -21.57% compared with 185.484 million, which net of provisions and net writebacks on securities and banks for modest amounts refers to loans to customers. There was a slowdown in the dynamics of non-performing loans and the default rate due to the general improvement and stabilisation of the macroeconomic situation, but also to the various initiatives that the bank has implemented both to improve credit quality and to refine the assessment processes of the loans, in particular those posted in non-performing loans, unlikely to pay, overdue loans, determined in accordance with supervisory regulations, in addition to those relating to performing positions.

KEY FIGURES OF THE INCOME STATEMENT

(thousands of euro)	31/12/2021	31/12/2020	Absolute changes	Changes %
Net interest income	446,843	406,217	40,626	10.00
Dividends	22,263	21,118	1,145	5.42
Net fee and commission income	309,828	276,316	33,512	12.13
Result of financial activities [c]	123,660	40,358	83,302	206.41
Total income	**902,594**	**744,009**	**158,585**	**21.31**
Net impairment losses [a] [c] [d]	-135,154	-208,264	73,110	-35.10
Net financial income	**767,440**	**535,745**	**231,695**	**43.25**
Personnel expenses [b]	-197,376	-186,403	-10,973	5.89
Other administrative expenses	-263,034	-251,620	-11,414	4.54
Other operating income/expense [b] [d]	57,909	58,242	-333	-0.57
Net accruals to provisions for risks and charges [a]	-15,857	2,894	-18,751	-647.85
Adjustments to property, equipment and investment property and intangible assets	-46,648	-46,510	-138	0.30
Operating costs	**-465,006**	**-423,397**	**-41,609**	**9.83**
Operating profit (loss)	**302,434**	**112,348**	**190,086**	**169.19**
Net gains (losses) on equity investments and other investments	-1,054	-570	-484	84.72
Profit (loss) before tax	**301,380**	**111,778**	**189,602**	**169.62**
Income taxes	-89,281	-36,733	-52,548	143.06
Profit (loss)	**212,099**	**75,045**	**137,054**	**182.63**

Note:
The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Net adjustments consist of the sum of items 130 and 140 of the income statement.
The results at 31/12/2021 have been subjected to the following reclassifications:
[a] reclassified net credit risk provisions for commitments and guarantees given for 15.397 million euro initially included in net provisions for risks and charges [a) commitments and guarantees given], showing them under net adjustments;
[b] personnel expenses and other operating income have been reclassified, stating them net of the income generated by the post-employment benefits fund of 11.199 million euro;
[c] reclassified losses on disposal for 2.702 million euro initially included in gains/losses on financial assets measured at amortised cost, showing them under net adjustments;
[d] eclassified charges connected with the sale transactions for 1.509 million euro initially included in other operating income/ expense, showing them under net adjustments;

Sub-item 130b relating to financial assets measured at fair value through other comprehensive income is positive for 1.009 million compared with a negative figure of 0.856 million.

Line item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, shows losses for the period of 6.099 million compared with losses of 6.415 million.

A release of provisions previously set aside for commitments and guarantees issued of 15.397 million was recorded, compared to provisions of 15.511 million in the comparative period.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has fallen from 0.86% to 0.54%.

Financial income has therefore increased to 767.440 million, +43.25%.

Although efforts dedicated to improving the efficiency of structures and containing expenses continued, operating costs amounted to 465.006 million, +9.83%.

The ratio of operating costs/income from banking activities, the so-called «cost income ratio», fell from 56.91% to 51.52%, while the ratio of operating costs/total assets remained at 0.94% as in the comparison exercise. Looking at costs in more detail, administrative expenses – normalised after excluding the deferral of the proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense – amounted to 460.410 million, +5.11%; of these, personnel costs rose from 186.403 to 197.376 million, +5.89%, both as a result of the salary increases envisaged by the employment contract and for new hires, while other administrative expenses rose from 251.620 to 263.034 million, +4.54%. Also of importance are the charges for contributions to the National Resolution Fund and the FITD, amounting to 43.066 million compared to 35.259 million, as well as the expenses for the rental and maintenance of hardware and software, consultancy, IT costs and for the use of interbank networks.

«Net provisions for risks and charges» reflect releases of 15.857 million compared with releases of 2.894 million previously.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 46.648 million compared with 46.510 million.

Other income, stated after the above mentioned reclassification and net of other operating expenses, amounted to 57.909 million, -0.57%.

The aggregate of gains/losses on equity investments other investments amounted to losses of 1.054 million compared with losses of 0.570 million the previous year; difference between writedowns of Pirovano Stelvio spa for 0.78 million, of Rent2Go Srl for 0.505 million, as well as of Sintesi 2000 srl for 0.312 million, result of the fair value measurement of tangible assets for 0.272 million, and a positive amount for 0.113 million for the sale of assets.

Profit for the year

Profit before income taxes therefore totalled 301.380 million, +169.62%. After deducting income taxes of 89.281 million, up 143.06% on the previous year, the profit for the year was 212.099 million, +182.63%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 29.63% compared with 32.86% in the previous year.

TRANSFORMATION INTO A JOINT-STOCK COMPANY

The Shareholders' Meeting of 29 December 2021 – held exclusively through the Designated Representative pursuant to ex art. 135-undecies of Legislative Decree no. 58 of 24 February 1998 due to the health emergency situation linked to the Covid-19 pandemic – passed an extraordinary resolution to transform the bank from a cooperative company limited by shares into a joint-stock company, with the consequent adoption of new articles of association.

The transformation took effect on 5 January 2022, the date on which the shareholders' resolution was recorded in the Sondrio Companies Register.

This was a historic step for our institution, which became necessary following the reform of the cooperative banks, contained in the Law Decree no. 3 of 24 January 2015, converted with Law no. 33 of 24 March 2015, which established that the assets of a people's bank cannot exceed the value of 8 billion euro.

In this regard, it is recalled that art. 27 of Law Decree no. 76 of 16 July 2020 (Simplification Decree), converted into Law no. 120 on 11 September 2020, had set 31 December 2021 as the deadline for transformation into a joint-stock company. In the event of failure to transform the bank by the aforementioned date, it would be exposed to serious consequences including, most recently, compulsory administrative liquidation, with the imaginable serious repercussions both at corporate level and on the economies of the territories and communities served.

With the adoption of the new Articles of Association, the principle was established, precisely of joint-stock companies, according to which each share confers the right to one vote. This principle sums up the fundamental change in the process of governing our company and sanctions the abandonment of the cooperative world in which our bank was established and has developed over its 150-year history.

Moreover, the new Articles of Association – especially in the provision dedicated to the corporate purpose – offer a sense of continuity between the role that Popolare di Sondrio has played up to now and the role that, transformed into a joint-stock company, it is now called upon to play in favour of families, small and medium-sized businesses, cooperatives and public and private entities, paying special attention to the territories it serves, starting with the original territories of Valtellina and Valchiavenna. All this, also in order not to disperse a way of being in fact a bank of the territories that has made it possible to create and progressively develop a business model characterised by the stability of the social base, by the profitability of management, as well as by the strong and recognised identity, which continues to be a distinctive factor highly appreciated by a vast and heterogeneous clientele.

2021 NON-FINANCIAL REPORT PURSUANT TO LEGISLATIVE DECREE 254/16

The «Non-Financial Report» for fiscal year 2021, prepared pursuant to Legislative Decree 254/2016, is made available to the Shareholders' Meeting of 30 April 2022 and is available on the company website at the address https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

CRITERIA FOR MUTUALISTIC ACTIVITY

During 2021 and until the intervening transformation into a joint-stock company resolved by the Shareholders' Meeting of 29 December 2021, this bank maintained the legal form of a joint-stock cooperative company. In relation to this, in accordance with the provisions of art. 2545 of the Italian Civil Code, the following are the criteria followed by management to achieve the Bank's mutualistic goals.

In this regard, the fundamental points of reference for us have been articles 1 and 2 of the Articles of Association in force before the transformation into a joint-stock company, according to which: «The company's activities are based on the principles of mutuality and cooperation» and «As part of institutional work to facilitate the development of all productive activities, the company, in consideration of its specific objectives as a cooperative bank, intends to provide specific support for the smaller enterprises and cooperatives present in the territories served; in addition the company aims to implement any appropriate initiative necessary to spread and encourage savings».

In 2021, our commitment was to satisfy the demand for banking products and services – primarily credit, also taking into account the continuation of the difficult situation created for many households and businesses as a result of the Covid-19 pandemic – of customers and, above all, of our members (customers who are also shareholders). This is our mission as a cooperative bank and we have acted accordingly, giving attention not only to the needs of individuals, but also to the more general requirements of the communities to which they belong. The above, in a vision that aims to make best use of the resources and specific characteristics of each territory, thereby reflecting its nature and desires. These cornerstone principles of identity, solidarity and support, also written into the Community Statute for Valtellina, inform our conduct.

Loans to customers amounted to 25,040 million, +3.91% on the previous year. This statistic and its progression confirm the growing scale of the financial support provided to households and businesses. With reference to the Covid-19 pandemic, in the chapter of this Report dedicated to Loans an extensive explanation is given of the action taken for the benefit of customers and the territories served, in compliance with the government's measures, the initiatives promoted by ABI at banking system level and on a voluntary basis for the benefit of certain categories of subjects and types of contractual relationships, mostly not having the characteristics to access the first two types of facilitations.

We have also supported numerous eco-compatible economic initiatives by making loans intended to spread further the use of renewable energy. The same is true for the support provided for property renovations, which seek to save energy and, of course, upgrade the housing stock.

In terms of funding, customers were given all necessary support, including expert advice, when choosing between the various investments. This reflects our absolute transparency and respect for the propensity to accept risk of each person.

Our catalogue includes ethical financial instruments and supplementary pension products too, which are essential in order to assure an adequate level of retirement income.

Direct deposits came in at 35,850 million, +10.19%. This confirms the validity of our commercial proposals and, above all, the trust placed in the Bank as a result of its solidity and the concrete efforts made to safeguard savings.

Entities and institutions were among the principal recipients of our specialist services. Our offer – delivered through dedicated desks, traditional branches and, ever more frequently, electronic tools – was designed for both local entities and the numerous other institutions with which we have cooperated for some time. Without focusing on any particular segment, we provided services to small municipalities and to regional and national entities, as well as to local associations and to major non-profit organisations with an international outlook.

There are 154,383 shareholders at the end of the year. The wide membership confirmed our ability to involve new members in our work. A simultaneous increase in the number of member-customers was a concrete reflection of the way we implement the founding principles of the cooperative banking movement, which identified the members as the most important and stable core of customers.

Art. 2528, last para. of the Italian Civil Code requires the annual report to describe the reasoning adopted when deciding to admit new members. This information is presented in the «BPS stock» section of this report.

Institutional and market communication – carried out in full compliance with the specific regulations – took account of the nature and sheer number of our members. In this regard, we note that communication is the key to informed participation by the members in the life of the bank. The traditional mid-year and year-end «Letters» were addressed to all members and friends, in order to update them on a periodic and timely basis about the performance of the bank. The directors' report and annual financial statements provide a comprehensive picture of the events that took place during the year, explained using language that seeks to be understandable by all. It is in fact our duty to ensure that communication, increasingly required by the regulations do not become excessively technical and, therefore, only understandable by a few readers.

The Bank and the membership also come together at the annual general meeting. This key moment in the life of our business in which the most relevant decisions are taken. We hope, for years to come, to be able to hold it in attendance, Covid-19 permitting, in favour of discussion of agenda items.

The will to contribute towards the economic and social development of the communities that we serve also manifested itself in the financial support that we give to a vast range of initiatives. They are the result of a solidarity-based vision of the market, where profit is accompanied by other objectives, reflecting a long-term assumption of responsibility towards the social context to which we belong for the enhancement of its identity. Initiatives during the year were as follows:

– running the library in Sondrio named after Luigi Credaro, illustrious compatriot and former Education Minister from 1910 to 1914. In addition to making our substantial wealth of books and documents available to the public, we have also established valuable contacts with the world of education and the schools, building synergies with other major libraries

managed by several prestigious universities;
- support for Pirovano Stelvio spa and through it for the tourist complex of the Stelvio and the Upper Valtellina;
- the cultural events organised, as well as publications edited and published by us;
- the traditional celebration of World Savings Day;
- the support provided, in collaboration with other parties, for the improvement of economic and social conditions in the various geographical areas of activity, with particular reference to the internationalisation of businesses;
- the contributions made in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services;
- the donations made – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work.

The Non-Financial Report, made available to the shareholders in compliance with the relevant legislation, provides further information about the matters discussed above.

SIGNIFICANT SUBSEQUENT EVENTS

The following information on significant events that have taken place subsequent to year end is provided in accordance with regulatory requirements.

The general scenario in which we operate has been changed by the events of the war in Ukraine, still tragically in progress and with unpredictable consequences. We will limit ourselves here to indicating the significant events that have affected our bank.

On 5 January 2022, the resolution with which the Extraordinary Shareholders' Meeting of 29 December 2021 approved the transformation of the bank from a «cooperative company limited by shares» into a «joint-stock company» was registered with the Sondrio Companies Register. On the same date, the minutes of the Extraordinary Meeting and the new Articles of Association were made available to the public in accordance with the law. Following this, the procedure was activated to ensure the right of withdrawal for the Bank's shareholders, including those who did not take part in the approval of the transformation resolution pursuant to article 2437 of the Italian Civil Code. The shares subject to withdrawal – amounting to only 12,676 – were then offered in option, pursuant to art. 2437-quater of the Italian Civil Code, to all shareholders holding shares for which the right of withdrawal had not been exercised. The option and pre-emptive offer ended on 7 March 2022 with the subscription of all shares subject to withdrawal.

On 3 February 2022, at the conclusion of the annual SREP («Supervisory Review and Evaluation Process») conducted in 2021, notification was received from the European Central Bank of the new decision regarding the prudential requirements to be met on a consolidated basis, effective as of 1 March 2022. The additional Pillar 2 Requirement or «P2R» is 2.77%, down from the previous 3.0%. The new ratio, to be held in the form of primary Tier 1 capital (CET 1) for at least 56.25% and Tier 1 capital for at least 75%, includes a quota of 0.02% as an increase in the second pillar requirement for impaired exposures. Consequently, the minimum required Common Equity Tier 1 Ratio is 8.56%, the minimum required Tier 1 Capital Ratio is 10.58%, and the minimum required Total Capital Ratio is 13.27%.

On 1 March 2022, a binding agreement was signed with Banco BPM for the acquisition of 39.5% of the capital of Factorit spa, in which our bank already held the remaining 60.5% interest. The value of the transaction was set at 75 million euro. On 15 March, the above-mentioned share purchase agreement was executed. Factorit spa is now 100% controlled by Banca Popolare di Sondrio.

On 14 March 2022, the independent agency Standard Ethics, at the end of the annual review process, improved the long-term sustainability rating of the Bank from «EE» stable to «EE+» and confirmed the corporate rating at «EE», positioning Banca Popolare di Sondrio among the banking institutions with the best assessment on the Italian scene. In its final report, the agency states that the Bank has prudently managed the transition from «cooperative society for shares» to «joint stock company» and will keep alive the rich experience derived from the tradition of cooperative banks, continuing to have strong ties with the territory and stakeholders.

In the period between 31 December 2021 and the date of approval of this report, no significant events have taken place that might have a material impact on the figures presented here.

OUTLOOK FOR OPERATIONS

The recent events that have brought war back to Europe are, among other things, leading to a downward revision of the original forecasts for macroeconomic developments in 2022 and in the medium term. They also suggest a period of serious instability ahead, with increased volatility on financial markets and on commodity markets, especially energy. The bank's operations will only be affected by these factors.

While 2021 had enjoyed a particularly favourable economic climate with regard to both the financial markets and the real economy, concerns and uncertainty prevail for the current year. Consequently, it becomes more difficult than ever to forecast earnings results, even if the structure of the balance sheet shows resilience. It is therefore believed that the commitment to improving operating efficiency and containing costs, together with the dynamics of the core business, will enable the company to achieve results that will confirm its ability to generate value and strengthen its financial solidity.

In adherence to the Consob call for attention of 18 March 2022 on the impact of the war in Ukraine on insider information and financial reporting, it should be noted that Banca Popolare di Sondrio has launched a functional activity to determine direct exposures to entities residing in Russia and Ukraine. This results in a very limited direct credit exposure.

For indirect exposures, relating to customers operating in sectors potentially affected by the crisis, analysis of the expected impacts is underway.

Financial risk exposures are also currently contained and subject to monitoring on a daily basis. In terms of cyber attack risks, there have been no crisis-related security incidents to date. The bank is constantly testing the adequacy of its information systems in response to a potential high-impact attack, with protection systems under control and fully active.

* * *

Dear Shareholders,

The 2021 financial statements, comprising the balance sheet, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. These financial statements, which show a profit for the year of 212,099,145 euro, have been audited by EY s.p.a.

BALANCE SHEET

Total assets			€	49,635,796,565
Liabilities	€	46,803,809,867		
Valuation reserves	€	52,087,552		
Share capital	€	1,360,157,331		
Share premium reserve	€	79,005,128		
Treasury shares	€	-25,321,549		
Reserves	€	1,153,959,091		
Total liabilities and shareholders' equity excluding net profit for the year			€	49,423,697,420
Profit for the year			**€**	**212,099,145**

ALLOCATION OF PROFIT FOR THE YEAR

In line with legal requirements and the articles of association, we propose the following allocation of profit for the year:

– to shareholders € 0.20 euro per share	€	90,677,155.40
– to the reserve for donations	€	300,000.00
– to the legal reserve	€	121,121,989.60
Total	**€**	**212,099,145.00**

EQUITY

If you concur with our proposals, equity will be made up as follows:

– Valuation reserves	€	52,087,552
– Capital – no. 453,385,777 shares	€	1,360,157,331
– Share premium reserve	€	79,005,128
– Treasury shares	€	-25,321,549
– Reserves	€	1,275,081,081
Total	**€**	**2,741,009,543**

Dear Shareholders,

After explaining and commenting on the accounting data for 2021, we feel it is our duty to thank those individuals who, in various capacities, have aided the achievement of the results.

The first thought of gratitude is for the customers, having chosen Popolare di Sondrio for their banking needs. When entering the bank and at the counters they behaved disciplined, following with conviction and patience the stringent government regulations, due to the pandemic.

We would like to thank our members for the trust they have placed in us and for their attachment to our institution, which they have demonstrated with liveliness even on the occasion of the transformation, in accordance with the law, from a cooperative society to a joint-stock company.

The members of the Board of Statutory Auditors are highly appreciated for having carried out their delicate duties with skill and prudence. Similar esteem is for the members of the Board of Arbitrators, who have confirmed gifts of wisdom, combined with thoughtful availability.

We would like to express our gratitude to the corporate bodies and personnel of our subsidiaries Banca Popolare di Sondrio (SUISSE) SA, Factorit spa and Banca della Nuova Terra spa, which have made a significant contribution to the Group, having closed their financial statements with good results.

We extend our thanks to the corporate bodies and staff at the Italian Banking Association (ABI), the National Association of Cooperative Banks, and our correspondent banks in Italy and abroad.

We extend our deepest gratitude to the exponents of the European Central Bank, expressing special esteem for President Christine Lagarde, a talented banker who, with great authority, has made wise and far-sighted choices, favouring the rebound of the Eurozone economy.

We wish to express gratitude to the management of the Bank of Italy, from the Governor, Ignazio Visco, to the Members of the Directorate, to the Chief of Supervision and his staff, to the general officers and the managers of the main branches and of offices located in the provinces where we are present.

For the collaboration received, we address the same thought to the Representatives, Executives and Personnel of Consob and Borsa Italiana, which oversees the Euronext Milan market, where our stock is traded.

We express our esteem and gratitude to FINMA - Swiss Federal Supervisory Authority on Financial Markets in Bern, which with professionalism and a collaborative spirit carefully supervised the work of our subsidiary BPS (SUISSE) SA in Lugano. The same esteem and gratitude is due to the Banque de France, the French supervisory authority, to whose control SUISSE's foreign branch in Monaco is subject.

We would like to recall, also in this space, thanking them warmly, our employees, who, in the year left behind – in which the stringent rules for the pandemic still present have affected, and not a little, the way of working –, have given further proof of adaptive skills, diligence, patience and common sense.

Last but not least, a special thank you goes to our employees who, due to age limits, have retired. They are Anna Della Franca, Patrizia Tarabini, Francesco Boffini, Claudio Bollasina, Claudio Bongiolatti, Pierluigi Borrello, Giuliano Bresesti, Diego Cattaneo, Emilio Cederna, Gian Maria Corlatti, Claudio Curtoni, Roberto De Bernardi, Marco Divitini, Paolo Mario Guido Dolci, Andrea Giuseppe Ducoli, Maurizio Giugni, Emilio Leonetti, Carlo Lusiari, Giorgio Mainetti, Marco Montemurro, Marco Pasini, Claudio Pedrotti, Gianfranco Piraino, Silvio Ragazzi, Flavio Rodigari, Armando Scarinzi.

We hope that these newly-retired employees will always have good memories of Banca Popolare di Sondrio, in which and for which they have spent their time and energy. We wish each and every one of them a peaceful and long retirement, rich in interest and in good health.

If we have omitted, even if unintentionally, to mention someone who, in the period in question, has been close to us with information, advice, proposals or other, we apologise. It goes without saying that our thanks are also due to these individuals.

Dear Shareholders,

In presenting the 2021 financial statements for your approval, the directors invite the Shareholders' Meeting – having read the reports of the Statutory and Independent Auditors – to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having heard the directors' report on operations during 2021 and the proposed allocation of the profit for the year; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary and associated companies,

approves:

– the directors' report on operations;
– the financial statements as of 31 December 2021 in the results shown in the balance sheet and income statement and the related notes; financial statements that show a profit for the year of 212,099,145 euro. The Shareholders' Meeting therefore specifically approves the allocation of the

profit for the year of 212,099,145 euro, as proposed by the Board of Directors in accordance with the provisions of the Law and the Articles of Association, and more specifically resolves:

a) to pay a dividend of 0.20 euro to each of the 453,385,777 shares in circulation at 31/12/2021 with dividend rights as from 01/01/2021, transferring to the legal reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of	euro	90,677,155.40
b) to allocate the residual profit:		
– to the charity fund	euro	300,000
– to the legal reserve	euro	121,121,989.60

In accordance with the Stock Exchange calendar, the dividend will be paid from 25 May 2022, going ex-coupon no. 44 on 23 May 2022.

Point 2) on the agenda: Resolutions on compensation matters:

letter a): Approval of the document entitled «Remuneration Policies of the Banca Popolare di Sondrio Banking Group»;

Dear Shareholders,

In implementation of the Supervisory instructions for banks on compensation and incentive policies, the Shareholders' Meeting held on 11 May 2021 approved the «Remuneration Policies of the Banca Popolare di Sondrio Banking Group».

At the board meeting held on 21 March, the Board of Directors of the Bank resolved to make a number of changes to the «Policies» proposed by the Remuneration Committee.

Compared with last year, in addition to a few simple updates, the list of the most significant personnel was also supplemented on the basis of the specific Regulations for the identification and/or exclusion of the most significant personnel, which were recently updated to take account of new legislation. A new chapter dedicated to the gender neutrality of Remuneration Policies was also included, implementing the provisions of Circular no. 285 of 17 November 2013 Supervisory Provisions for Banks, as amended and supplemented by its 37th update issued on 24 November 2021. In particular, the principles and measures adopted to ensure the gender neutrality of the Remuneration Policies have been formalised and justified. Finally, the materiality threshold below, which deferred payment with financial instruments on the variable part of remuneration is not applied to the most significant personnel, has been identified. This threshold is that provided for by the Supervisory Provisions in force: 50,000 euro, with the additional condition that the variable portion does not represent more than one-third of the total annual remuneration.

In implementing the Bank of Italy's instructions and art. 16 of our current articles of association, we submit for your approval the document containing the «Remuneration Policies of the Banca Popolare di Sondrio Banking Group», which has been made available as required by law, in particular through publication on the Bank's website https://istituzionale.popso.it/en/investor-relations/shareholders-meeting. It is also attached to the booklet containing the draft of the Annual Financial Report.

The Compliance Unit has been involved in the process of validating the Remuneration Policies and found that they, also considering the innovations introduced, comply with the rules, the articles of association, the corporate code of ethics and the standards of conduct applicable to the Bank, also in relation to its activity of management control and coordination of the Banking Group.

Dear Shareholders,

The supervisory instructions on compensation policies and practices require the information provided to the Shareholders' Meeting about the compensation and incentive systems and practices adopted to be consistent with that supplied to the public on the website.

It is therefore necessary to make available to the Shareholders' Meeting, as an attachment to the aforementioned Annual Financial Report, the Document on Remuneration Policies pursuant to the supervisory regulations. That document, approved by the Board of Directors, contains the information and data required by the current Supervisory Regulations for Banks, Title IV, Chapter 2, Section VI.

This document is also published on the company website at the following address https://istituzionale.popso.it/en/governance/corporate-documents.

The Remuneration Committee has fulfilled the tasks entrusted to it by legislation and the specific Regulations approved by the Board of Directors. In carrying out its work the Committee met 4 times in 2021 and has, in particular, served in an advisory role, making proposals to the Board of Directors. It has monitored correct application of the rules relating to the remuneration of those in charge of internal control functions.

The Remuneration Committee has implemented the following activities:

– the Remuneration Committee explained its activities to the Board of Directors and the Shareholders' Meeting in the report approved at the meeting held on 26 March 2021;
– considered the indications given by the European Central Bank on the subject of remuneration policies in the context of the health emergency caused by the Covid-19 pandemic and their consistency with the Banca Popolare di Sondrio Banking Group's remuneration policies;
– recommended the adoption of the Remuneration Policies for the BPS Banking group that, following approval by the Board of Directors, were then authorised at the Shareholders' Meeting held on 11 May 2021;
– recommended adoption by the Board of Directors of the Report on remuneration policies and compensation paid required by art. 123-ter of

Legislative Decree 58/98, which was then approved at the Shareholders' Meeting, as the public disclosure on remuneration and incentive policies and practices required by the supervisory regulations and as Information Document on the 2021 Compensation Plan based on financial instruments, which was also approved by the Shareholders' Meeting;

– assisted the Board of Directors in preparing the shareholders' resolution on the annual remuneration of the Board of Directors;
– assisted the Board of Directors regarding the formulation to the Shareholders' Meeting of the proposals relating to the annual remuneration, valid for the three-year period, of the Board of Statutory Auditors;
– made proposals regarding the remuneration of those persons whose compensation and incentive systems are decided by the Board of Directors. For this purpose, it checked that the established quantitative, qualitative and functional objectives have been met;
– subsequent to approval of the Remuneration Policies by the Shareholders' Meeting, the Remuneration Committee also presented proposals for the remuneration of directors with specific responsibilities;
– proposed criteria and parameters to the Board of Directors for the recognition to key employees of variable remuneration linked to the economic-financial, qualitative and functional objectives specified in the Remuneration Policies;
– proposed thresholds to the Board of Directors, in terms of amount and percentage of fixed remuneration, below which key personnel would not be subject to the deferral criteria or stock-based payment;
– formulated proposals concerning the remuneration of the most relevant staff and, moreover, of the heads of the main business lines and corporate functions, of the most senior staff in control functions, of those who report directly to the Board of Directors and the Board of Statutory Auditors.

The Remuneration Committee has found no anomalies in the application of the Remuneration Policies during the exercise of its functions.

Dear Shareholders,

Having regard for the above, the Board of Directors invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' report:

hereby resolves:

to approve the «Remuneration Policies of the Banca Popolare di Sondrio Banking Group»

and takes note

of the Report to the public required by the supervisory regulations on Remuneration and incentive policies and practices, and of the information received about the activities of the Remuneration Committee.»

letter b) Approval, pursuant to art. 123-ter of Legislative Decree 58/98, Consolidated Finance Act, of the Report on Remuneration Policy and the Compensation Paid;

Dear Shareholders,

In implementation of art. 123-ter of Legislative Decree 58/98, Consolidated Finance Act, and related regulations approved by CONSOB, the Board of Directors has approved the «Report on Remuneration Policy and the Compensation Paid», which comprises two sections.

The first section explains the policies adopted by the Bank for the remuneration of directors, the general manager, managers with strategic responsibilities and members of the control body, with reference to at least the next financial year; it also covers the procedures for adopting and implementing this policy. Among other matters, the Report also explains the proposed changes to the remuneration policies. The second section illustrates with charts and tables, in the form required and with reference to the positions involved by the regulations, the compensation paid during the year concerned.

Pursuant to art. 123-ter, paragraph 1, of the Consolidated Finance Act, the «Report on Remuneration Policy and the Compensation Paid» is distributed and made available to the public on the basis and with the timing envisaged in current legislation, in particular via publication on the Bank's website https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

It is also attached to the draft of the Annual Financial Report.

Pursuant to art. 123-ter, paras.3-bis and 3-ter of the Consolidated Finance Act, we now submit for your binding approval the first section of the «Report on Remuneration Policy and the Compensation Paid».

In addition, pursuant to art. 123-ter, para.6 of the Consolidated Finance Act, we submit for your approval the second section of the «Report on Remuneration Policy and the Compensation Paid», in relation to which the Shareholders' Meeting may adopt a non-binding resolution in favour or against.

Dear Shareholders,

Having regard for the above, the Board of Directors invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' explanatory report:

hereby resolves:

to approve the first section of the Report on Remuneration Policy and the Compensation Paid».

Management also invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' explanatory report:

hereby resolves:

to approve the second section of the Report on Remuneration Policy and the Compensation Paid».

letter c) Approval of the Compensation Plan, pursuant to ex art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group for 2022.

Dear Shareholders,

We submit for your approval the Compensation Plan, pursuant to ex art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group for 2022.

The proposed approval is set out in the Information Document relating to the 2022 Share-based Compensation Plan, which has been made available in the manner required by law, in particular by publication on the Company's website at https://istituzionale.popso.it/en/investor-relations/shareholders-meeting and is attached to the file containing the draft Annual Financial Report.

Dear Shareholders,

Having regard for the above, the Board of Directors invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the explanatory report and attached report:

hereby resolves:

to approve the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group for 2022».

Point 3) on the agenda: Authorisation to purchase and sell treasury shares pursuant to art. 8 of the Articles of Association and articles 2357 and 2357-ter of the Italian Civil Code, art. 132 of Legislative Decree 58/98, Consolidated Finance Act, and article 144-bis of Regulation no. 11971 approved by Consob resolution of 14 May 1999, and authorisation to use the treasury shares already held in service of the Compensation Plan in implementation of the Remuneration Policies;

Dear Shareholders,

Art. 8 of the Articles of Association provides that: «The Company may, within the limits and in the forms provided for by the provisions in force, purchase and sell treasury shares».

This matter is governed by the Italian Civil Code, in particular articles 2357 et seq., article 132 of Legislative Decree 58/98 Consolidated Finance Act and Regulation no. 11971 approved by Consob resolution of 14 May 1999, as amended («Issuers' Regulation»), as well as articles 77 and 78 of EU Regulation no. 575/2013, as amended. In particular, articles 73, 144-bis and 144-bis.2 of Issuers' Regulation establish how information should be communicated to the General Meeting and the procedures for carrying out purchases and sales. The instructions contained in Regulation (EU) 596/2014 (the Market Abuse Regulation or MAR) are also applicable. Finally, it is recalled that on the basis of the provisions of IAS 32 «Financial instruments: presentation in the financial statements and additional information», paragraph 33, the shares purchased must be deducted from shareholders' equity.

The proposal is to renew the authorisation granted by the Shareholders' Meeting of 11 May 2021 to purchase and sell treasury shares, which expired today.

Reasons for requesting authorisation to purchase and/or sell treasury shares

The purchase, trading and sale of treasury shares are intended, and are therefore appropriate and useful, to create in advance a package of shares available for special transactions designed to establish forms of partnership or collaboration with other industrial or financial operators, also active in the core business addressed by the Bank, as well as for small operations in the market designed to ensure liquidity and stable volumes for trading in the interests of the shareholders and the Bank, thus avoiding uncertainties and unjustified fluctuations in the share price. In addition, treasury shares may be purchased as a medium/long-term investment or, in any case, to take advantage of market opportunities whenever appropriate, both in the market and (solely with regard to disposals) over the counter, or even off market, on condition that reference is always made to the official listed price. With a view to optimising the capital structure, treasury shares may also be purchased with a view to capital reductions by cancellation of the treasury shares acquired, which may be arranged whenever deemed to be in the interests of the Bank.

Maximum number, category and value of the shares for which authorisation is requested

Today, share capital comprises 453,385,777 ordinary shares, all of which carry normal dividend rights.

In compliance with the limits established by current legislation, the authorisation relates to the purchase, on one or more occasions, of treasury shares totalling a maximum of 30,000,000 (thirty million) euro drawn from the available reserves that amount to 1,153,959,091 euro, as reported in the Reserves line item of the financial statements, on condition in all cases that the number of treasury shares held shall not exceed 2% of the issued share capital.

The request for authorisation grants the Board of Directors the right to carry out repeated purchases and sales (or other forms of assignment) of treasury shares, on multiple occasions and on a revolving basis, including transactions that only involve a fraction of the maximum authorised quantity, so that – in all cases and at any time – the sum of the shares to be purchased and those already held by the Bank does not exceed the limits envisaged by law or by the Shareholders' authorisation.

Information for checking compliance with the limits referred to in art. 2357 of the Italian Civil Code

Purchases cannot be made for amounts that exceed the available reserves reported in the latest-approved financial statements of the Bank.

In this regard, it is noted that the draft financial statements at 31 December 2021, submitted for approval at the same Shareholders' Meeting called to approve this requested authorisation and assuming such approval is given, report available reserves totalling 1,153,959,091 Euro.

At the time of preparing this report, 21 March 2022, the Bank holds no. 3,650,000 treasury shares, representing 0.80% of the share capital, with a carrying amount in terms of reserves committed of 25,321,549 euro. The subsidiaries hold no. 36,372 shares in the Company in the Company, equal to 0.008% of its share capital.

Given that the treasury shares held cannot, under the proposal made, exceed 2% of the shares comprising the share capital of the Bank, it is clear that the maximum limit allowed by art. 2357, para.3, of the Italian Civil Code, being 20% of share capital, is not exceeded.

If the shares purchased are sold, it is understood that the proceeds may be used to make additional purchases until expiry of the Shareholders' authorisation granted, without prejudice to the limits and conditions established at the Shareholders' Meeting.

Duration of the authorisation

The authorisation to purchase and dispose of treasury shares is requested for the period between the date of this Shareholders' Meeting called to approve the 2021 financial statements and the date of the Shareholders' Meeting called to approve the 2022 financial statements.

The Board of Directors may make the authorised purchases on one or more occasions at any time during the period indicated above.

Minimum and maximum consideration

Purchases must be made at a price that is not more than 20% greater than the closing price posted at the end of the market day immediately prior to each transaction and with a further limit that, depending on the trades carried out, the number of shares owned must not exceed 2% of the total shares representing share capital. Sales must be made at a price that is not more than 20% lower than the closing price posted at the end of the market day immediately prior to each transaction.

We also recommend granting authorisation, from the date of this Shareholders' Meeting called to approve the 2021 financial statements until the date of the Shareholders' Meeting called to approve the 2022 financial statements, for the disposal pursuant to art. 2357-ter of the Italian Civil Code, at any time, in whole or in part, on one or more occasions, of the treasury shares purchased in accordance with this proposed resolution or on the basis of previous authorisations, for the purposes described above and understood for all intents and purposes to be repeated here, as well as granting authorisation for the further use of all the treasury shares purchased in the context of and for the above purposes, in all cases on the terms and conditions determined by the Board of Directors.

With regard to any disposals of treasury shares arranged off market, the Board of Directors will establish criteria for determining the related price and/or the basis, timing and conditions for the use of the treasury shares held, having regard for the actual disposal procedures followed, the changes in the listed share price in the period prior to the transaction and the best interests of the Bank.

Any cancellations of the treasury shares purchased pursuant to this proposed resolution or previous authorisation must comply with the law and the articles of association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

Method for purchasing and selling shares

Pursuant to art. 132 of Legislative Decree no. 58/1998 and articles 144-bis and 144-bis.2 of the Issuers' Regulation, the purchase of treasury shares will be carried out, also in more than one occasion, according to one or more of the following methods: I) public offer to purchase or exchange (article 144-bis, paragraph 1, letter a, Issuers' Regulation); II) in regulated markets following the operating procedures established in compliance with regulations governing the organisation and management of those markets, which do not allow proposed purchase trades to be matched directly with specific proposed sale trades (art. 144-bis, para. 1, letter b, Issuers' Regulation); III) by purchasing and selling derivative instruments traded in regulated markets that envisage physical delivery of the underlying shares, on condition that the regulations governing the organisation and management of the market establish procedures for the purchase and sale of the above instruments that do not allow proposed purchase trades to be matched directly with specific proposed sale trades and that guarantee ready participation by investors in the trading of the above derivative instruments used for the purchase of treasury shares (art. 144-bis, para. 1, letter c, Issuers' Regulation); IV) in the context of systematic internalisation activities that are non-discriminatory and envisage the automated and non-discretionary execution of trades on the basis of predetermined parameters (art. 144-bis, para.1, letter d-bis, Issuers' Regulation); V) with the methods established by market practices accepted by Consob pursuant to art. 13 MAR (art. 144-bis, para.1, letter d-ter, Issuers' Regulation); VI) under the conditions indicated in art. 5 MAR (art. 144-bis, para. 1-bis, Issuers' Regulation).

With regard to the volume of shares, purchases and sales – the latter if carried out on the market – shall not exceed 25% of the daily average volume of shares traded on Borsa Italiana S.p.A.. The average volume is calculated based on the average daily trading volume over the 20 trading days prior to the date of each purchase.

The treasury shares will be sold, on one or more occasions, even before having purchased the maximum quantity, on the basis and with the timing deemed most appropriate in the interests of the Bank, using any means considered suitable in relation to the objectives pursued, including off-market sales, sales of blocks of shares and/or assignments consistent with the objectives identified above, without prejudice in all cases to compliance with the duration of the Shareholders' authorisation, the requirements established for the minimum and maximum prices and all applicable regulations.

<u>Capital reductions by cancellation of the treasury shares acquired or held</u>

Any cancellations of treasury shares will have to take place in compliance with the law and the articles of association, using the reserve for treasury shares to cover any differences between their cancellation value and purchase price.

* * *

In implementation of above articles of association and in compliance with the relevant regulations, the Board of Directors recommends that the Shareholders' Meeting adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today,

- taking note of the recommendation of the Board of Directors;
- taking note of the current legal requirements and the provisions of the Articles of Association;
- acknowledging that, today, the Bank holds no. 3,650,000 treasury shares, representing 0.80% of share capital, with a carrying amount in terms of reserves committed of euro 25,321,549, while subsidiaries hold no. 36,372 shares representing 0.008% of the share capital of the Bank.

hereby resolves:

- to authorise the Board of Directors to purchase and/or dispose of ordinary treasury shares and/or to cancel them, pursuant to current legislation and the Articles of Association, for the period of time between today's date and the date of the Shareholders' Meeting called to approve the 2022 financial statements, on the basis specified below, on condition that the start of the purchase programme, or its suspension and/or its termination is authorised by the Board of Directors, with the right to delegate to the Executive Committee, which will therefore publish the information required pursuant to art. 144-bis, para.3, Issuers' Regulation on the programme start date;

<u>Purchases of treasury shares</u>

- o purchases may be made up to a maximum amount of 30,000,000 (thirty million) euro without exceeding the available reserves, on condition in all cases that the number of shares held never exceeds 2% of the shares representing share capital;
- o purchase transactions may be made at any time until the date of the Shareholders' Meeting called to approve the 2022 financial statements;
- o the purchase price of the shares must not be more than 20% greater than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction;
- o purchases must be made in one of the ways specified in para.1, letters a), b), c), d-bis), d-ter), or in para.1-bis of art. 144-bis of Regulation 11971 approved by Consob on 14 May 1999, as subsequently amended.

<u>Trading and sale of treasury shares</u>

- o the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be traded and disposed of and, therefore, assigned even prior to making the maximum purchase covered by this requested authorisation, on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank;
- o the disposals or dispositions may be made at any time prior to the Shareholders' Meeting called to approve the 2022 financial statements;
- o the treasury shares purchased may be disposed of, on one or more occasions, even prior to making the maximum authorised purchase of treasury shares;
- o the disposals may be made on the basis and with the timing deemed most appropriate in the interests of the Bank, in any manner considered suitable in relation to the objectives pursued, without prejudice in all cases to compliance with the authorisation conditions and the applicable regulations;

o the selling price of the shares – if sold in the market – must not be more than 20% lower than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction.

Maximum volume

o the purchases and sales – in the latter case if made in the market – must not exceed 25% of the average daily volume of the shares traded on the market run by Borsa Italiana S.p.A., calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each transaction.

Cancellation of treasury shares

o the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be cancelled on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank, without prejudice to compliance with the regulatory requirements and the Articles of Association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

– to grant the Board of Directors, and the Managing Director, on its behalf, all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market.

Dear Shareholders,

The Bank has updated the Remuneration Policies for 2022 that are submitted for approval at the Shareholders' Meeting, together with the Compensation Plan pursuant to ex art. 114-bis of Legislative Decree 58/98 CFA, whose characteristics are described in the Information Document on the 2022 Compensation Plan based on financial instruments.

With regard to key personnel – identified in the above Remuneration Policies pursuant to specific regulatory requirements – a Compensation Plan based on financial instruments has been devised, in the context of which any variable remuneration exceeding the threshold of significance determined, in terms of the size of the amount and its incidence with respect to fixed remuneration, is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the long-term business objectives. In particular:

– an up-front amount representing 60% of the total variable remuneration is paid in the following year, by the end of June;
– five equal annual tranches, equalling 40% of the total variable remuneration,

are deferred over a five-year period commencing from the year after that in which the up-front amount is paid;
– 50% of the up-front part and 55% of the deferred part is paid via the grant of shares in Banca Popolare di Sondrio spa. These shares are subject to a retention period of 1 year.

Considering the theoretical requirement estimated for the 2022 Compensation Plan based on financial instruments, covering the variable remuneration of key personnel and totalling a maximum of 490,000 euro, the Shareholders' Meeting is requested to approve a mandate for the Board of Directors to use the ordinary shares of Banca Popolare di Sondrio already held at the date of this resolution, up to a total amount of 490,000 euro, in order to service the 2022 Compensation Plan based on financial instruments. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

In this regard, we note that at 31 December 2021 and at today's date, the Bank holds 3,650,000 treasury shares with a carrying amount of 25.322 million euro.

Given the above and in compliance with the relevant laws and provisions of the articles of association, the Shareholders' Meeting is invited to adopt the following resolution:

«The Ordinary Meeting of the Shareholders of Banca Popolare di Sondrio, met today, having heard the proposal made by the Board of Directors:

hereby resolves:

to authorise the Board of Directors to use, up to a maximum total amount of 490,000 euro, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2022 Compensation Plan based on financial instruments during the life of that plan. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The Board of Directors, and the Managing Director, on its behalf, is also granted all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market».

Point 4) on the agenda: Determination of directors' emoluments;

Dear Shareholders,

Pursuant to art. 30 of the Articles of Association, it is up to the Shareholders' Meeting to set the annual remuneration of the Board of Directors. The Shareholders' Meeting also determines the amount of attendance fees and, possibly even as a lump sum, the reimbursement of expenses for the participation of the directors at the meetings of the Board, the Executive Committee and other committees in which the directors participate. Pursuant to the Remuneration Policies of the Banca Popolare di Sondrio Banking Group, this remuneration is always set as a fixed amount without impact on the financial statements, given that the amount involved is small. Forms of incentive pay based on financial instruments or linked to the company's performance are not foreseen for directors.

At its meeting of 21 March, the Board of Directors approved the proposal made by the Remuneration Committee for the annual remuneration of the directors. It is now submitted to the General Meeting. Given the economic and financial position of the Bank and having regard for the commitment required of the directors in order to fulfil their important and delicate functions, we deem to submit to the Shareholders' Meeting for approval the following proposal.

Dear Shareholders,

Having regard for the above, the Board of Directors invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' report on setting the annual compensation of the directors:

hereby resolves:

- directors' emoluments: 45,000 euro for each director, giving a total of 675,000 euro;
- individual attendance fees:
  400 euro for attending meetings of the Board of Directors; 200 for attending meetings of the Executive Committee and Board committees; the chairmen of the Executive Committee and of the other Committees established within the Board of Directors are awarded an individual attendance fee of 300 euro;
- personal flat-rate reimbursements for the travel expenses incurred in order to attend meetings of the Board of Directors, the Executive Committee, the other Board committees:
- for residents in the province of Sondrio: 100 euro;
- for residents outside the province of Sondrio: 200 euro.

Point 5) on the agenda: Appointment of five directors for the three-year period 2022-2024.

Dear Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. Directors Federico Falck, Cristina Galbusera, Serenella Rossi, Domenico Triacca and Francesco Venosta have left office.

The provision of art. 20, para.2 of the Articles of Association applies, pursuant to which:

«The composition of the Board of Directors shall ensure collegial adequacy, as well as the presence of the minimum number of independent directors and gender balance in accordance with the legislation in force from time to time.»

The requirements of the directors and the causes of ineligibility are governed by Article 21 of the Articles of Association, as follows:

““““““

Art. 21 Requisites – Reasons for ineligibility

1. Members of the Board of Directors shall be eligible to serve, in accordance with the provisions of the laws in force from time to time and these Articles of Association. In particular, they must meet the requirements of professionalism and integrity and comply with the criteria of competence, fairness and dedication of time and the specific limits on the accumulation of offices prescribed by law for the performance of the office of director of a bank issuing shares listed on regulated markets.
2. Without prejudice to the fact that the activities of all Directors must be characterised by independence of judgement, with regard to the minimum number of Directors required by the legislation in force from time to time, the specific requirements for the qualification of independent director set out in art. 147-ter, fourth paragraph, of Legislative Decree no. 58/1998 and in the implementing legislation of art. 26 of Legislative Decree no. 385/1993 must be met. If an independent director no longer meets the specific independence requirements, the term of office does not expire if the remaining number of independent directors is sufficient to ensure compliance with the minimum number required by the legislation in force from time to time. However, the loss of the specific independence requirements determines the termination of the director's appointment to those positions for which the status of independent director is required by the Articles of Association or the legislation in force from time to time.
3. Without prejudice to compliance with the limits and prohibitions prescribed by the legislation in force from time to time, including, in any case, those provided for by the European Directive no. 36 of 26 June 2013, by means of specific regulations approved by the Board of Directors, the limits to the accumulation of offices in other companies by the Directors may be established.

””””””

Still on the subject of directors' requisites, mention should also be made of the regulations dictated by Decree no. 169 of 23 November 2020 of the Ministry for the Economy and Finance on the subject of requisites and eligibility criteria for the performance of the offices of corporate officers of banks, as well as the criteria published by the European Central Bank for the performance of the suitability assessment to be carried out as part of the fit and proper procedure to which the directors who are elected will be subject (Guide to the verification of the suitability requirements - December 2021).

The presentation of the lists of candidates is governed by article 23 of the Articles of Association, as follows:
""""""

Art. 23 Presentation of lists of candidates

1. The directors are appointed on the basis of lists containing up to the maximum number of Directors to be elected, in which the candidates are listed with progressive numbering.
2. The lists containing a number of candidates equal to or higher than three must be composed so as to ensure the minimum number of independent directors and gender balance required by the law in force from time to time in the composition of the Board of Directors resulting from the vote, taking into account – in the assignment of the sequential number to the candidates – the election mechanism set out in article 24 below.
3. Each candidate may appear on only one list under penalty of ineligibility.
4. The Board of Directors and shareholders who, alone or jointly, represent at least 1% of the share capital may submit a list, unless the law and regulations in force from time to time establish a lower percentage, to be indicated in the notice of call of the Meeting.
5. Each shareholder may take part in the submission of a list by signing at the bottom of it. A shareholder may not submit for more than one list, even through a third party or through trust companies. Shareholders belonging to the same group – i.e. the parent company, the subsidiaries and the companies subject to joint control – and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree no. 58/1998 concerning the issuer's shares, may not submit more than one list, even through a third party or trust company. In case of non-compliance, the stipulation will not be counted for any list.
6. The lists shall be filed at the registered office – also by means of distance communication – according to the methods notified in the notice of call, which allow to identify the persons who filed them, by the twenty-fifth day prior to the date set for the Meeting, or within any other term set out by the law in force from time to time.
7. The lists shall be accompanied by the information related to the identity of the shareholders who have submitted them, with an indication of the number of shares and of the corresponding total percentage held by the

submitting shareholders and – within the terms set out by the law in force from time to time – by a notice proving the ownership of the equity investment, as well as by any other information required by said law. Shareholders who submit a list and who are different from shareholders holding a controlling stake or a relative majority shall also submit a statement certifying the absence of any relationship with said shareholders, which can be qualified as significant according to the law in force from time to time.

8. The ownership of the number of shares necessary to submit the lists is determined by taking into account the shares that are registered in favour of the individual legitimated person or group of legitimated persons submitting the list, on the day when the lists are filed at the registered office. In order to prove the ownership of the number of shares suitable for the submission of lists, the persons entitled to do so shall file – together with the list – the notice issued by an intermediary authorised by law, showing the ownership of the related number of shares. The communication required in order to prove the ownership of shares may be made even after the filing of the list, provided that it is made at least twenty-one days before the date of the Meeting and according to the methods set out by the law in force from time to time.
9. Together with each list, detailed information on the personal and professional characteristics of the candidates and the list of offices held in other companies shall be filed at the registered office, as well as the declarations in which the candidates accept the candidature and, under their own responsibility, state that they are suitable for the office, by certifying, in particular, the non-existence of any reasons for ineligibility and incompatibility and the possession of the requirements set out by current legislation and by these Articles of Association for holding the office of director. Candidates shall state whether they comply with the specific independence requirements set out in the legislation in force from time to time for the position of independent director, and this quality shall be indicated in the lists.
10. Lists for which the above requirements are not observed shall be considered as not submitted. However, any irregularities in lists concerning single candidates shall not automatically imply the exclusion of the whole list, but only of the candidates to whom the irregularities refer.

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Only shareholders who, on the date of submission of the list, own – alone or together with others – voting shares representing a total of at least 1% of the share capital are entitled to submit a list.

Lists of candidates for the office of director must be filed at the registered office by the twenty-fifth day prior to the date of the Meeting, i.e. by 5 April 2022.

Submitting shareholders have to prove the ownership of the required number of shares by means of specific documents issued by an authorised intermediary in compliance with current legislation, with regard to the shares registered in their favour on the day on which the lists are filed with the Bank; if not available at the time of filing the lists, such documents shall be received by the Bank by the twenty-first day before the date set for the Shareholders' Meeting, i.e. by 9 April 2022.

Lists for the election of the Board of Directors can also be filed electronically by certified e-mail to segreteria@postacertificata.popso.it.

Pursuant to the current «Supervisory Regulations for Banks», Circular no. 285 of 17 December 2013, the Board of Directors carried out a preliminary analysis to determine the optimal quali-quantitative composition of the Board and the profile of suitable candidate directors.

The results of this analysis are reported in the document entitled «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio», published on the Bank's website https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

This document has been made known to the Bank's shareholders, so that the choice of candidates to be submitted for the renewal of the Board of Directors can take into account the professional skills required to perform the tasks entrusted to the Board.

The Board of Directors, availing itself of the provisions of art. 23, paragraph 4 of the above-mentioned Articles of Association, reserves the right to submit its own list of candidates, which will be made public in advance of the deadline for the filing of the lists by the shareholders.

The election of directors is governed by art. 24 of the Articles of Association, as follows:
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Art. 24 Election of the directors

1. A shareholder may not vote for more than one list, even if through an intermediary or trust company. Shareholders belonging to the same group – i.e. the parent company, the subsidiaries and the companies subject to joint control – and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree no. 58/1998 concerning the issuer's shares, may not vote for more than one list, even through a third party or trust company.
2. Except as provided in paragraph 10 of this article below, the election of directors shall be conducted as follows:
   a) from the list that obtained the highest number of votes are taken, in the progressive order in which they are listed in the list, all of the Directors to be elected, except the last one;
   b) the candidate in first place is taken from the list that obtained the second highest number of votes and that was not submitted or voted by shareholders connected with the shareholders who submitted or voted the list that obtained the highest number of votes, according to the legislation in force from time to time.

3. If it is not possible to complete the Board's composition, due to a possible lack of candidates on the list that obtained the highest number of votes, this shall be carried out by taking from the list that obtained the second highest number of votes – in the order in which they are listed – any candidate that was not yet elected, so as to comply with the provisions in force from time to time concerning the minimum number of independent directors and gender balance.
4. Lists that have not obtained at the Shareholders' Meeting a number of votes equal to at least half of the percentage of capital necessary for the submission of the lists will not be taken into consideration.
5. If only one list exceeds this limit, and the same applies to the submission of a single list, all the Directors shall be taken from that list, subject to compliance with the legislation in force from time to time concerning the minimum number of independent Directors and gender balance.
6. If two or more lists among those from which the candidates are to be drawn have obtained the same number of votes, the same shall be subject to a second ballot until the number of votes obtained ceases to be equal.
7. If the composition of the Board of Directors resulting from the vote does not ensure the appointment of the minimum number of independent directors required by the law in force from time to time, the non-independent candidate elected in the list that obtained the highest number of votes and that is marked by the highest sequential number is replaced by the next candidate of the same list who complies with the specific independence requirements set out by the law in force from time to time for the position of independent director. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. If no suitable replacements can be found, or if it is impossible to apply the mechanism, the Meeting shall resolve by relative majority among single candidates who comply with the specific independence requirements set out by the law in force from time to time for the position of independent director, upon proposal of the persons who have the right to vote, and replacements shall be carried out in the above-mentioned order.
8. Furthermore, in the event that the composition of the Board of Directors resulting from the outcome of the vote does not comply with the principle of gender balance, the director, without the requisite required, is elected from the list that obtained the highest number of votes and characterised by the highest progressive number, it is replaced by the next candidate on the same list belonging to the less represented gender. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. Even if suitable substitutes are not identified, or if the mechanism cannot be applied, the Shareholders' Meeting resolves on the spot by a relative majority between individual candidates belonging to the less represented gender, on the proposal of the persons present who have the right to vote, proceeding with replacement in the order indicated above.

9. If no list is validly submitted, the election shall be carried out by means of a relative majority of the candidates submitted to the meeting together with the filing of the required documentation, provided that the independence requirements are met in the number required by these Articles of Association and that the rules on gender balance in force from time to time are complied with.
10. For all partial renewals of the Board, also according to what is provided for by art. 22, paragraph 2 above, as long as the director taken from a list that in a previous election obtained the second highest number of votes is in office (and therefore it is not necessary to appoint for the first time or due to expiry of the term of office or other cause for termination of said director), all the candidates of the list that obtained the highest number of votes shall be elected.

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Reference should be also made to the recommendations made by Consob in Notice no. DEM/9017893 of 26 February 2009 with regard to the relations between lists pursuant to art. 147-ter, paragraph 3 of Legislative Decree 58/98, Consolidated Finance Act, and Article 144-quinquies of Regulation no. 11971 approved by Consob resolution of 14 May 1999, to which reference should be made.

The Board of Directors therefore invites you to appoint five directors through the voting list to replace the ones whose mandate has expired.

Sondrio, 21 March 2022

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING CALLED TO APPROVE THE FINANCIAL STATEMENTS AT 31 DECEMBER 2021

Dear Shareholders,

pursuant to art. 153 of Legislative Decree 58/1988 (Consolidated Finance Act), in compliance with the provisions of art. 2429, paragraph 2, of the Italian Civil Code, in compliance with the statutory provisions and the provisions issued by the national and European Supervisory and Control Authorities, with this Report the Board of Statutory Auditors of Banca Popolare di Sondrio (hereinafter, also the «Bank» or «Parent Company») illustrates the activities carried out in 2021, complying, among other things, with the principles of conduct of the Board of Statutory Auditors for listed companies recommended by the National Council of Chartered Accountants and Accounting Experts, as well as the indications provided by the CONSOB Communication no. 1025564/2001 and its subsequent amendments and additions.

Introduction

On 11 May 2021, the Shareholders' Meeting renewed the Board of Statutory Auditors, which had ceased to hold office for three years, appointing for the following period and until approval of the financial statements as at 31 December 2023 its members in the persons of Serenella Rossano (Chair), Massimo De Buglio and Laura Vitali (Standing Auditors). The Auditor Laura Vitali was already present in the previous composition of the Board. During the year, the Board took part in the training programmes of the Corporate Bodies.

The functions of the Supervisory Body pursuant to Legislative Decree 231/2001 are entrusted to an independent body set up for this purpose, consisting of an external member and the Heads of the Bank's Internal Audit, Compliance and Legal Departments.

The financial statements of the Bank and of the banking Group headed by Banca Popolare di Sondrio for the year ended 31 December 2021 were approved by the Board of Directors on 21 March 2022 and were sent to the Board of Statutory Auditors, together with the Report on Operations and the other documents required by law.

Supervisory activities

In compliance with the provisions of the Italian Civil Code and of article 149 of the Consolidated Finance Act (CFA), the Board of Statutory Auditors supervised (I) compliance with the law and the Articles of Association; (II) compliance with the principles of proper administration and transactions with related parties; (III) the adequacy of the organisational structure, the system of internal control and the administrative-accounting system; (IV) the practical application of the corporate governance rules envisaged pursuant to current legislation; (V) the adequacy of the instructions given to Group companies.

I) On compliance with the Law and the Articles of Association

During 2021, as provided for in paragraph 2 of the above-mentioned article of the Consolidated Finance Act and article 42 of the Bank's Articles of Association, the Board of Statutory Auditors attended the Shareholders' Meetings (2), the meetings of the Board of Directors (15) and those of the Executive Committee (formerly the Chair's Committee) (42).

The Board of Statutory Auditors, by participating in the meetings of the Board of Directors and the Executive Committee, monitored the compliance with the Law and the Articles of Association of the decisionmaking processes and was able to find that the related resolutions adopted in the financial year 2021 were adopted with adequate information and are in the interest of the Bank.

The systematic participation in the meetings of the Board of Directors and the Executive Committee allowed the Board, in accordance with the provisions of art. 150 of the Consolidated Finance Act, to obtain information on the most significant transactions carried out during the year by the Bank and by the other Group companies.

Moreover, the Board of Statutory Auditors took part – upon invitation – in all the meetings of the Control and Risk Committee; also through one member, it attended – also upon invitation – some meetings of the Related Parties, Remuneration and Appointments Committees. In order to further improve the flow of information to the Board of Statutory Auditors, as well as to allow the greatest possible timeliness in the knowledge and gathering of information, the latter has represented to the Board of Directors the advisability of evaluating the integration of the Regulations of all the above-mentioned Committees, so as to provide, on an ordinary and systematic basis, that the convocation of their meetings be sent also to the members of the Board itself.

The Board has also interacted with the Supervisory Body, whose meetings have always been attended by at least one of its members, thus encouraging a constant exchange of information on specific issues of common relevance and, in particular, on the monitoring of the risks of commission of the offences provided for in the reference legislation.

During 2021, the Board of Statutory Auditors created a plan of its own meetings (56) which were also implemented following scheduled and periodic meetings with the Control Functions; it also held frequent meetings with corporate offices and structures, concerning specific management aspects or facts. In the current year and up to the date of approval of this Report, the Board of Statutory Auditors has held 16 meetings.

During 2021, the Board of Statutory Auditors issued an opinion pursuant to art. 23, paragraph 8, of MEF Decree 169/2020 on the occasion of the declaration of disqualification of Mr. Luca Frigerio from the position of Director, resolved by the Board of Directors on 5 October 2021; the Board made its observations on the basis of the documents collected by the Appointments Committee concerning the process that led to assessing the professionalism requirement for Director Frigerio as unsuitable, with respect to the new regulations applicable to banking representatives.

The Board of Statutory Auditors supervised, also by taking part in the meetings of the Appointments Committee, the co-option procedure of the Director Mr. Molla carried out by the Committee itself and by the Board of Directors, expressing the approval required by art. 37 of the Bank's Articles of Association in this regard.

Transformation into a Joint-Stock Company

It should be noted that the transformation is part of the reform of popular banks, contained in Decree Law no. 3 of 24 January 2015, converted by Law no. 33 of 24 March 2015, which established that the assets of a popular bank could not exceed the amount of 8 billion euro. The Legislator has repeatedly postponed the time limit for the transformation of banks into joint-stock companies, setting it, most recently – with Law no. 120 of 11 September 2020 (converting with amendments Decree Law no. 76 of 16 July 2020) – at 31 December 2021. Within this regulatory framework, Banca Popolare di Sondrio also decided to wait for the conclusion of the judicial process initiated before the Council of State which, with its own judgement published on 31 May 2021, declared the legitimacy of the regulatory provisions implementing Law no. 33 of 24 March 2015 submitted to its judgement.

The Shareholders' Meeting of Banca Popolare di Sondrio – held in extraordinary session on 29 December 2021 – therefore resolved to transform the Bank from a cooperative company limited by shares into a joint-stock company, with the consequent adoption of new Articles of Association. The transformation took effect on 5 January 2022, the date on which the shareholders' resolution was recorded in the Sondrio Companies Register. Following this, the procedure was activated to ensure the possibility of exercising the right of withdrawal for the Bank's Shareholders, including those who did not take part in the approval of the transformation resolution pursuant to article 2437 of the Italian Civil Code. The no. 12,676 shares belonging to shareholders who exercised their right of withdrawal were offered under option, pursuant to art. 2437-quater of the Italian Civil Code, to all shareholders holding shares for which the right of withdrawal had not been exercised. The rights offering and preemption ended on 7 March 2022 with all shares subscribed.

The Board of Statutory Auditors carried out specific activities during 2021, in order to supervise the correct implementation of the transformation process within the deadlines set by law.

Covid-19

With respect to the organisation of the safeguards implemented by the Bank in 2021 to address the permanent health emergency, please refer to the Directors' Report which provides adequate disclosure in this regard.

The Board of Statutory Auditors – which is constantly informed about the above-mentioned measures through access to the specific weekly reports – organised its activities in 2021 by reducing, as far as possible, the use of remote methods both in the relations with the administrative body and in the meetings with the Control Functions and the Independent Auditors.

The Board of Statutory Auditors hopes that in the course of the 2022 financial year the operating methods prior to the spread of the pandemic can be fully restored. In particular, it expects to be able to return to carrying out, in line with past years and with the assistance of the Internal Audit Function, supervisory activities also at the Network, in the most important Territorial Areas and at the Swiss subsidiary.

The Board of Statutory Auditors is of the opinion that the Bank has adopted adequate preventive measures and sufficient controls to guarantee the continuation of operations and that the measures adopted have made it possible to manage the effects of the pandemic in line with the legal provisions in force from time to time; in fact, no critical situations or needs affecting the normal provision of services to customers have been reported by the competent structures.

With regard to the impact on the Bank's economic and equity situation, in 2021 – as reported by the Directors – thanks to the recovery of economic activities and also by virtue of the loans granted by the ECB, improvements were achieved both in the Bank's economic indicators and in the quality and cost of credit.

Operations and facts of greatest significance in economic, financial and capital terms involving the Bank or its subsidiaries

In their Report on Operations, the Directors described the most significant business, financial and capital activities that occurred in 2021. The Board conducted specific in-depth studies with the Company's departments on the projects underway in various areas, developing a dynamic of constant and fruitful discussion within the scope of their respective competences.

Based on the results acquired in carrying out supervisory activities and the information provided by the Directors pursuant to art. 150 of the Consolidated Finance Act, the Board deems it appropriate, as far as it is concerned, to summarise the most significant events which, in addition to the aforementioned transformation into S.p.A., occurred in 2021.

- In 2021, contributions to the National Resolution Fund and the Interbank Deposit Protection Fund for the stabilisation of the banking system were booked for a total of 43 million euro.
- On 30 March 2021, the Board of Directors approved the 2021-2025 Strategic

Plan, Capital Plan and NPL Operating Plan.

- On 7 July 2021, the Bank issued its first Senior Green Bond for 500 million euro, while on 18 November, a Tier2 bond for 300 million euro was issued; both issues were reserved for institutional investors.
- On 29 September 2021, the Bank repaid two T-LTRO III loans in advance for a total of 3,700 million euro and subscribed a new tranche for the same amount in order to extend the maturity. At 31 December 2021, the book value of the TLTRO III liabilities amounted to 8,874 million euro and the related accounted interest amounted to 83 million euro.
- During the month of December 2021, as part of the derisking process started already in previous years, the Bank carried out the third securitisation transaction through a multi-originator sale, relating to loans classified as non-performing originating from eleven banks, for a total value of 789.2 million euro, of which 420.9 million euro referable to Banca Popolare di Sondrio (57% of secured loans). This transaction, described in detail in the Explanatory Notes, to which reference should be made, resulted in a loss on disposal of 2.7 million euro, plus 1.5 million euro in other expenses.

Significant events after 2021

Among the events that occurred after the close of 2021, the Board of Statutory Auditors believes it is worth mentioning mainly the following.

- On 3 February 2022, the Bank received notification from the ECB, at the conclusion of the annual SREP prudential review and assessment process conducted in 2021, of the new decision regarding prudential requirements to be met on a consolidated basis, effective 1 March 2022. Based on data at 31 December 2021, the Bank has capital ratios consistent with the new thresholds. For further details in this regard, reference should be made to the following paragraph concerning Relations with the Supervisory Authorities and the SREP process.
- On 1 March 2022, a binding agreement was signed with Banco BPM for the acquisition of 39.5% of the capital of Factorit S.p.A., in which the Bank already held the remaining 60.5% interest; on 15 March 2022, the aforementioned agreement to acquire the stake was executed and Factorit S.p.A. is now 100% owned by the Bank.
- On 14 March 2022, the independent agency Standard Ethics, at the end of its annual rating review process, improved the Bank's long-term sustainability rating from «EE» stable to «EE+» and confirmed the corporate rating at «EE».
- On 17 March 2022, the agreement to purchase the shares of Rent2Go S.r.l. held by these shareholders, equal to 66.66% of the share capital of the company itself, was signed with the industrial shareholders, resulting in Rent2Go S.r.l. now being 100% owned by the Bank.
- On 31 March 2022, the Board of Directors resolved to submit its own list of candidates for the partial renewal of the administrative body, which is on the agenda of the Shareholders' Meeting called for 30 April 2022. At the

same time, a resolution was passed to proceed with the solicitation of proxies pursuant to ex art. 136 of the Consolidated Finance Act with the help of a specialist consultant.

– On 4 April 2022, a second list of candidates for the partial renewal of the Board of Directors was filed, in compliance with the terms of the Articles of Association, by 13 Shareholders holding a total equity investment in the Bank's share capital equal to 6.36389%.

Russia-Ukraine Conflict

As is well known, since the end of February 2022, there has been an ongoing conflict following Russia's armed invasion of Ukraine; the European Union immediately launched significant sanctions, applicable in all Member States directly, which also affect the financial operations of Russian citizens and companies. In this regard, CONSOB, the Bank of Italy, IVASS and the FIU have jointly recommended that supervised entities pay particular attention to compliance with these measures and to monitoring the risk of cyber attacks and malware activities, with particular reference to the continuity plan. In addition, CONSOB, in its recommendation of 18 March 2022, expressly requested Issuers to promptly quantify the impact of the crisis on their fundamentals, prospects and financial situation.

As far as management is concerned, including in the context of financial statement disclosure, there is no impact on the financial statements as at 31 December 2021 of the Bank and the Group, nor, at present, is the operating activity of the banking group directly affected. However, this event, whose macroeconomic effects are not yet fully measurable and predictable, entails greater uncertainties that could affect the context in which the Banking Group operates. Due to these uncertainties, the Board, as already announced, decided to postpone the approval of the business plan.

In examining the financial reports, including interim reports, for 2022, the Board will pay particular attention to the assessment, already under way by the Bank, of the direct and indirect impact of the effects of the conflict.

II) On compliance with the principles of correct administration and on transactions with related parties

During 2021, we gathered information about the principal economic and financial transactions carried out by the Bank. On the basis of the information collected, we can reasonably exclude that manifestly imprudent, risky, conflict of interest operations, in contrast with resolutions adopted by the Bank or such as to compromise the integrity of the corporate assets, have been carried out, including through subsidiaries of the same.

The information received during meetings of the Board of Directors and Committees, that collected during the periodic interviews with the Managing Director, CFO, Responsible Manager, Management, the Heads of the second and third level Control Functions, the Boards of Statutory Auditors of the directly controlled companies and the Independent Auditors, did not highlight the existence of atypical or unusual transactions carried out by the Bank with third parties, with companies of the Banking Group or with other related parties, pursuant to art. 2391-bis of the Italian Civil Code.

With regard to transactions with related parties/associated parties, to the best of the Board's knowledge, the Board of Directors complied with the rules set out in the Regulation on transactions with related parties issued by CONSOB Resolution no. 17221/2010 and subsequent amendments, Bank of Italy Circular no. 285/2013, containing the rules on «Risk activities and conflicts of interest in relation to related parties», art. 136 of Legislative Decree 385/1993, as well as IAS 24 for information with related parties; this was done in compliance with internal procedures and in awareness of the risk and effects of the decisions taken. On the basis of what was presented to the Board, the transactions were settled at normal market conditions, in light of evaluations of objective mutual convenience and correctness, and did not significantly affect the financial and economic situation of the Bank and the Group. Finally, we inform you that the operations referred to in art. 136 of the Consolidated Banking Act, no. 8 in 2021, were assessed by the Related Party and Affiliated Party Transactions Committee and unanimously approved by the Board of Directors, with the favourable vote of all the members of the Board of Statutory Auditors and in any case in compliance with regulatory provisions.

III) On the adequacy of the organisational structure, the internal control system and the administrative and accounting system

Organisational structure

The Board, in 2021, exercised the supervisory activity for which it was responsible, acquiring the necessary information on the organisational structure of the Bank and the Group, in order to assess the adequacy of the structure and in particular of the control Functions.

The Board continued monitoring the implementation of remediation actions planned by the Bank following the recommendations and reinforcement requests communicated by the ECB and the Bank of Italy during the three-year period 2019-2021.

Considering the evolution of the legislation (CRD IV), we considered it appropriate to continue organising specific meetings with the second – and third – level control functions, with the aim of maintaining constant monitoring of all these risk controls.

The Board was able to ascertain the progress of the implementation of the «C-Suite», the organisation of the Chief Financial Officer (CFO) area and the Compliance, Internal Audit and Anti-Money Laundering Functions.

With regard to the Compliance, Anti-Money Laundering and Internal Audit Functions, with which the Board of Statutory Auditors maintained a constant flow of information during the year, the positive self-assessment by the relevant managers was acknowledged in terms of both quality and size of the respective structures. On the basis of the information acquired, the

Board of Statutory Auditors deems the capacity of these functions to carry out their duties to be adequate. Moreover, it will continue to monitor the adequacy and operational effectiveness of these Functions and does not exclude that further needs and adjustments in terms of resources may emerge.

The Board examined the reports issued by the Control Functions during the year and monitored the progress of the remedial actions requested; the Board met five times with the Head of the Compliance and Anti-Money Laundering Function and nine times with the Head of the Internal Audit Function, gathering information on the results of the activities carried out.

The annual reports of the Control Functions show a substantially positive opinion of the internal control and risk monitoring structure.

The Board of Statutory Auditors also met the CRO and its Department on several occasions, both to receive information on the activities carried out by the area in question and to carry out in-depth studies in relation to the SREP process. The Board of Statutory Auditors deems it appropriate for the Function to give priority to the strengthening of the control processes through a more precise articulation of the governance, of the interactions with the other corporate and control functions and of the information flows towards the governance bodies, as well as to continue the monitoring of the various remediation activities implemented by the other competent corporate functions.

As far as ESG issues are concerned, the responsibility for the development of the culture of Sustainability and the preparation of the Non-Financial Report is entrusted to the structure of the CFO Area.

The structure that reports to the Responsible Manager falls within the area of the Managing Director. Taking into account the interrelationships existing between the administrative-accounting area, strategic planning and the activity of preparing the aforementioned Non-Financial Report, the Board of Statutory Auditors deems it appropriate for the Bank to assess the possibility of transferring the area of the Responsible Manager under the supervision of the CFO.

System of internal control

The Bank's internal control system, in compliance with current legislation and inspired by industry best practices, is structured on three levels: (i) line controls (so-called first level controls), carried out by the corporate Structures responsible for business/operating activities, also through dedicated units, or performed as part of the back office or, as far as possible, incorporated into IT procedures; (ii) controls on risks and compliance (so-called second-level controls), aimed at ensuring the correct implementation of the risk management process, compliance with the operating limits assigned to the various corporate Structures and the compliance of operations with the rules, including self-regulatory ones, by the Compliance, Anti-Money Laundering and Risk Management Functions, each for the matters for which they are responsible; (iii) Internal Audit (so-called third-level controls), under the responsibility of the Internal Audit Function, whose purpose is to identify any anomalies in the procedures, monitor compliance with the regulations, and periodically assess the adequacy, functionality and reliability of the internal control system and the information system, with a deadline set in relation to the nature and intensity of the risks. Pursuant to Bank of Italy Circular no. 285/2013, the Validation Function is also included among the Corporate Control Functions.

The Board of Statutory Auditors, also considering the specific responsibility assigned to it by the Bank of Italy's Circular no. 285/2013 to supervise the completeness, adequacy, functionality and reliability of the overall internal control system, acknowledges that it has carried out a periodic exchange of relevant information with the aforementioned Control Functions during the reporting period. It also acknowledges that the aforementioned Control Functions have fulfilled their obligations to inform the Corporate Bodies, including the Board itself: in this regard, and in a logic of continuous evolution of the internal control system, as also hoped for by the Supervisory Authority, the tracking method implemented by the Compliance, Internal Audit and Anti-Money Laundering Control Functions was further implemented in 2021, for the assessment of risks and the determination and continuous monitoring of the urgency and deadline of the planned remedial actions, with the aim of ensuring timeliness and priority of action.

The Board of Statutory Auditors has taken note of the requests contained in the SREP communication with reference to the Company's Control Functions, has discussed their contents and any remedial actions with the Managers and will monitor their timely implementation.

Also in 2021, the work of the Control Functions was impacted by the Covid-19 emergency, having maintained, for distancing requirements, an organisational approach that included frequent recourse to smart-working, a solution that did not particularly limit the activities carried out and neither did it limit their effectiveness; so much so that the action plans of all the cited Functions were substantially respected.

The 2021 financial year also saw the conclusion of articulated projects to strengthen the size and methodological evolution activated by the Control Functions, with particular reference to the Internal Audit; of note, in this sense, is the setting up of the ICT Audit Office, the internal enhancement of specialist teams of auditors, focused on the main areas of intervention, the project initiative aimed at automating the control framework through the adoption of metrics and indicators to identify the areas of greatest risk (data analytics).

The training programmes for all the Control Functions launched for 2021 were essentially carried out at all levels, an aspect to which the Board of Statutory Auditors dedicates constant attention by gathering information during its periodic meetings with the Managers.

At Group level, the second-level control functions of Compliance and Anti-Money Laundering are centralised at the Parent Company by the subsidiary Banca della Nuova Terra S.p.A.. Factorit S.p.A. has entrusted the Compliance Function to a leading independent company, while it manages the Anti-Money Laundering Function internally, structures which in any case operate in compliance with the guidelines and standards laid down by the Parent Company, with a view to developing a global approach to risk according to suitably uniform methodological criteria. Risk Management and Internal Audit are outsourced to the Parent Company by both subsidiaries. BPS (SUISSE) is equipped with autonomous control functions, which in any case act on the basis of the Policy adopted by the corresponding functions of the Parent Company and interacting periodically with the relevant Heads of Function.

With regard to first-level controls, the Board of Statutory Auditors has monitored their adequacy by examining the checks carried out by the competent second and third-level Corporate Control Functions; regardless of the pandemic, there is an increasing implementation of off-site remote controls, also made possible by the progressive digitalisation of the main banking processes, which also allows for investigations and assessments that were previously technically precluded.

With regard to second-level controls, taking into consideration the work of the individual Control Functions, we summarise below the most important aspects that we have analysed in depth with the respective Managers.

– In 2021, as was the case in 2020, the emergency from Covid-19 provided the Compliance Function with numerous activities arising from the need to ensure adequate supervision within an articulated and constantly changing regulatory framework, through a process of analysis and assessment of the possible operational, organisational and business impacts deriving from the regulations. Also due to this circumstance, in 2021, there was a strengthening of the Function with two additional resources.
  During 2021, the Compliance Function continued its adoption of the «broad compliance» operational model, with direct work on core matters within the Bank and collaboration with specialists and compliance contacts regarding more specific matters. This model makes it possible to use and benefit from certain professional skills within the Bank, spreading and consolidating a culture of compliance with the established rules and control. We believe this approach to be effective.
  With the Function and, in particular, with the Manager, we had a periodic and constructive discussion for the examination and assessment of the issues arising from the regulatory framework and the indications of the national and European Supervisory Bodies; particular attention was paid by the Function, among other things, to the issue of corporate transparency, to which several interventions were dedicated as per the programme for 2021. Specific activities on the part of the Function followed discussions on this matter with the Bank of Italy, within the scope of which, to the extent of its competence, the Function provided specific updates on the outcome of the follow up activities regarding transparency, in particular with regard to remediation actions, with specific focus on those with a higher priority or which are more dated and replanned. This activity gave rise to indications for the reference owners, aimed at refining/reinforcing the process examined in order to further mitigate the risks of non-compliance. Attention was also paid to the issue related to the refinement of the internal procedural set-up with respect to MiFID II regulations, with particular reference to the areas relating to product governance processes and the procedures for assessing the adequacy of customer transactions. Specific activities in this area were carried out by the Function following

the receipt by the Bank of two communications from CONSOB on this matter. With regard to investment services, the Function provided its assessments and analyses in relation to the state of progress of the works aimed at the overall adjustment of the IT procedural set-up in order to strengthen the controls, ensuring utmost attention with regard to the activities still in progress. Particular attention was also paid to the management of suspicious transactions in the area of Market Abuse, an activity that has been the responsibility of the Function since the end of 2020; in 2021 the Function also discussed with CONSOB mainly on the need to refine the systems and procedures for detecting transactions suspected of constituting market abuse, committing itself in this sense. Specific activities were then carried out by the Function as part of the provision of investment services by the Bank, which were deemed to be adequately supervised by the Board.

In May 2021, the Internal Audit Department subjected the Compliance Function to analyses relating to the regulatory and organisational structure, the activities carried out in 2020 and the planning for 2021. On the basis of the checks carried out, a «mostly favourable» opinion was expressed, with evidence that the Function is a structured control for the purposes of mitigating the risk of non-compliance, in the face of an organisational model that has been subject to a review aimed at increasing its effectiveness in organisational, regulatory and methodological terms; all the findings opened with the check have already been dealt with.

In light of the above, and also through the periodic meetings held directly by the Board of Statutory Auditors with the Manager, on the occasion of the in-depth analyses concerning both the contents of the annual and six-monthly reports and the results of specific control activities, of which the Function in any case informs the Board of Statutory Auditors in a timely manner by sending all the reports, we can confirm the substantial adequacy of the risk control falling within the Function's competence. Moreover, with regard to the improvement profiles that emerged in the checks carried out, the Board of Statutory Auditors took note of the results of the analyses carried out and, through specific meetings with the owners of the various structures concerned by the observations, recommended to proceed promptly with the appropriate reinforcements aimed at implementing remedial actions, mainly with regard to the issue of banking transparency also reported by the Bank of Italy.

– Also for the AML Function, the year 2021, as well as 2020, was affected by the continuation of the Covid-19 pandemic. Following a specific analysis, the Function has decided, in order to monitor the new risks identified, to integrate the second-level controls already implemented in 2020 on credit transfers and on the use by customers of «Covid financing». Specific training courses were also provided in 2021 for credit officers at branches and at Headquarters, aimed at raising awareness in order to promptly identify potentially anomalous situations.

  In 2021, the Function completed all of its planned activities and controls, with the exception of some planned technical and IT work, which was repositioned in 2022. The self-assessment exercise conducted confirms a low residual recycling risk across the Group.

During 2021, the Function was subject to an audit by the Internal Audit Department, with particular reference to its organisational and management structure and with the aim of verifying its structure, the results of the activities carried out, the control measures adopted and the related information flows. On the basis of the analyses carried out, the Internal Audit expressed an overall opinion that was «mostly favourable», also recording a gradual improvement in some areas.

The Board of Statutory Auditors can confirm for 2021 the substantial adequacy of the monitoring of the risks falling within the competence of the same Function; it considers it important that the Function systematically resumes the discussion, hoped for also by the Bank of Italy and made difficult by the limitations imposed by the Covid-19 pandemic, concerning the relations between the Parent Company and the subsidiary BPS (SUISSE), procedurally provided for through bi-monthly on-site visits by the Manager.

– In 2021, the Validation Function continued its activities aimed at validating internal models for measuring, monitoring and managing risks and assessing corporate activities. Compared to the previous year, the total number of controls carried out on the various types of risk has further increased; credit risk - AIRB continued to represent the area of analysis in which the Function was most involved. Further checks concerned other non-regulatory risks, including, in the area of credit risk, IFRS 9 and Satellite Models, market risk, operational risk, interest rate risk and the internal processes used to determine ICAAP and ILAAP. In relation to market and rate risk, note the activities conducted by the Function in 2021 aimed at remedying certain weaknesses identified in the OSI-2019-ITPSO-4581 inspection, in accordance with the remediation plan launched. The activities planned for 2021 have also all been carried out, making it possible to attribute an overall positive opinion to the entire set of controls carried out, despite the evidence of aspects for improvement shared with the owners and relating, as regards credit risk - AIRB, the checks carried out in preparation for the sending of the Material Model Change AIRB application package, and, as regards IRRBB and market risk, the checks carried out to remedy the findings issued by the ECB in the remediation plan agreed following the OSI-2019-ITPSO-4581 on these types of risk.

  The Board, in consideration of the discussions it had with the Head of the Function and taking into account its own examination of the annual and half-yearly reports, can formulate a substantially adequate opinion on the areas considered.

  The European Supervisor has not made any particular observations about the structure and activities of this function and, accordingly, this Board believes overall that it is adequate for the performance of its duties.

– As for the Chief Risk Officer governance area, from the point of view of the organisational structure, in 2021. the head of the Risk Control Function was appointed, a position previously held by the CRO, with a view to strengthening and rationalising hierarchical-functional reporting, which also provided for the relocation of some Offices under the direct control of the CRO. We believe that this reorganisation goes in the right direction to strengthen the structure, a move that was also agreed with the ECB.

In 2021, the Risk Control Function, mediated by the Supervisory Relations Function, continued to support the Bank in the activity, which was further intensified, of dialogue with the Supervisory Authorities, both in the context of specific inspections and on the occasions of constant dialogue with the Supervisors, among other things, on the requests and assessments conducted by the ECB as part of the SREP process.

The RAF was subject to a targeted update in June 2021, concerning some risk appetite parameters relating to primary indices; some changes were also made to the organisational and governance structures, in implementation of the indications of the Internal Audit following the annual checks carried out on the adequacy and functionality of this process.

The activities carried out for the purposes of the ICAAP and ILAAP as of 31 December 2021 were in continuity with the past, also taking into account the «Supervisory expectations on capital planning information to be included in the ICAAP package» communicated by the JST on 1 March 2021. The process of updating the Recovery Plan was carried out taking into account both the areas of improvement formulated by the Supervisor following the review of the Plan in the previous year and the contents of the specific communication «Information and guidance with respect to banks' 2021 recovery plan submissions» of 19 May 2021 through which the ECB set out its expectations for the preparation of recovery plans for 2021 for all significant banks.

The Board of Statutory Auditors paid particular attention to the activities of the Function, also through periodic meetings with the Manager and the reference collaborators of the various Offices, in the presence of the CRO: in addition to the control and monitoring of the various types of risk, specific supervisory activity was reserved for the process of defining the RAF, which is periodically reviewed and over the years has developed a path of continuous improvement in the sense of granularity. We also interacted with the Function during the calculations for determining the adequacy of capital (ICAAP) and liquidity (ILAAP). We can confirm that, as far as our sphere of competence is concerned, we have not found any really critical issues to be reported.

With regard to third-level controls, it is worth noting the verification and in-depth analyses carried out continuously by the Internal Audit Function on the core processes, in a risk-based logic.

In addition to control activities in the strict sense of the term, during the year, the Function was engaged in completing the projects resulting from the independent assessment required by the Supervisory Authority. The adoption of a set of indicators (KPIs) to measure the performance of the Internal Audit Function was in fact the final step in the project initiatives prepared in order to implement the ECB's request to strengthen the Function; during the first quarter of 2021, all the initiatives planned in this sense were successfully completed. The plan to strengthen the workforce, which began in 2020 and was completed in 2021, was associated with a new internal organisational configuration that led to the establishment of the ICT Audit Office, as well as the execution of an internal training plan and the development of new control methodologies, including through the enhancement of specific specialist teams.

The credit process continued to represent a primary area of investigation for the Internal Audit, through the conduct in 2021 of a set of integrated assessments in terms of methodological approach and audit objectives. Specific activities were carried out, in this context, also on the management of economic groups (requested by the ECB), on the issue of real estate guarantees, on the «New Definition of Default», as part of the reconstruction of historical series also for AIRB purposes, as well as for IT and data quality implications, on the measures adopted for the definition and management of the forborne attribute, as well as on the credit monitoring framework for COVID purposes. A number of areas for improvement have emerged from the activities carried out, against which remedial action is planned, monitored in their development and due quarterly by the Board through examination of the appropriate tracking. Constant attention was also maintained in the area of risk governance, also in relation to primary processes such as ICAAP, ILAAP, RAF and NPL Strategy and to specific Functions such as Corporate Compliance, noting points of attention and providing ideas for efficiency. As far as internal IT processes are concerned, the Function found a progressive refinement of the same, also in terms of consolidation of the related «maturity», although in the presence of existing improvement projects, also launched following observations made by the Function itself. Audits conducted on EIF and non-EIF outsourcing did not reveal any critical issues in this important area. Specific control activities were also carried out to ensure compliance with specific regulatory provisions and specifically with reference to remuneration policies, equity investments in non-financial companies, the covered bond issue process, transactions with associated parties, as well as anti-money laundering and tax compliance; the findings formulated in this area with the highest score have already been regularised during the year. Important checks were also carried out in the area of financial risks, from which certain areas for improvement emerged in the context of the ILAAP process, the monitoring and measurement of interest rate risk in the banking book, as well as the assessment of market risk following the introduction of the new metric for the amortised cost portfolio. We have monitored the corrective actions implemented and planned by the Bank's structures as a result of the findings made by Internal Audit in the various areas.

With the Head of the Service we shared, in a spirit of mutual collaboration, during the design phase, the planning of our activities, with particular reference to the RAF and the Major Transactions that are of interest to the Board; we also periodically assessed, during the year, the results of the verification activity carried out and the intervention actions implemented by the Bank on the areas for improvement identified.

Based on these assumptions and with particular reference to the specific operational contexts analysed and the consequent corrective actions currently being implemented, it is believed that the internal control system has matured during the year a substantially adequate level of control of corporate risks.

The administrative and accounting system and the Manager responsible for preparing the company's accounting documents

We have monitored the adequacy and concrete functioning of the administrative and accounting system, as well as its ability to record the results of operations and present them properly in the financial statements, by obtaining information from the managers of the relevant business Structures, examining significant corporate documentation and analysing the results of the work performed by the Independent Auditors and the Manager responsible for preparing the company's accounting documents (hereinafter also Responsible Manager).

As part of the Operating Report referring to 2021 for the purpose of issuing the certification provided for by art. 154-bis, paragraph 5, of the Consolidated Finance Act, the Manager Responsible for preparing the company's accounting documents acknowledges that, in the three-year period 2019-2021, with the support of the Corporate Accounting Documents Office, it started and concluded a specific project at Group level aimed at the overall review of the documentary and methodological framework of the current Administrative and Accounting Model (i.e. Model 262), as well as proceeding to the adoption of a specific computerised application (i.e. GRC Tool), in line with the best practices suggested for the performance of the typical activities assigned to the figure of the Responsible Manager.

The verification activities carried out by the Responsible Manager and, at the beginning of 2022, by the Internal Audit Function, with substantially positive assessments, identified areas for improvement, for which specific activity plans have been defined; this concerns, in particular, the strengthening of the structure reporting to the Manager responsible for preparing the company's accounting documents and of the administrative-accounting area, the extension of the control model to subsidiaries and the provision of IT General Controls for the Bank and its subsidiaries.

Given the duties assigned to this Board in the process of making financial disclosures, including our role as the Audit Committee, we have coordinated closely with the manager of the Administration & Financial Accounting Department, holding periodic meetings and exchanging information about the administrative and accounting system, as well as its reliability in terms of presenting properly the results of operations in compliance with international accounting standards.

Although it is not the task of the Board of Statutory Auditors to carry out the statutory audit pursuant to Legislative Decree no. 39/2010, as this is delegated to the Independent Auditors, it is believed, on the basis of the analyses carried out and the information gathered in discussions with the Responsible Manager and the Independent Auditors, that the administrative and accounting system is, on the whole, adequate in relation to the provisions of the current reference regulations. Moreover, with regard to the improvement profiles which emerged in the checks carried out by the Responsible Manager, the Internal Audit Function and the Legal Auditor, the Board of Statutory Auditors took note of the analyses carried out and recommended to the competent Structures of the Bank to proceed promptly with the reinforcements of the administrative-accounting system which emerged as necessary, mainly with regard to the sizing of the Function and the automation of processes/procedures to improve the production of data and reduce the times and costs of control activities.

Lastly, with regard to the accounting information contained in the financial statements at 31 December 2021, we note that the Managing Director and the Responsible Manager have issued an unqualified attestation pursuant to art. 154-bis CFA, having regard for the requirements of art. 81-ter of CONSOB Regulation no. 11971 dated 14 May 1999, as amended.

IV) On the procedures for the concrete implementation of the corporate governance rules provided for by current legislation

Pursuant to the provisions of art. 123-bis of the CFA, the Board of Directors's meeting of 21 March 2022 approved the «Report on corporate governance and ownership structures», which is published on the company's website.

As is known, the Bank has decided not to adhere to the «Corporate Governance Code», approved by the Corporate Governance Committee, addressed to all companies with shares listed on the Mercato Telematico Azionario managed by Borsa Italiana. In this regard, the Board of Statutory Auditors would positively assess the circumstance that the Board of Directors, in 2022, once the transformation into a joint-stock company has been implemented, carries out a new assessment with regard to compliance with said Code.

With reference to the activity carried out in 2021, considering art. 148 of the CFA and MEF Decree No. 169 of 23 November 2020, in compliance with the provisions of the Bank of Italy in Circular No. 285 of 17 December 2013, Part I, Title IV, Chapter 1, as well as in compliance with sector regulations, including the Rules of Conduct of the Board of Statutory Auditors of Listed Companies issued by the National Council of Chartered Accountants, carried out the self-assessment process from which emerged an opinion confirming the overall adequacy in relation to the supervisory tasks and responsibilities attributed to our Board, as well as the complementary nature of the professional skills of its members.

On 9 June 2021, the Board of Statutory Auditors verified that each Statutory Auditor meets the requirements of independence, integrity and professionalism set out in the MEF Decree that came into force on 30 December 2020. The audit was conducted again on 16 December 2021 with a positive outcome.

We think it is appropriate that maximum attention should be paid to the matter in order to ensure effective organisational and corporate governance structures, which are an essential condition for the achievement of the Bank's objectives with a view to sound and prudent management.

On 8 February 2022, the Bank's Board of Directors approved the self-assessment of the Board itself, with the aim of analysing its size, composition and functioning, in order to verify its effectiveness and timeliness of action and to identify areas for possible improvement.

The Board of Directors has also identified its optimal qualitative and quantitative composition and the profile of the candidates for the office of Directors for the year 2022 in accordance with the provisions of the Bank of Italy's Circular no. 285 on corporate governance, as well as the MEF Decree. The related document was approved by the Board of Directors on 28 January 2022 and made known to the members of the Bank, so their nominations for the partial renewal of the Board of Directors could take account of the professionalism needed, the reasons for incompatibility and termination, and the limits on the accumulation of appointments envisaged under current regulations and laws, including the ban on interlocking relationships.

Also on 28 January 2022, in compliance with Circular no. 285 of 17 December 2013 «Supervisory Provisions for Banks» - 35th update of 2 July 2021, Title IV, Chapter 1 Corporate Governance, the Regulation on the diversity of the members of the Corporate Bodies was approved; within the scope of the Regulation, both the criteria relating to the members of the Board of Directors and the criteria relating to the members of the Control Body are illustrated. The document sets out the «measures to be adopted to ensure that the composition of corporate bodies reflects an adequate degree of diversification in terms of, inter alia, skills, experience, age, gender and international outlook, in order to encourage the emergence of different perspectives and points of view on matters of competence».

At the meeting of 31 March 2022, the Board of Directors, as already anticipated, in view of the partial renewal of the Body, resolved to draw up its own list of candidates for the appointment of Director of the Bank consisting of five names, of which three are currently already in office, including the Chair, made public in accordance with the law. The selection of candidates was carried out by an ad hoc Committee with the assistance of a Consultant of primary standing. The Board of Statutory Auditors, which was not involved in the meetings of the ad hoc Committee, did not make any comment or remark concerning the assessment and decision-making process that led to the creation of the list.

Moreover, with regard to the already mentioned Board's resolution of 31 March 2022 concerning the promotion of proxy solicitation activities in view of the Shareholders' Meeting, the Board of Statutory Auditors made observations and comments during the same Board's meeting, to the extent of its tasks and functions.

V) On instructions given to Group companies

As part of its supervisory activities, the Board of Statutory Auditors met with the Boards of Statutory Auditors of Factorit S.p.A. and Banca della Nuova Terra S.p.A. (BNT) in June 2021 and January 2022; the meetings, which produced an exchange of information with a view to integrated governance, with particular reference to issues specific to the entities themselves, took place in an open atmosphere of discussion.

This Board has monitored the adequacy of the instructions given by the Bank to its subsidiaries, in compliance with art. 114 CFA, considering them suitable for the purpose of complying with the disclosure requirements imposed by law.

The Board also met with the representatives of the Control Functions of the Swiss subsidiary, in the presence of the Parent Company's Internal Audit Function.

The relations maintained by the Bank with the other Group companies were also described at meetings of the Board of Directors; these exchanges of information were facilitated by participation in the administrative bodies of subsidiaries by the General Manager, top managers and/or directors of the Bank.

With regard to the management, coordination and control activities carried out by the Parent Company in relation to the subsidiary companies, we note that:

– because Swiss regulations do not require Banca Popolare di Sondrio (SUISSE) SA (100%) to have a Board of Statutory Auditors, control activities consist in constant interaction between the Internal Audit Department of the Bank and the equivalent department within the subsidiary. This company operates in accordance with the instructions issued by FINMA, which is the authority that supervises financial activities in Switzerland. Based on the results of the checks carried out by the Bank's Internal Audit Department, the Board has not identified any critical matters or information to report about compliance by the subsidiary with the regulations. Considering the contents of the Report issued by EY SA, the independent external auditor, and taking into account the information gathered in discussions with the Directors and the Management of BPS (SUISSE), there are no issues worthy of specific mention, with the exception of a technical anomaly that occurred at the end of the 2021 financial year, which the Swiss subsidiary informed the Board of Statutory Auditors, also through the Internal Audit Function, that it had immediately remedied and managed to neutralise most of the effects of the problem;
– as regards Factorit S.p.A. (100%, already 60.5% in 2021), the control activity was mainly carried out through meetings with the Board of Statutory Auditors of the subsidiary, the interaction with the Internal Audit Department of the Parent Company, in charge of carrying out the outsourcing function internal audit of the subsidiary itself, as well as by examining the periodic reports of the activity carried out, presented to the Board of Directors of the Bank. Moreover, information was also exchanged with EY S.p.A., the Independent Auditors, concerning accounting aspects;

- for Popso Covered Bond S.r.l. – (60%), a company formed to issue covered bonds, we have taken into consideration the Report issued by BDO Italia S.p.A., which currently acts as asset monitor, and the work performed by the Internal Audit Department, which issues an Annual Report on the covered bond issue programme, as required by Bank of Italy Circular 285;
- for Banca della Nuova Terra S.p.A. (100%), the control activity of the Board of Statutory Auditors in 2021 was mainly carried out through meetings with the Board of Statutory Auditors of the subsidiary, through interaction with the Internal Audit Department of the Parent Company, in charge of carrying out the internal audit function in outsourcing of the subsidiary itself, as well as by examining the periodic reports of the activity carried out, presented to the Board of Directors of the Bank. This Board has also held discussions with EY S.p.A., the Independent Auditors, obtaining all necessary information on economic and financial matters;
- for Sinergia Seconda S.r.l. (100%) and Pirovano Stelvio S.p.A. (100%) the Board of Statutory Auditors has obtained information during the meetings of the Board of Directors and in the meetings with EY S.p.A., the Independent Auditors, obtaining all the necessary information concerning economic and financial aspects.

With regard to the above, the Board has no observations to make about the adequacy of the instructions given to Group companies for the purpose of obtaining the information flows needed to comply on a timely basis with the reporting obligations imposed by law.

Other assets

Remuneration policies

The Board of Directors approved the document «Remuneration Policies of the Banca Popolare di Sondrio Banking Group» in implementation of the supervisory provisions for banks on the subject of remuneration and incentive policies and practices, issued in implementation of Directive 2013/36/EU of 23 June 2013.

The Remuneration Report made available to Shareholders as well as the Public Disclosure on Remuneration comprehensively explain the policy formation process, the recipients of the policy, the objectives for variable remuneration, as well as the criteria for its application in relation to the year 2021; please refer to these documents for a detailed review.

The Board of Statutory Auditors, having acknowledged the certificate of Compliance issued by the function of the same name, as well as the consistency with the RAF certified by the CRO function, to the extent of its competence and at the outcome of the activity carried out also through the participation in the meeting of the Remuneration Committee which dealt with the subject, considers that the document on the remuneration policies for 2022 is, as a whole, consistent with the regulatory provisions.

Relations with the Supervisory Authorities and the SREP process

As the Parent Company of a significant banking group, since 2014 the Bank has been subject to the Single Supervisory Mechanism (SSM), under the direct supervision of the European Central Bank. In carrying out its control activities, the latter makes use of the JST (Joint Supervisory Team - operational nucleus of the SSM in charge of continuously exercising the prudential supervision activities of the Group), with which the Bank maintains constant contact and dialogue, through meetings with the management, the Heads of the second– and third–level Control Functions and the central offices, to define, evaluate and update, in agreement with the Team managers, the activities already undertaken and planned, as well as the new projects requested by the Supervisory Authority. The Bank is also subject to control and monitoring, to the extent of their responsibilities, mainly by the Bank of Italy, CONSOB and the bodies responsible for the resolution of banking crises.

During 2021, the Board held two direct meetings with regulators: the first, in November, with the JST and the second, in December, with the team that conducted the OSI-Governance inspection.

The Board also monitored the implementation of the methodological and organisational initiatives taken by the Bank aimed at responding to the findings, decisions, observations and suggestions expressed by the Supervisory Authorities during the inspections and/or the most important thematic insights.

In carrying out its activities, the Board took advantage of the help provided by the Internal Audit Department, which paid particular attention to the completeness of the various interventions and compliance with the deadlines.

With regard to the improvement profiles that have emerged, the Board of Statutory Auditors has asked the Bank to formalise the information flows from the Head of Relations with the Supervisory Authorities, in order to guarantee the timeliness and completeness of the information provided to the Board regarding relations with all the Supervisory Authorities.

In detail, the main processes, communications and inspections by the Supervisory Authorities with regard to which the Board of Statutory Auditors has been involved during 2021, and up to the date of this Report, are as follows.

– Annual Prudential Review and Evaluation Process SREP 2021, as a result of which, on 3 February 2022, the Bank received notification from the European Central Bank of the new decision regarding prudential requirements to be met on a consolidated basis, effective 1 March 2022. The additional Pillar 2 Requirement or «P2R» is 2.77%, down from the previous 3.0%. The new ratio, to be held in the form of primary Tier 1 capital (CET 1) for at least 56.25% and Tier 1 capital for at least 75%, includes a quota of 0.02% as an increase in the second pillar requirement for impaired exposures. As a result, the minimum level of Common Equity Tier 1 ratio required is 8.56% (compared to the previous 8.69%);

the Tier 1 ratio required is 10.58% (compared to the previous 10.75%); the minimum Total Capital Ratio is 13.27% (compared to the previous 13.50%). On the basis of data at 31 December 2021, the Banca Popolare di Sondrio Group has capital ratios that are well above the aforementioned thresholds.

– «Credit File Review» inspection on the Residential Real Estate segment (OSI-RRE), carried out by the ECB between May and September 2021, during which various methodological aspects related to the Bank's ability to identify the deterioration of these exposures in a timely manner, to make adequate provisions for them and to take the necessary management actions to mitigate the risk were examined; the end of the inspection report was notified to the Bank on 22 December 2021.
– ECB inspection within the A-IRB rating system (IMI Model Change), which began in October 2021 and ended in February 2022, to verify the impacts of changes brought about by the entry into force from the beginning of 2022 of the EBA provisions on internal models that can be used within the framework of regulatory IRB approaches for measuring minimum capital requirements on credit risk.
– Governance inspection (OSI-Governance), performed by a Bank of Italy team between November 2021 and February 2022.
– In a letter dated 21 July 2021, the Bank of Italy requested the Bank, with reference to the findings that emerged as a result of the targeted transparency inspection concluded on 18 April 2019 and the subsequent discussions that took place, to provide further clarifications and integrations on specific aspects. The Bank provided the requested responses and documentation on 21 September 2021. Additional communications on this matter followed on 30 December 2021 and 30 March 2022.
– In a letter dated 17 August 2021, with respect to the establishment of PrestiNuova S.r.l. as an Agency in Financial Activity, the ECB emphasised to the Bank «best practices» regarding the supervision of subsidiaries. The Structures concerned immediately took steps to implement the Supervisory Authority's recommendations.
– In a letter dated 11 November 2021, the ECB sent the Bank comments on the practices relating to the assessment of the suitability of corporate officers and the role of the Appointments Committee, in light of «problems encountered» in relation to the verification of the requirements of professionalism and integrity of members of the Board of Directors and the Board of Statutory Auditors; in the letter, the Supervisory Authority reiterated its expectations regarding the procedure to be followed as part of the fit and proper process. The contents of the letter have been examined by the Board of Directors and the Appointments Committee and the observations made have been acknowledged; the administration and the entire company structure have consequently renewed their commitment to guaranteeing timely, complete and thorough fit and proper checks, in full compliance with the regulations in force and the suggestions made by the ECB.

- In a letter dated 20 December 2021, CONSOB informed the Bank of the outcome of the meeting held on 3 December 2021 between the Authority and the Bank itself, during which the implementation of systems and procedures to monitor the obligations provided for by the regulations on market abuse was discussed and the terms and methods for further strengthening of the controls, under the responsibility of the Compliance Function, were agreed; on 21 February 2022 the Bank provided a reply to the requests made by the Authority. Additional communications on this matter followed on 17 March and 1 April 2022.

Independence of the Legal Auditor and other appointments granted to the Independent Auditors

In compliance with the provisions of article 17, paragraph 9, letter a), of Legislative Decree no. 39/2010 and article 149-duodecies of CONSOB Regulation no. 11971, as well as the provisions of articles 4 and 5 of EU Directive no. 537/2014, the Board informs of the total fees deriving from the services rendered to the BPS Group during the 2021 financial year by the Independent Auditors EY S.p.A. and the network to which it belongs, as also reported in the explanatory notes to the Financial Statements to which reference should be made for anything not reported in detail here.

Amounts in euro	Parent Company		Subsidiaries		Total	
Type of services	EY S.p.A.	Network EY	EY S.p.A.	Network EY	EY S.p.A.	Network EY
Audit services	241,000	-	152,500	447,716	393,500	447,716
Certification services	263,000	-	1,500	-	264,500	-
Other services	170,000	170,000	-	60,000	170,000	230,000
Total	**674,000**	**170,000**	**154,000**	**507,716**	**828,000**	**677,716**

The certification services are additional to the legal audit work assigned by law or by a Supervisory Authority; these include activities that represent an extension with respect to the independent audit (limited review of the consolidated Non-Financial Report, Certifications relating to TLTRO, Certification in relation to the deposit and subdeposit of the assets of customers and intermediaries, obtaining the GACS guarantee, comfort letters, etc.). The above services are usually assigned to the Independent Auditors appointed as, by their nature, they are not deemed to compromise its independence.

For services other than auditing («other services»), the Parent Company paid EY SpA and the EY network a total of 340,000 euro for consultancy on the issue of Green Bonds, Climate risk assessment, Credit risk department.

With reference to the activities and related payments regarding the items listed above as «other services» requested from EY SpA and the companies of the EY network, we certify that, where necessary, they have been preauthorized by the Board pursuant to art. 4 and 5 of the EU Regulation n. 537/2014.

The Independent Auditors have confirmed to us that they did not issue any opinions pursuant to the law during the year, given that the conditions that would have required them did not arise.

The Board of Statutory Auditors obtained the report on the independence of the Independent Auditors EY S.p.A. on 8 April 2022 and confirms that there are no critical aspects regarding independence or causes of incompatibility pursuant to articles 10, 10-bis and 17 of Legislative Decree no. 39/2010 and articles 4 and 5 of Regulation (EU) 537/2014.

As provided for in art. 150 of the Consolidated Finance Act, the Board has had a profitable exchange of information during the periodic meetings organised with the Independent Auditors.

The Board of Statutory Auditors in turn provided the Independent Auditors with information on its supervisory activities and, to the best of its knowledge, on the most significant events concerning the Bank.

The Board confirms that no matters have emerged that are deemed censurable and/or that require mention pursuant to art. 155, para.2, of the Consolidated Finance Act.

Other information required by CONSOB Communication 1025564 of 6 April 2001 and subsequent updates

In compliance with the obligations set out in the aforementioned Communication, we certify that, from the date of the Report of the Board of Statutory Auditors to the Shareholders' Meeting called to approve the financial statements for the period ending on 31 December 2020 up to the date of this Report, no complaints have been received by the Board pursuant to art. 2408 of the Italian Civil Code.

We also inform you that during 2021 we did not receive any complaints from shareholders or customers of the Bank worthy of reporting.

Information about complaints submitted to the Bank

We analysed with the Compliance Function the Annual Report presented to the Board of Directors on 28 February 2022 on the subject of whistleblowing (internal reporting of violations) and acknowledged that no reports were received in 2021.

Similarly, no complaints were received, compared to 3 in 2020, in relation to investment services.

During the year, the Bank was notified of an appeal to the ACF (Arbitrator for Financial Disputes), which is currently awaiting settlement.

With reference to complaints regarding the transparency of banking and financial transactions and services, 235 complaints were received (206 in 2020). The number is up from the previous year and is attributed to the Bank's normal operations. Specifically, the following outcomes were found: 39 accepted, 5 partially accepted and 191 not accepted, of which 2 with subsequent appeal to the Arbitrator.

Non-Financial Report

The Board of Statutory Auditors, in relation to the provisions of Legislative Decree no. 254/2016 that implemented EU Directive no.

95/2014, with reference to the Consolidated Non-Financial Report and to the extent of its competence, notes that an exhaustive description is provided of (i) the corporate model of management and organisation of activities adopted, (ii) the policies applied by the Bank, the results achieved and the key performance indicators, (iii) the main risks generated or suffered.

The Board of Statutory Auditors, in the exercise of its duties, has supervised compliance with the provisions contained in Legislative Decree 30 December 2016, no. 254, and the CONSOB Regulation implementing the Decree adopted by resolution no. 20267 of 18 January 2018 in particular with reference to the process of preparation and the contents of the Non-Financial Report prepared by the Bank. The Non-Financial Report was approved by the Board of Directors on 23 September 2021 as a separate document from the Report on Operations to the Consolidated Financial Statements at 30 June 2021.

The Independent Auditors appointed to carry out the limited examination of the CNFS pursuant to art. 3, paragraph 10, of Legislative Decree 254/2016, in the report issued on 8 April 2021 highlights that no evidence has come to its attention that the NFR of the Banking Group relating to the year ended 31 December 2021 has not been prepared, in all significant aspects, in accordance with the requirements of articles 3 and 4 of Legislative Decree 254/2016 and the Global Reporting Initiative Sustainability Reporting Standards.

The Board of Statutory Auditors considers the representation provided by the Directors in the NFR to be exhaustive and does not identify any specific issues to be brought to the attention of the Shareholders.

Financial Statements and Report on Operations

Insofar as it is concerned, the Board of Statutory Auditors has examined the financial statements for the year ended 31 December 2021, accompanied by the Directors' Report on Operations and the notes thereto, which have been submitted for your review and approval. In this regard, we remind you that it was approved by the Board of Directors of Banca Popolare di Sondrio on 21 March 2022 and that, on the same date, it was sent to the Board.

We would remind you that the financial statements are audited by the EY S.p.A., appointed as independent auditors of the separate and consolidated financial statements.

We hereby certify that, on 8 April 2022, the Independent Auditors issued their Auditors’ Report pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of Regulation (EU) 537/2014, the content of which respects, in terms of its form, certifications and information provided, the requirements of Legislative Decree no. 135/2016.

The auditors’ reports on the separate and consolidated financial statements do not contain any qualifications or emphases of matter. In addition, in accordance with regulatory requirements, the auditing standards applied are reported and the following is indicated as a «key issue»: classification and measurement of amounts due from customers (Loans) for the individual and consolidated financial statements.

On 8 April 2022, the Independent Auditors submitted to the Board of Statutory Auditors the Additional Report required by article 1 of Regulation (EU) no. 537/2010. This Report confirms that following the checks carried out pursuant to article 14 paragraph 1, letter b) of the Legislative Decree no. 39 of 27 January 2010, on the regular keeping of the accounts and the correct recording of management facts in the accounting records, no significant aspects emerged that required reporting to the Governance and Control Bodies. This Report also certifies that no cases of non-compliance were identified during our auditing activity and does not highlight any critical issues regarding the appropriateness of the accounting standards adopted by the Bank and the Group.

Finally, as regards the Report on Operations to the financial statements approved by the Board of Directors, we hereby certify that it is drafted in compliance with art. 81-ter of CONSOB Resolution no. 11971 of 14 May 1999 («Issuers' Regulation»). The financial statements are also accompanied by the attestation referred to in para.5 of art. 154-bis of Legislative Decree no. 58/1998, duly prepared and signed by the Managing Director and the Responsible Manager.

Although the Independent Auditors is responsible for performing the accounting checks, the Statutory Auditors still have a duty to monitor the preparation of the financial statements in both formal and substantive terms.

We have therefore checked that the directors complied with the Italian Civil Code and the instructions issued by the Supervisory Authorities on the preparation of the financial statements regarding, in particular, the adoption of generally-accepted accounting standards, agreement between the contents of the financial statements and the results of operations during the year, and the completeness of the directors' report on operations.

In performing work on the financial statements, we maintained contact with the audit personnel of EY S.p.A. In this regard, we can confirm that:

– the financial statements for 2021 reflect the balances on the books of account and have been prepared in accordance with the IAS/IFRS endorsed by the European Community and applied in the manner described in the explanatory notes;

– the report on operations is both complete and consistent with the data and other information provided in the financial statements; this report describes the operations and events arising during the year, both with regard to the related economic and financial information, and with reference to the «other information», such as management of the risks relating to the activities of the bank, human resources, the criteria underlying the bank's mutual activities in 2021, promotional and cultural activities;

– the report on operations also properly describes the significant events and transactions that have taken place subsequent to the end of 2021.

Consolidated Financial Statements

With regard to the consolidated financial statements for the year ended 31 December 2021, which report a profit of 268.634 million euro compared with 106.597 million euro in 2020, we note that they were correctly prepared in accordance with the relevant accounting standards, in terms of the definition of the scope of consolidation and with regard to compliance with the relevant regulations. In doing so, we were able to evaluate the functioning of the underlying systems for feeding in data and checking it. The consolidated financial statements are also accompanied by the attestation referred to in para.5 of art. 154-bis of Legislative Decree no. 58/1998, duly prepared and signed by the Managing Director and the Manager responsible for preparing the company’s accounting documents. Both the financial statements and the consolidated financial statements have been prepared on a going concern basis, and have been drawn up without recourse to derogations in the application of the accounting standards and measurement criteria, and as already mentioned, have been certified by the Independent Auditors without any remarks or requests for information.

Closing remarks

Dear Shareholders,

Following the supervisory activity performed by the Board of Statutory Auditors no reprehensible facts, omissions, or irregularities arose that require disclosure in this Report. During the meetings of the Board of Directors, during which the most important economic, financial and asset operations of the Bank and its subsidiaries were examined, the Board received the information referred to in art. 150, paragraph 1, of Legislative Decree 58/1998 (Consolidated Finance Act). Based on the information acquired through its supervisory activities, the Board of Statutory Auditors is not aware of any transactions carried out during the financial year covered by this Report that were not in line with the principles of proper administration, that were not decided and implemented in compliance with the law and the Articles of Association, that were not in the Bank's interest, that were in contrast with the resolutions passed by the Shareholders' Meeting, that were clearly imprudent or risky, that lacked the necessary information in case of Directors' interests or that were such as to compromise the integrity of the company's assets. No complaints were received during the year pursuant to art. 2408 of the Italian Civil Code.

For all the above reasons, having also acknowledged the audit reports by EY S.p.A. and the certifications issued by the Managing Director and the Manager responsible for preparing the company’s accounting documents, and taking into account that the Directors believe that the prospect of continuing the company's business is widely pursued, to the extent of our competence, we have no objections to the proposals made to the Meeting by the Board of Directors, including those concerning the allocation of the profit for the year, with regard to which the Board acknowledges the prudent assumptions that allow the constant compliance with the prudential capital requirements.

Sondrio, 8 April 2022

THE BOARD OF STATUTORY AUDITORS
Serenella Rossano, Chair
Laura Vitali, Standing Auditor
Massimo De Buglio, Standing Auditor

equity investments

international service

digital banking

the bank and young people

“multiplus” account

carta +ma

amico quinto

advance on accrued end-of-service benefits (esb)

asset management

bancassurance and pension schemes

publishing

cultural activities

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equity investments

The portfolio of equity investments was essentially unchanged during the year. In addition to the other members of the Banking group, these investments principally relate to the suppliers of products and services that functionally support the typical commercial activities of the Bank.

subsidiaries

Banca Popolare di Sondrio (SUISSE) SA

Factorit SPA

Banca della Nuova Terra SPA

PrestiNuova SRL

Pirovano Stelvio SPA

Sinergia Seconda SRL

Popso Covered Bond SRL

Rajna Immobiliare SRL

Servizi Internazionali e Strutture Integrate 2000 SRL

main associated companies

Unione Fiduciaria SPA

Arca Holding SPA

Arca Vita SPA

Alba Leasing SPA

Polis Fondi SGR PA

Cossi Costruzioni SPA

Rent2Go SRL

Sofipo SA

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WITH US, anywhere in the WORLD!

international service

PROFESSIONAL and PERSONALISED INTERNATIONAL TRADE SOLUTIONS

- internationalisation services
- trade finance
- collections and payments in euro and other currencies
- dealing room

PAGE 60

digital banking

SCRIGNO *app*

SCRIGNO*app* allows you to view accounts connected to SCRIGNO and to carry out the main operations on the move.

There are a number of features that facilitate use of the app:

- **biometric recognition on access** (fingerprint and face recognition)
- **fast operations**
- **address book**
- **hide Home page data**
- **version in English**.

An extension of **SCRIGNO***app* is available for Apple watch.

the bank and young people

Banca Popolare di Sondrio offers a complete range of products dedicated to young people.

Conto 44 Gatti is the savings book reserved for children aged between 0 and 12 years old.

MULTIplus minori is the current account designed for the daily needs of children and for parents who wish to make their children, aged between 10 and 17, responsible in managing the first savings.

SoPOP is the online bank account dedicated to university students. ***www.sopop.it***

ateneo+ the university badge is also a contactless prepaid card with an IBAN. ***www.ateneopiu.it***

The current account as you want it!

MULTIplus

Put it together... according to your needs!

Complete and flexible!

"multiplus" account

A current account dedicated to individuals and families, offering a varied combination of services.

BONUS under 27

Are you under 27?

MULTIplus awards you a **special discount** on the monthly fee

BONUS if you credit your salary or pension

Do you have your salary or pension credited to your current account?

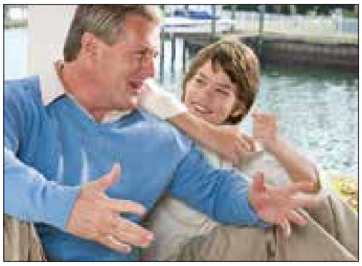
With **MULTI**plus you can get a **reduction** on the monthly fee

BPS SHAREHOLDER BONUS

Are you a Shareholder with at least 100 shares of Banca Popolare di Sondrio?

MULTIplus offers you an **exclusive benefit** on the monthly fee

+young



+free

+complete

carta +ma

The prepaid rechargeable card
with IBAN that has multiple features
in a single payment instrument,
starting from the age of 14.

advance on accrued end-of-service benefits (esb)

Reserved exclusively
for retired public sector employees,
it allows pensioners to obtain
an advance on their accrued
end-of-service benefits.

For retired public sector employees

Advance
on accrued end-of-service benefits

tfs
Trattamento di Fine Servizio

Now you can get
an advance on your ESB!

PAGE 60

asset management

Years of experience
and professionalism to best meet
the most diversified
investment objectives of savers.

ARCA SGR
Mutual Funds
Managed by ARCA SGR

POPSO (SUISSE) INVESTMENT FUND SICAV
Popso (SUISSE)
Investment Fund SICAV

etica SGR
Mutual Funds
Managed by Etica SGR

SIDERA FUNDS SICAV
Sidera Funds SICAV

ARCA VITA
ARCA VITA international
Insurance Solutions

GPM GPF
Portfolio
and Fund Management

PAGE 60

bancassurance and pension schemes

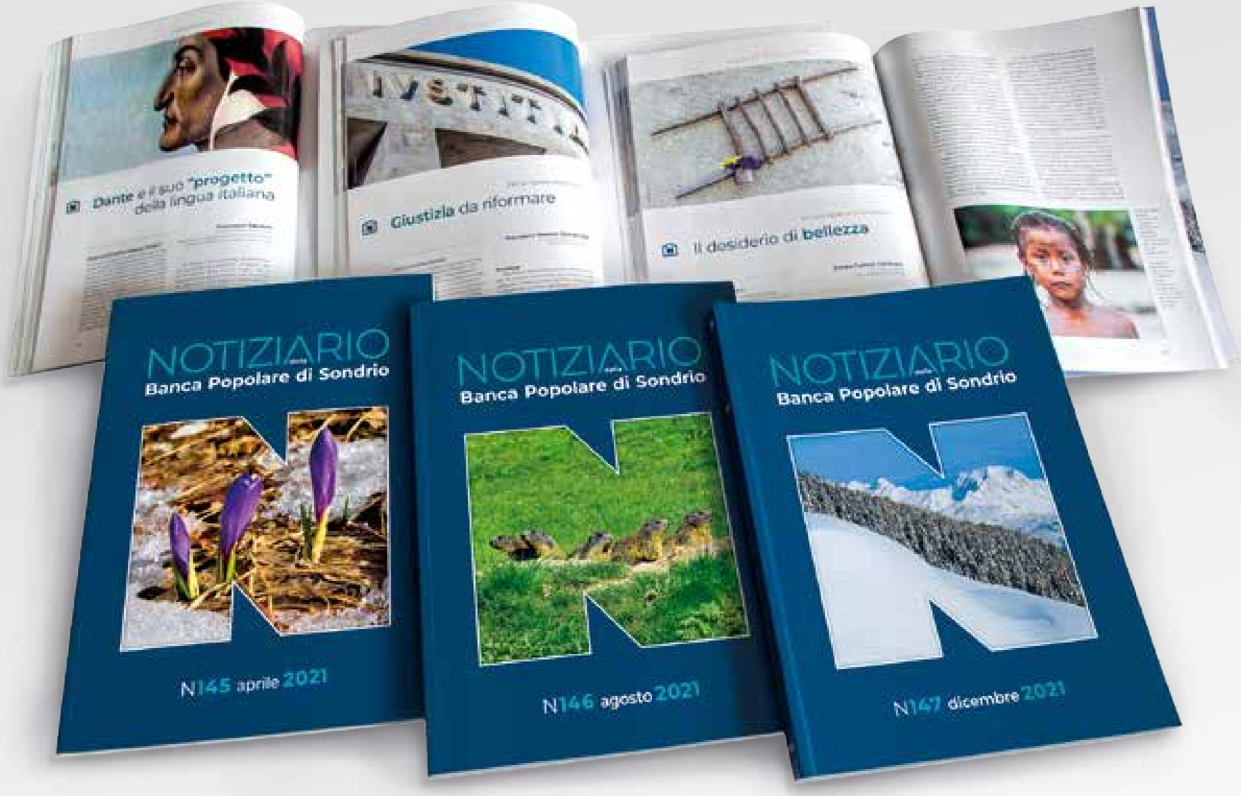
BANCASSICURAZIONE
Insieme perché il tuo mondo è unico

ARCA VITA ARCA ASSICURAZIONI

With the collaboration of long-standing partners Arca Vita, Arca Assicurazioni and Arca Fondi SGR, the Bank offers complete and innovative solutions in the insurance and pension sector.

ARCA SGR

Arca Previdenza
FONDO PENSIONE APERTO



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publishing

The “popular” values of the Bank linked to the territory are also testified by the long tradition of publishing initiatives. The sought-after publications and the *Notiziario*, the quarterly magazine created in 1973, constitute a cultural heritage, mostly now available online, to the extent possible, on the bank’s website. This is flanked by the popular Dutch and table calendars, which convey, thanks to bright shots, the extraordinary natural and environmental heritage of the province of Sondrio.

“NOTIZIARIO” the magazine of **BANCA POPOLARE DI SONDRIO**

All of the issues published since April 1999 can be seen on **nonsolobanca.popso.it**

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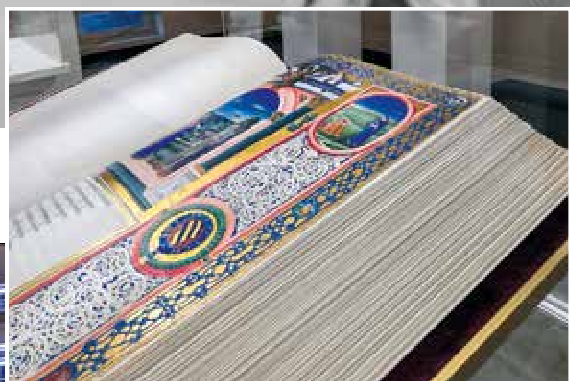
cultural activities

A history of growth, values and culture

In the 150th anniversary of its foundation, Banca Popolare di Sondrio reaffirmed its decades-long commitment in the cultural area, celebrating the seven hundredth anniversary of Dante Alighieri's death at the Teatro Sociale di Sondrio with a day of events, the *DantedìValtellina*, divided into two distinct moments addressed to both students and to the older community. Coordinated by Professor Francesco Sabatini, well-known linguist and president emeritus of the Accademia della Crusca, the important event benefited from the patronage of the Accademia della Crusca and the Institute of the Italian Encyclopedia Treccani, as well as the collaboration of the Territorial Scholastic Office and the Municipality of Sondrio.

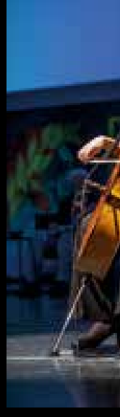
DantedìValtellina

DanteQui The exhibition



Set up in the elegant rooms of the nineteenth-century Palazzo Lambertenghi in the central Piazza Garibaldi, *DanteQui* was an integral part of *DantedìValtellina*. Testimonies of the Supreme Poet in the places of culture of Sondrio, an artistic, bibliographic and documentary exhibition that saw, alongside the Bank, the collaboration of the “Luigi Credaro” Library, the “Pio Rajna” Civic Library and the Valtellinese Museum of History and Art (MVSA). The significant exhibition review also hinges the event in the cultural history of our territory.


DantedìValtellina

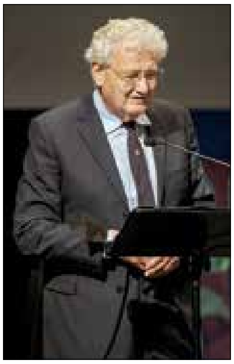


Fulcrum of the *DantedìValtellina*, the afternoon conference, opened by the president and the managing director and general manager of the Bank (in the background photo), which was followed by the interventions of the prefect and the mayor of the Valtellina capital, in addition to those of the provincial school director Fabio Molinari, Massimo Bray, Claudio Marazzini and Antonio Patuelli. Speakers of great depth and national importance such as Francesco Sabatini – also in the role of authoritative coordinator of the entire initiative –, Alessandro Ghisalberti, Attilio Ferrari, Sandro Cappelletto, Stefano Zuffi, Leandro Schena alternated in exploring the poem. The speeches were interspersed with theatrical interpretations of Dante's verses by Christian Poggioni and Lucilla Giagnoni and by the performance of Irina Solinas on the cello. The large audience present was honoured with a small volume (photo on the side) containing essays by distinguished scholars, taken from the *Notiziario* and focused on the work of Dante Alighieri.

RELIVE THE EVENTS VIA THE QR-CODE

DantedìValtellina

Meeting with students
Dante: why we cannot do without them



Introduced and coordinated by Francesco Sabatini, the meeting with the students focused on the relevance of Dante's poem and on the extraordinary modernity of its language thanks to the voice of Lucilla Giagnoni, vibrant interpreter of two of the most famous episodes of Dante's Inferno, the chants V and XXVI.
Three teachers with experienced communicative and didactic skills interacted with the young audience: Enrico Castelli Gattinara, Michele Prandi and Anna Bordoni Di Trapani.
In the photo above on the left: the greeting of the councillor for culture of the municipality of Sondrio.

FINANCIAL STATEMENTS
AT 31 DECEMBER 2021

BALANCE SHEET
(in euro)

	ASSET ITEMS	31/12/2021	31/12/2020
10.	**Cash and cash equivalents**	**4,703,889,378**	**4,476,284,059**
20.	**Financial assets measured at fair value through profit or loss**	**1,458,703,687**	**1,239,044,920**
	a) financial assets held for trading	202,413,061	169,744,106
	c) other financial assets mandatorily measured at fair value	1,256,290,626	1,069,300,814
30.	**Financial assets measured at fair value through other comprehensive income**	**3,098,860,630**	**2,617,072,850**
40.	**Assets, non liabilities measured at amortised cost**	**38,247,794,841**	**35,140,118,894**
	a) loans and receivables with banks	4,846,046,900	4,894,616,704
	b) loans and receivables with customers	33,401,747,941	30,245,502,190
70.	**Equity investments**	**612,881,184**	**613,487,983**
80.	**Property, equipment and investment property**	**397,699,575**	**379,777,099**
90.	**Intangible assets**	**15,705,531**	**12,872,557**
100.	**Tax assets**	**289,532,693**	**378,942,324**
	a) current	7,046,019	43,167,619
	b) deferred	282,486,674	335,774,705
120.	**Other assets**	**810,729,046**	**373,759,393**
	TOTAL ASSETS	**49,635,796,565**	**45,231,360,079**

Items 10 and 40 of the Balance Sheet assets as at 31/12/2020 have been restated following the 7th update of Bank of Italy Circular 262 of 22 December 2005.

EQUITY AND LIABILITY ITEMS		31/12/2021	31/12/2020
10.	**Financial liabilities measured at amortised cost**	**45,539,331,233**	**41,392,257,233**
	a) due to banks	9,689,126,033	8,858,607,901
	b) customer deposits	32,176,500,378	29,725,068,448
	c) securities issued	3,673,704,822	2,808,580,884
20.	**Financial liabilities held for trading**	**22,795,622**	**31,785,558**
60.	**Tax liabilities**	**28,200,195**	**26,177,989**
	a) current	–	–
	b) deferred	28,200,195	26,177,989
80.	**Other liabilities**	**916,805,041**	**844,105,983**
90.	**Reserve for termination indemnities**	**37,821,567**	**39,854,380**
100.	**Provisions for risks and charges**	**258,856,209**	**256,130,244**
	a) commitments and guarantees given	42,904,110	58,301,001
	b) pension and similar obligations	164,886,732	162,296,416
	c) other provisions for risks and charges	51,065,367	35,532,827
110.	**Valuation reserves**	**52,087,552**	**49,906,067**
140.	**Reserves**	**1,153,959,091**	**1,102,256,637**
150.	**Share premium reserve**	**79,005,128**	**79,005,128**
160.	**Share capital**	**1,360,157,331**	**1,360,157,331**
170.	**Treasury shares (-)**	**(25,321,549)**	**(25,321,549)**
180.	**Profit (Loss) for the year (+/-)**	**212,099,145**	**75,045,078**
	TOTAL LIABILITIES AND EQUITY	**49,635,796,565**	**45,231,360,079**

INCOME STATEMENT

(in euro)

ITEMS		31/12/2021	31/12/2020
10.	INTEREST AND SIMILAR INCOME	554,081,281	499,257,139
	of which: interest income calculated using the effective interest method	*545,930,738*	*491,791,157*
20.	INTEREST AND SIMILAR EXPENSE	(107,238,358)	(93,039,782)
30.	**NET INTEREST INCOME**	**446,842,923**	**406,217,357**
40.	FEE AND COMMISSION INCOME	322,497,371	289,140,354
50.	FEE AND COMMISSION EXPENSE	(12,669,722)	(12,824,563)
60.	**NET FEE AND COMMISSION INCOME**	**309,827,649**	**276,315,791**
70.	DIVIDENDS AND SIMILAR INCOME	22,262,886	21,118,202
80.	NET TRADING INCOME	50,590,460	(6,519,006)
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:	46,616,556	(717,156)
	a) financial assets measured at amortised cost	*32,878,373*	*(25,590,503)*
	b) financial assets measured at fair value through other comprehensive income	*13,756,106*	*24,811,767*
	c) financial liabilities	*(17,923)*	*61,580*
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	23,752,704	(1,799,424)
	b) other financial assets mandatorily measured at fair value	*23,752,704*	*(1,799,424)*
120.	**TOTAL INCOME**	**899,893,178**	**694,615,764**
130.	NET ADJUSTMENTS FOR CREDIT RISK OF:	(140,242,538)	(132,910,477)
	a) financial assets measured at amortised cost	*(141,251,457)*	*(132,054,574)*
	b) financial assets measured at fair value through other comprehensive income	*1,008,919*	*(855,903)*
140.	GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION	(6,098,547)	(6,414,585)
150.	**NET FINANCIAL INCOME**	**753,552,093**	**555,290,702**
160.	ADMINISTRATIVE EXPENSES:	(471,609,050)	(441,887,596)
	a) personnel expenses	*(208,575,438)*	*(190,267,407)*
	b) other administrative expenses	*(263,033,612)*	*(251,620,189)*
170.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	(460,303)	(12,616,540)
	a) commitments and guarantees given	*15,396,891*	*(15,510,974)*
	b) other net provisions	*(15,857,194)*	*2,894,434*
180.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(32,145,524)	(32,770,630)
190.	AMORTISATION AND NET IMPAIRMENT ON INTANGIBLE ASSETS	(14,502,720)	(13,739,044)
200.	OTHER OPERATING INCOME/EXPENSE	67,599,038	58,071,163
210.	**OPERATING COSTS**	**(451,118,559)**	**(442,942,647)**
220.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS	(894,887)	(582,334)
230.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS	(271,952)	-
250.	NET GAINS (LOSSES) ON SALES OF INVESTMENTS	113,326	12,007
260.	**PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**301,380,021**	**111,777,728**
270.	INCOME TAXES	(89,280,876)	(36,732,650)
280.	**POST-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**212,099,145**	**75,045,078**
300.	**PROFIT (LOSS) FOR THE YEAR**	**212,099,145**	**75,045,078**

STATEMENT OF OTHER COMPREHENSIVE INCOME

(in euro)

ITEMS		2021	2020
10.	**Profit (Loss) for the year**	**212,099,145**	**75,045,078**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Equity securities measured at fair value through other comprehensive income	266,021	30,562,885
50.	Property, equipment and investment property	9,817,730	
70.	Defined-benefit plans	4,329,891	(5,644,440)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(12,232,157)	12,855,658
170.	**Total other income items net of income taxes**	**2,181,485**	**37,774,103**
180.	**Other comprehensive income (Item 10+170)**	**214,280,630**	**112,819,181**

STATEMENT OF CHANGES IN EQUITY

(in euro)

				Allocation of prior year result		Changes during the year								
							Equity transactions							
	Balance at 31/12/2020	Opening	Balance at 1/1/2021	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Other comprehensive income at 31/12/2021	**Equity at 31/12/2021**
Share capital														
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–	–	–	–	–	–	–	–	–	1,360,157,331
b) other shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share premium reserve	**79,005,128**	**–**	**79,005,128**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
Reserves														
a) from earnings	1,102,256,637	–	1,102,256,637	47,760,931	–	3,941,523	–	–	–	–	–	–	–	1,153,959,091
b) other	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Valuation reserves	**49,906,067**	**–**	**49,906,067**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,181,485**	**52,087,552**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
Profit for the year	**75,045,078**	**–**	**75,045,078**	**(47,760,931)**	**(27,284,147)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**212,099,145**	**212,099,145**
Equity	**2,641,048,692**	**–**	**2,641,048,692**	**–**	**(27,284,147)**	**3,941,523**	**–**	**–**	**–**	**–**	**–**	**–**	**214,280,630**	**2,831,986,698**

On 26 May 2021, a dividend of € 0.06 per share was paid to shareholders for a total of € 27.203 million for 2020. For 2021, the directors have proposed the payment of a dividend of € 0.20. This dividend is subject to shareholder approval and therefore has not been included as a liability in these financial statements. The proposed dividend is payable from 25 May. The payout envisaged totals € 90,677 million.

STATEMENT OF CHANGES IN EQUITY

(in euro)

	Balance at 31/12/2019	Opening	Balance at 1/1/2020	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations	Changes during the year: Changes in reserves	Changes during the year – Equity transactions: Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Other comprehensive income at 31/12/2020	**Equity at 31/12/2020**
Share capital														
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–	–	–	–	–	–	–	–	–	1,360,157,331
b) other shares	-	–	-	–	–	–	–	–	–	–	–	–	–	-
Share premium reserve	**79,005,128**	**–**	**79,005,128**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
Reserves														
a) from earnings	990,903,675	–	990,903,675	100,695,191		10,657,771	–	–	–	–	–	–	–	1,102,256,637
b) other	–	–	–	–	–	–	–	–	–	–	–	–	–	-
Valuation reserves	**12,131,964**	**–**	**12,131,964**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**37,774,103**	**49,906,067**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
Profit for the year	**100,695,191**	**–**	**100,695,191**	**(100,695,191)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**75,045,078**	**75,045,078**
Equity	**2,517,571,740**	**–**	**2,517,571,740**	**–**	**–**	**10,657,771**	**–**	**–**	**–**	**–**	**–**	**–**	**112,819,181**	**2,641,048,692**

CASH FLOW STATEMENT (INDIRECT METHOD)

	31/12/2021	31/12/2020
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**555,127,963**	**358,754,302**
- profit for the year	212,099,145	75,045,078
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+)	(32,637,347)	17,514,884
- gains (losses) on hedging activities (-/+)	–	–
- net adjustments/writebacks for credit risk (+/-)	151,443,997	144,368,608
- net adjustments/writebacks for property, equipment and investment property and intangible assets (+/-)	46,920,196	46,509,674
- provisions for risks and charges and other costs/revenues (+/-)	25,917,992	35,580,931
- unpaid taxes, duties and tax credits (+)	89,280,876	36,732,650
- net impairment adjustments to disposal groups, net of tax effect (+/-)	–	–
- other adjustments (+/-)	62,103,104	3,002,477
2. **Cash generated/absorbed by financial assets**	**(4,445,033,600)**	**(5,302,810,537)**
- financial assets held for trading	(12,163,868)	50,453,490
- financial assets designated at fair value	–	–
- financial assets mandatorily measured at fair value	(166,072,034)	(351,606,163)
- financial assets measured at fair value through other comprehensive income	(490,154,785)	25,380,542
- financial assets measured at amortised cost	(3,282,324,028)	(4,876,768,692)
- other assets	(494,318,885)	(150,269,714)
3. **Cash generated/absorbed by financial liabilities**	**4,167,766,944**	**8,272,524,302**
- financial liabilities measured at amortised cost	4,131,744,596	8,255,622,989
- financial liabilities held for trading	(17,551,766)	(10,607,668)
- financial liabilities measured at fair value	–	–
- other liabilities	53,574,114	27,508,981
Net cash generated/absorbed by operating activities	**277,861,307**	**3,328,468,067**
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**17,240,331**	**24,045,946**
- sales of equity investments	–	7,279,421
- dividends collected from equity investments	17,127,439	16,754,558
- sales of property, equipment and investment property	112,892	11,967
- sales of intangible assets	–	–
- sales of subsidiaries and business units	–	–
2. **Cash absorbed by**	**(41,620,794)**	**(28,787,778)**
- purchases of equity investments	(288,088)	(950,790)
- purchases of property, equipment and investment property	(23,997,012)	(15,396,013)
- purchases of intangible assets	(17,335,694)	(12,440,975)
- purchase of subsidiaries and business units	–	–
Net cash generated/absorbed by investing activities	**(24,380,463)**	**(4,741,832)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	–	–
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(26,352,950)	–
Net cash generated/absorbed by financing activities	**(26,352,950)**	–
NET CASH GENERATED/ABSORBED IN THE YEAR	**227,127,894**	**3,323,726,235**

Key:
(+) generated (-) absorbed

figures at 31/12/2020 have been restated following the 7th update of Bank of Italy Circular 262 of 22 December 2005.

RECONCILIATION

Line items	31/12/2021	31/12/2020
Cash and cash equivalents at beginning of year	4,476,284,059	1,153,027,548
Total net cash generated/absorbed in the year	227,127,894	3,323,726,235
Cash and cash equivalents: effect of exchange rate fluctuations	477,425	(469,724)
Cash and cash equivalents at end of year	**4,703,889,378**	**4,476,284,059**

The figures at 31/12/2020 have been restated following the 7th update of Bank of Italy Circular 262 of 22 December 2005.

NOTES

PART A Accounting policies

A.1 General information

Section 1 Declaration of compliance with international accounting standards

Banca Popolare di Sondrio, a joint-stock company, declares that these financial statements have been prepared in accordance with the International Accounting Standards (IAS/IFRS) adopted by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2021 and endorsed by the European Commission according to the procedure established by EU Regulation no. 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4, paragraphs 1 and 2, of Legislative Decree no. 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation 1606/2002 concerning international accounting standards».

The format of the financial statements complies with the Bank of Italy's provision no. 262, dated 22 December 2005, issued within the powers defined by Legislative Decree 38/2005 and subsequent updates and additions.

The financial statements of the Bank as at 31 December 2021 were approved by the Board of Directors on 21 March 2022.

Section 2 Basis of preparation

The financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and off-balance sheet transactions have therefore been valued according to their operating values. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and in the report on operations. Considering the structure of funding, based essentially on T-LTRO refinancing operations, customer current accounts, repurchase agreements and lending, mainly to retail customers and SMEs which the Bank monitors constantly, as well as the prevalence of government securities and prime corporate bonds, management is of the opinion, even considering the difficulties encountered by sovereign debt securities in the recent past and the macroeconomic scenario created by the pandemic, that there are no critical areas that could adversely influence the Bank's capital solidity and profitability, which are prerequisites for adopting the going concern basis. With reference to the information provided in Document no. 2 of 6 February 2009 and in Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP and subsequent updates, the Bank has the reasonable expectation of continuing to operate as a going concern in the foreseeable future and has therefore prepared the financial statements as at 31 December 2021 on the assumption of business continuity. In this regard, management believes that, despite possible negative repercussions on certain types of revenues and the cost of credit and the elements of risk referred to in the section entitled «Risk Management», the Bank can continue to operate as a going concern in the foreseeable future, with capital ratios that are higher

than the regulatory minimum requirements. This conclusion also takes into account the significant government interventions in support of companies and households, the incisive monetary policy measures of central banks and the temporary easing of regulatory requirements.

2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information.
   If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the reasons for it. The financial statements and the Notes have been prepared in compliance with the provisions of the Bank of Italy's Provision of 22 December 2005 and subsequent amendments.
4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or its interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the financial statements. In view of the 7th update of Circular no. 262 of 22 December 2005 aimed at aligning financial reporting with the consolidated supervisory reporting harmonized at European level (FINREP) in order to avoid the management of «double lines» between supervisory reporting and financial reporting and to contain the reporting costs of intermediaries, the figures as at 31 December 2020 have been restated for consistency of comparison.

The financial statements are prepared in accordance with Italian regulations to the extent that they are compatible with IAS. Accordingly, the financial statements incorporate the requirements of Legislative Decree 136/2015, the Italian Civil Code (c.c.) and the corresponding provisions of the Consolidated Finance Act for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

The figures in the notes are shown in thousands of euro.

Section 3 ***Subsequent events***

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 21 March 2022 that would require the adjustment of such approved information, and nothing of significance has occurred that would require changes in the figures of the financial statements.

On 29 December 2021, the extraordinary shareholders' meeting approved the transformation of the bank into a joint-stock company. The transformation shall be effective from 5 January 2022 following the registration of the shareholders' resolution in the Sondrio Companies Register.

On 3 February 2022, the bank received from the European Central Bank, at the conclusion of the annual SREP («Supervisory Review and Evaluation Process») conducted in 2021, notification of the new decision regarding prudential requirements to be met on a consolidated basis, effective 1 March 2022. Based on data as of 31/12/2021, Banca Popolare di Sondrio has capital ratios that are well above the new thresholds.

On 1 March 2022, the purchase of the minority shares of the subsidiary Factorit S.p.a. by the Bank was finalised, thus reaching 100% of the share capital of the company.

On 14 March 2022, the independent agency Standard Ethics, at the end of the annual review process, improved the long-term sustainability rating of the Bank from «EE» stable to «EE+» and confirmed the corporate rating at «EE», positioning Banca Popolare di Sondrio among the banking institutions with the best assessment on the Italian scene.

A military conflict between Russia and Ukraine broke out after the reporting date in February, and this is considered a subsequent event that does not entail any adjustment to the Financial Statements; reference should be made to the section entitled «Business outlook» in the Report on Operations.

Section 4 ***Other aspects***

The following are the new documents issued by the IASB and endorsed by the EU, which have to be adopted from the financial statements for the years beginning on 1 January 2021:

- EU Regulation 2021/25 of 13 January 2021. On 27 August 2020, the International Accounting Standards Board published its «Interest Rate Benchmark Reform — phase 2 — Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16» to take into account the consequences of the effective replacement of benchmark indices for the determination of existing interest rates with alternative benchmark rates. See paragraph 16 for more information in this regard. Other information in these notes.
- Regulation (EU) no. 2021/1421 of 30 August 2021, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to International Financial Reporting Standard 16.

The new accounting standards, amendments and interpretations, whose application will become mandatory as of 31 December 2021, are listed below:

- Regulation (EU) 2021/1080 of 28 June 2021 correcting Regulation 1126/2008. This regulation introduces a number of formal amendments to International Accounting Standards (IAS) 16, 37 and 41 and International Financial Reporting Standards (IFRS) 1, 3 and 9. In detail, the IASB published the following amendments to the IFRS:
  - amendments to IFRS 3 Business Combinations: they update the reference in IFRS 3 to the Conceptual Framework in the revised version, without this involving any changes to the standard;
  - amendments to IAS 16 Property, Plant and Equipment: they do not allow the amount received from the sale of goods produced before the asset was ready for use to be deducted from the cost of the fixed asset. Such sales revenues and costs will be recognised in the income statement;
  - amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: they clarify which cost items have to be considered to assess whether a contract will make a loss
  - Annual Improvements 2018-2020: amendments are made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples accompanying IFRS 16 Leases.

The amendments shall be applied at the latest from the starting date of the first financial year commencing on or after 1 January 2022.

The new accounting standards, amendments and interpretations, whose application will become mandatory after 31 December 2022, are listed below:

- Regulation (EU) no. 2021/2036 of 19 November 2021, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to International Financial Reporting Standard 17. IFRS 17 – Insurance contracts published on 18 May 2017 and the amendments to IFRS 17 published on 25 June 2020. This applies from 1 January 2023.
- Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current. On 23 January 2020, the IASB published an amendment to IAS 1 which seeks to clarify one of the IAS 1 criteria for the classification of a liability as non-current, namely the requirement that the entity must have the right to defer settlement of the liability for at least 12 months after the end of the reporting period. The amendment includes:
  - clarification that the right to defer settlement must exist at the end of the reporting period;
  - clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;
  - clarification about how loan conditions influence classification;
  - clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments.
- Amendments to IFRS 4 Insurance contracts (Regulation (EU) 2020/2097 of 15 December 2020). The amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 until 2023 in order to align the date of entry into force of IFRS 9 with the new IFRS 17 Insurance Contracts.

The financial statements, accompanied by the directors' report on operations, consist of the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the financial statements.

Preparing financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, the use of valuation models for identifying the fair value of instruments that are not listed on active markets, equity investments and goodwill and for estimating the recoverability of deferred tax assets. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Bank defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the financial statements as at 31 December 2021, as required by prevailing accounting standards and relevant regulation.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale.

The outcome of this work supports the carrying amount of these items at 31 December 2021. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, characterised by high levels of uncertainty about the prospects, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment during a pandemic which could experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements as at 31 December 2021.

The financial statements are subject to audit by EY S.p.A. in accordance with the shareholders' resolution of 29 April 2017 which appointed them as auditors for the nine-year period from 2017 to 2025.

A.2 Part relating to the main line items in the financial statements

Classification of financial assets

Financial assets are classified with reference, on the one hand, to the contractual characteristics of the related cash flows i.e. whether or not they depend solely on the payment of principal and related interest (SPPI) and, on the other, the reason (business model) for which the instrument is held. The business model determines whether the cash flows derive from the collection of contractual cash flows, the sale of financial assets or both.

Held to Collect (HTC)

The objective of this business model is to hold financial assets to collect the contractual cash flows during the instrument's life.

Sales are only deemed to be eligible if they are frequent but not significant, or significant but not frequent, or if due to an increase in credit risk, or if close to the maturity date of the financial asset. Frequency is measured based on the number of sales made in the period, while significance is measured based on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Bank in specific internal regulations.

The Bank holds the following within an HTC business model:

- Almost the entire portfolio of loans to customers and Banks, given that the bank mainly undertakes traditional banking activities and holds a loan portfolio that originates from finance granted to households, individuals and businesses;
- Fixed-yield securities that may be subjected to this business model's management logic.

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets. The Bank has decided not to use the HTC&S business model for loans, but for securities (most of the securities already held as financial assets available for sale have been included here).

Others (FVTPL)

This business model is adopted when the Bank takes decisions based on the fair value of financial assets and it manages them in order to realise the latter or when the objective of the business model does not fall within that of the previous two (HTC and HTC&S). The Bank holds the following within an «Others» business model:

- Financial instruments held within a trading business model
- Financial instruments held within a fair value business model (that mostly include funds and SICAVs).

The Bank does not require ex post monitoring for credit and loans to verify the consistency of the loan portfolio with the HTC business model within which they are held, while it is required for securities to verify the consistency of securities portfolio management with the HTC and HTC&S business models.

Solely Payment Principal Interest Test (SPPI test)

By means of an SPPI test, it is possible to check whether a financial asset may be considered to be a «basic lending arrangement», whereby the contractual cash flows consist solely of payments of principal and interest accrued on the principal amount outstanding. If the test of the characteristics of the contractual cash flows shows compliance with the requirements of IFRS 9 (SPPI test has been passed), the asset may be measured at amortised cost, provided that it is held within a business model the objective of which is to collect the contractual cash flows during the instrument's life (HTC business model), or at fair value through other comprehensive income (FVOCI), provided that the asset is held within a business model the objective of which is to collect contractual cash flows over the entire life of the asset and to sell the asset (HTC&S business model). If the test of the characteristics of the contractual cash flows from a financial asset does not show compliance with the requirements of IFRS 9 (SPPI test has not been passed), the asset is measured at fair value through profit or loss (FVTPL). In accordance with guidelines, the test is performed before a loan is granted or a security purchased (origination) in order to gain awareness of the accounting implications in terms of the classification of assets in accordance with IFRS 9. Test procedures make use of the so-called SPPI tool.

For credit and loans, the approach for the execution of the SPPI test differs based on whether they consist of:

- Standard products (e.g. current accounts or loans), for which the test is performed at product level. Upon granting a loan, account is taken of the outcome of the SPPI test at product level, updated following verification of the remuneration of credit risk and a benchmark test, where required.
- Non-standard contracts, for which the test is performed individually for each amount.

For the securities portfolio, the results of the SPPI test and benchmark test are acquired for each ISIN from an external info provider. For amounts for which the results of the SPPI test and/or benchmark test obtained from an external info provider are not available and/or complete, the tests are performed within the Bank, using the aforementioned tool.

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

Classification

Financial assets held for trading (fixed-yield securities, equity securities, loans, mutual funds) have been allocated to this line item. It also includes the derivative contracts with a positive fair value, except those offset pursuant to IAS 32. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, the applicable line item is «hedging derivatives». If a financial asset contains an embedded derivative, it is measured by measuring the entire asset at fair value. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This line item also includes financial assets designated at fair value (fixed-yield securities and loans) as the result of the exercise of the fair value option. For the time being, the Bank has decided not to apply the fair value option, but does not exclude the exercise thereof in the future.

Lastly, it includes other financial assets mandatorily measured at fair value (fixed-yield securities, equity securities, mutual funds and loans) or that do not meet the requirements for classification at amortised cost or at fair value through other comprehensive income, since they did not pass the contractual cash flow characteristics test (SPPI test), as well as equity securities and mutual funds (that are not held for trading) and debt instruments held within a fair value business model.

Recognition

Assets measured at fair value through profit or loss are recognised at the settlement date at fair value, which normally corresponds to the consideration paid, with the exception of transaction costs and revenues that are recognised directly in profit or loss. Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value at the reporting date.

With regard to instruments listed on official markets, fair value is calculated with reference to their official bid price at the close of trading, while the fair value of instruments not listed on official markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity; cost, in the event that this is the best approximation of fair value).

As regards loans and receivables (due from banks and customers), the models used differ based on the nature and the characteristics of the instruments being measured. Currently, three main base models are applied:

– *Discounted Cash Flow Model (DCF)*
– *Reverse Mortgage Model (RMM);*
– *ABS model*

The above models are used to measure performing exposures.

In the event of non-performing loans or loans repayable on demand, the fair value equates to the gross balance adjusted for impairment.

Recognition of components affecting the income statement

Income statement components generated by changes in fair value of financial assets measured at fair value through profit or loss are recognised in the income statement in the period they arise under «Net trading income» and «Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss» split between the sub-items: «financial assets and liabilities designated at fair value» and «other financial assets mandatorily measured at fair value».

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

Financial assets measured at fair value through profit or loss are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

2. Financial assets measured at fair value through other comprehensive

Classification

This line item includes all financial assets (fixed-yield securities, equity securities and loans) classified in the portfolio measured at fair value through other comprehensive income, distinguishing between those that will subsequently be reclassified to the income statement (fixed-yield securities and loans) and that will not (equity securities). The following are classified in the portfolio measured at fair value through other comprehensive income:

– fixed-yield securities and loans held within an HTC&S business model and that pass the SPPI test;
– equity securities for which the FVOCI option has been irrevocably exercised upon recognition.

Recognition

The assets classified in this caption are recorded on the settlement date. Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, which normally corresponds to the fair value of the consideration paid to acquire them.

With regard to fixed-yield securities and loans, the Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen, or to significant changes in the strategic choices made, to be decided by the Board of Directors, which will determine if, in rare circumstances, reclassification is needed.

No possibility exists for the reclassification of equity securities. The exercise of the FVOCI option, being the option envisaged by the standard that permits equity instruments to be designated at fair value through other comprehensive income upon initial recognition, is in fact irrevocable.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value in the same manner as financial assets measured at fair value through profit or loss.

The line item «Financial assets measured at fair value through other comprehensive income» comprises equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Bank operates. These instruments represent the majority in this portfolio. For these investments and in consideration of the fact that the application of valuation techniques would use significant discretionary factors, valuation at cost is considered the best expression of their fair value.

At each year end or interim reporting date, fixed-yield securities classified at «fair value through other comprehensive income» are subject to impairment testing based on a calculation framework similar to the one used for financial instruments measured at «amortised cost». Any subsequent writebacks cannot exceed the impairment losses recorded previously.

As regards equity securities classified in the line item «Financial assets measured at fair value through other comprehensive income» no impairment testing is required, since changes in fair value due to a deterioration in credit status are recognised in an equity reserve named «Valuation reserves».

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the difference between cost and redemption value, is recorded in the income statement. Income and charges deriving from a change in fair value are, net of deferred tax effect, classified in separate line items within shareholders' equity, the «Valuation reserve», consisting of «Valuation reserves: equity securities measured at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than equity securities) measured at fair value through other comprehensive income». As an exception for fixed-yield securities, changes in fair value triggered by changes in risk are recognised in profit or loss in the line item 130 b) «Net adjustments/writebacks for credit risk» in relation to financial assets measured at fair value through other comprehensive income. Upon derecognition of fixed-yield securities, accumulated gains or losses pertaining thereto are recognised in profit or loss.

Upon derecognition of equity securities, accumulated gains or losses pertaining thereto are recognised in an equity reserve (line item 140).

Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to equity securities are recorded in a specific «Valuation reserve» within equity.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

3. Financial assets measured at amortised cost

Classification

This line item includes fixed-yield securities and loans allocated to the portfolio measured at amortised cost. To qualify for inclusion in the portfolio measured at amortised cost, a financial asset must be held within an HTC business model and have passed the SPPI test. The following are recognised in this line item:

a) amounts due from banks (current accounts, guarantee deposits, fixed yield securities, etc.), other than those «on demand» included under «Cash and cash equivalents». These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, the distribution of financial products). Receivables due from Central Banks (e.g. compulsory reserve), other than current accounts and «on demand» deposits included under «Cash and cash equivalents», are also included;

b) loans and receivables with customers (mortgage loans, finance leases, factoring, fixed-yield securities, etc.). These also include deposits with post offices and Cassa Depositi e Prestiti, variation margins with clearing houses arising from derivative transactions and operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, servicing activities).

Also included are:

- finance leases relating to assets under construction and assets about to be leased under «transfer of risks» contracts, whereby the risks are transferred to the lessee prior to delivery of the asset and the start of lease instalments;
- loans granted through government or other public entity funding in connection with particular lending transactions provided for and governed by specific laws («loans through third-party funds under administration»), provided that the loans and funds bear interest due and payable to the lender;
- trade notes and documents that the banks receive subject to collection or subsequent to collection and for which the banks handle the collection service on behalf of assignors (recognised only upon settlement of the related amounts).

Recognition

Financial assets measured at amortised cost are recognised on the settlement date at fair value, which normally coincides with the amount paid, including transaction costs.

Financial assets measured at amortised cost include advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables acquired by the bank, and booked in the name of the assigned debtor, for which the related risks and benefits have all been substantially transferred to the bank.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method.

The Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen, or to significant changes in the strategic choices made, to be decided by the Board of Directors of the Bank, which will determine if, in rare circumstances, reclassification is needed.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by adjustments or writebacks and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans (less than 12 months) without a specific repayment date and loans repayable on demand are recognised at historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this amount. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount expected cash flows, even if there has been a credit change associated with the loan triggered by loan forbearance that has led to a change in the contractual rate.

For measurement purposes, financial assets measured at amortised cost are classified in one of the different stages as follows:

- Stage 1: performing positions for which there has been no significant increase in credit risk since the date of initial recognition
- Stage 2: performing positions for which there has been a significant increase in credit risk since the date of initial recognition
- Stage 3: positions classified in one of the credit-impaired categories (overdrawn for more than 90 days, unlikely-to-pay, non-performing)

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts». At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, POCI and use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric («Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard. In this case, there will be a transfer between stages: this model is symmetric, and activities can move between stages. In particular, consistent with the prudent principles of forbearance, an observation period of at least two years is applied before returning the position to a better stage.

The measurement of financial assets carried at amortised cost is based on a computation of expected credit loss, which is defined as an estimate of the weighted probability of credit losses over the expected life of the financial instrument weighted for the probability of occurrence and is calculated based on the classification in stages as indicated above.

In particular:

- 12-month expected credit losses, for assets classified in stage 1. 12-month expected credit losses are those that result from default events that are possible within 12 months (or within a shorter period if the expected life is less than 12 months), weighted for the probability of occurrence of the default event.
- Lifetime expected credit losses, for assets classified in stage 2 and 3. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instrument, weighted for the probability of occurrence of the default event. For stage 2 positions, the provisions relating to each counterparty may be amended manually to a level considered appropriate by the competent business functions, based on the results of applying the statistical methodology defined by the Bank and specific operational information, if the theoretical expected loss does not accurately reflect the level of risk identified.

  As regards performing positions, measurement is performed on an overall basis, taking account of the risk parameters consisting of probability of default (PD) and loss given default (LGD), as well as exposure at default (EAD).

  As regards credit-impaired positions, measurement may be performed on an overall or detailed basis. More specifically:
- Bad loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made. Accordingly, no account is taken of any guarantees received in support of such exposures.
- Exposures classified as unlikely-to-pay loans are exposures, other than non-performing, for which the bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.
- Impaired past due and/or overdrawn exposures: exposures other than non-performing or unlikely to pay loans, which, at the reference date, are unpaid and/or overdrawn continuously for more than 90 days and which exceed set absolute materiality thresholds (100 euro for retail exposures or 500 euro for non-retail exposures) and relative materiality (set at one percent (1%) for both retail and non-retail exposures). Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

Impairment of individual assets measured at amortised cost is the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;
- expected timing of recoveries, considering the progress made by recovery procedures;

– internal rate of return.

Bad loans are assessed on either a detailed or an overall basis. The specific analysis of non-performing financial assets measured at amortised cost takes the following parameters into account:

– recoveries forecast by the account managers;
– expected timing of recoveries based on historical-statistical data;
– original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

Overall assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

– recoveries forecast by the offices concerned;
– expected timing of recoveries based on historical-statistical data;
– original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of bad loans for which no specific estimate has been made of the loss attributable to each individual relationship.

These financial assets are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due and/or impaired overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters established by regulations in force from time to time.

For the positions in question, it is not possible to quantify expected losses on a detailed basis at the level of individual position. The measurement of the level of impairment thereof – and, thus, of the impairment adjustments to be applied on an overall basis – is performed by taking account of the possibility of return to performing of the positions or of a further deterioration of default and, accordingly, of the amount of the estimated expected loss arising from the established recovery process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

It should be noted that the impairment model relating to impaired loans (Stage 3) envisaged by IFRS 9 is based on an estimate of the difference between the original contractual flows and expected cash flows. So, in determining the expected flows, it is necessary to include estimates at the reporting date of the various expected scenarios, including any loan disposal programmes and/or settlement agreements. If the entity expects to recover a portion of the cash flow of the exposures through sales procedures or settlement agreements, these can be included in the calculation of the Expected Credit Losses verified under certain conditions.

The bank incorporates the various recovery strategies considering the different probabilities that they will take place according to the IFRS 9 impairment model.

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of impaired loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification of the scenarios.

In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

Currently, the following possible scenarios have been identified, each with different models and estimated outcomes:
- internal management of credit recovery activities;
- adoption of settlement agreements for a selected number of impaired positions;
- disposal to third parties of impaired exposures.

The next phase consists in identifying the portfolio to be sold, based on knowledge of its characteristics, the existence of any internal and/or external constraints, the monitoring of market conditions and any more complex strategic and operational objectives. The aggregate is defined with reference to the specific factors attributed to each position, such as their contractual characteristics (e.g. type of guarantee, ageing, size of the exposure etc.) and relevant operational information, including the type of recovery procedures already in progress, the geographical location of the counterparty, any impediments or obstacles to disposal, the strategic orientation of the bank, the conditions existing from time to time in the market for the disposal of loans, the strategies adopted by competitors, and any other internal and/or external factors that can be explained appropriately.

Each operational scenario identified is assigned a specific probability of occurrence. This probability is determined on both qualitative and quantitative bases, the latter taking into account the correlation between the target and extended portfolios selected for each scenario.

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified. Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the restructuring of unlikely-to-pay exposures, any secured and unsecured guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

The estimate of cash flow from loan disposal scenarios takes account of similar transactions carried out in the past by the bank, as well as specific information available about the underlying (situation faced by the borrower and any loan guarantees obtained) and the market for the disposal of non-performing loans (e.g. prices of similar transactions carried out by other intermediaries and historical and forecast market curves).

The expected loss on each impaired position is therefore determined using the following formula:

Expected Loss - Individual position	=	Expected Loss - Disposal Scenario* Probability of occurrence of Disposal	+	Expected Loss - Internal Management Scenario* Probability of occurrence of Internal Management

The process of determining the expected loss in the case of scenarios of proactive management of loans through settlement agreements follows the same steps as those envisaged for the transfer scenarios illustrated above and the expected loss in this specific scenario, through the relative probability of occurrence, is included in the final quantification of the expected loss of the individual position.

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the line item «interest and similar income».

Reductions or recoveries of partial or entire amounts previously written down are booked to the income statement.

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

IFRS 9 confirms the rules for the derecognition of financial assets already provided for in IAS 39. Thus, financial assets measured at amortised cost are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

However, the standard includes new guidance on:

- Write-off of financial assets: when an entity does not reasonably expect to fully or partly recover contractual cash flows from a financial asset, it must directly reduce the gross carrying amount of the financial asset. This writedown constitutes partial or total derecognition of the asset.
- Modification of contractual cash flows: when a modification of contractual cash flows occurs, an entity must assess whether the modification would lead to derecognition, that is, whether the modification is substantial.

When the modification of contractual cash flows from a financial asset leads to the derecognition of a financial asset in compliance with the present standard, an entity should derecognise the existing financial asset and subsequently recognise the modified financial asset: the modified financial asset is deemed to be a «new» financial asset for the purpose of this standard. (IFRS 9 B5.5.25).

When the modification of contractual cash flows from a financial asset does not lead to the derecognition thereof, an entity should redetermine whether there has been a significant increase in credit risk and/or whether the financial asset should be reclassified to stage 3.

At the time of a modification that does not lead to derecognition, the Bank adjusts their carrying amount to the present value of the modified cash flows determined using the original effective interest rate, with a matching entry to the income statement.

3.1 Commitments and guarantees given

Classification

These comprise all the secured and unsecured guarantees given for third-party obligations and commitments to grant loans.

Recognition and measurement

Endorsement loans are valued on the basis of the riskiness of this particular form of loan, taking into account the creditworthiness of the borrower. The impairment model envisaged for this category of financial assets is the same as that for financial assets measured at amortised cost (see paragraph 3 above).

Recognition of components affecting the income statement

The commissions accrued are shown in the income statement under «fee and commission income». Impairment losses, and subsequent writebacks, are booked to the income statement under «net provisions for risks and charges» with a contra-entry to «Provisions for risks and charges - a) Commitments and guarantees given».

4. Hedging derivatives

Classification and recognition

Financial and credit derivatives held for hedging purposes with a positive or negative fair value are recognised in the corresponding balance sheet line item. The IASB is still developing new macro hedging requirements to complete the hedge accounting requirements already included in IFRS 9, which will replace the rules set out in IAS 39 and, accordingly, until the completion and publication of the new standard, the Bank has decided to continue to apply the hedge accounting requirements set out in IAS 39, as this option is allowed under IFRS 9.

The portfolio of hedging derivatives comprises the derivative instruments used by the Bank to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading portfolio. Hedging instruments are recorded using the «contract date» method.

For a transaction to be accounted for as a «hedging transaction», the following conditions must be met: a) the hedging must be formally documented, b) the hedge must be effective at the time it starts and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement;
- hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement to match the change in the carrying value of the hedged item.

With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had if the hedge never existed to the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

Cash flow hedges are measured and recorded on the following basis:

- derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects

the income statement, for example when charges or income are recognised in relation to the hedged instrument.

If the hedging instrument expires or is sold, cancelled or exercised without replacement (as part of the hedging strategy), or if it ceases to be designated as a hedging instrument, or if the hedge no longer satisfies hedge accounting criteria, any gains or losses previously recognised as components of other comprehensive income remain classified separately within equity until the expected transaction takes place or the commitment made in relation to foreign currency is called upon.

Derecognition

Risk hedges cease to generate accounting effects when they expire, when they are closed out or terminated early, or when they cease to satisfy the recognition criteria.

5. Equity investments

The portfolio of equity investments comprises holdings in subsidiary companies, associated companies and companies under joint control, other than those classified as «financial assets measured at fair value through other comprehensive income». Control is presumed to exist when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control is therefore deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;
b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;
c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

A company is an associated company if the Bank exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;
b) the Bank takes part in the decision-making process, including decisions regarding dividends;
c) there are significant transactions between the parent company and the affiliate;
d) there is an exchange of managers;
e) essential technical information is being provided. Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control.

Recognition

Equity investments are initially recognised at cost on the acquisition date, whereby cost normally coincides with the amount paid, including transaction costs.

Accounting policies

Equity investments are subsequently valued at cost. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

IDividends are accounted for in the year they are collected and shown under «dividends and similar income».

Impairment losses, as well as profit/losses on disposal, are booked to the income statement under «net gains (losses) on equity investments».

Derecognition

Equity investments are derecognised when the financial asset is sold together with the transfer of all the risks and benefits of ownership.

6. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. The rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation and follow the rules laid down by IAS 40.

This item also includes tangible assets classified according to IAS 2 Inventories, mainly relating to assets acquired with a view to enhancing the value of the investment, including through renovation or redevelopment, with the explicit intention of selling them, including assets deriving from the enforcement of guarantees received.

Recognition

Property, equipment and investment property are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Investment properties, at the time of purchase, are recorded under assets in the balance sheet at cost. In the presence of a change of use of the property from owner-occupied property to investment property, the initial book value is equal to the fair value (market value), deduced from a specific appraisal. The difference between the fair value and the carrying amount of the property at the date of change in use is treated on the basis of the provisions of IAS 16.

According to IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset for the duration of the lease.

When the asset is made available to the lessee for its use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

The start of the lease term is the date from which the lessee is authorised to exercise his right to use the leased asset, it corresponds to the date of initial recognition of the lease and also includes the so-called rent-free period, or those contractual periods in which the lessee makes use of the asset free of charge. At the time the contract begins, the lessee recognises:

– an asset consisting of the right to use the asset underlying the lease contract. The asset

is recognised at cost, determined by the sum of:
- the financial liability for the lease;
- payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);
- initial direct costs;
- any (estimated) costs for the dismantling or restoration of the underlying leased asset;

– a financial liability deriving from the lease agreement corresponding to the present value of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lessee's incremental borrowing rate is used. If a lease contract contains «non-lease components» (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for «lease components» and «non-lease components» separately and split the contract consideration between the various components based on their relative prices.

The lease term is determined by taking into account:

– periods covered by a lease extension option, if it is reasonably certain to be exercised;
– periods covered by a lease termination option, if it is reasonably certain to be exercised.

Accounting policies

Subsequent to initial recognition, the financial statements are carried at cost less depreciation and any impairment losses. Property, equipment and investment property to which IAS 2 applies are valued in the same way as inventories, i.e. at the lower of cost and net realisable value. This case is not subject to periodic depreciation.

Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, equipment and investment property are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying amount with respect to their recoverable amount is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

Property, equipment and investment property to which IAS 2 applies are valued in the same way as inventories, i.e. at the lower of cost and net realisable value. This case is not subject to periodic depreciation.

For investment properties, falling within the scope of IAS 40, the bank adopts the fair value measurement method, whereby, following initial recognition, all investment properties are measured at fair value. Consequently, these properties are not subject to depreciation, nor are they subject to impairment testing.

With regard to lease contracts, the lessee must:

– assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 «Impairment of assets», adjusted to take into account any restatements of the lease liability;
– increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and writebacks are recorded in the «depreciation and net impairment losses on property, equipment and investment property» caption of the income statement.

The adoption of the fair value model for investment properties requires that a gain or loss from a change in fair value must be recognised in the income statement under «Net result of fair value measurement of property, equipment and investment property and intangible assets». For the methods used to determine the fair value and the periodicity of restatement, reference should be made to the criteria illustrated in «Part A.4 - Information on fair value» below.

In the lessee's income statement, the payment of the fee, previously shown under «Other administrative expenses», is now accounted for:

- under «Net interest» for the portion of interest expense relating to the financial liability in relation to the lease contract;
- under «Adjustments to property, equipment and investment property and intangible assets» for the depreciation charge relating to the right of use of the asset.

Derecognition

Property, equipment and investment property are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

On disposal of an investment property, the difference between the sale consideration and the carrying amount must be recognised in the income statement, as «Gain (loss) on sale of investments».

The right of use deriving from lease contracts is eliminated from the financial statements at the end of the lease term.

7. Intangible assets

Classification

This caption comprises identifiable, intangible, non-monetary assets that will benefit future years. Intangible assets comprise software and goodwill.

Recognition

Intangible assets are recorded at purchase cost plus any related charges, only if it is probable that the future economic benefits attributable to such assets will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned. Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units.

Accounting policies

Subsequent to initial recognition, intangible assets except for goodwill are stated at cost, net of accumulated amortisation and any impairment in value. Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned. At the end of each annual or interim reporting period, if there is evidence of impairment, the recoverable value of the asset is estimated: the amount of the loss is equal to the difference between the book value and the recoverable value and is posted to the income statement.

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable amount is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «amortisation and net impairment losses on intangible assets» caption of the income statement. It is not permitted to book any subsequent writebacks.

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

8. Non-current assets held for sale

The Bank classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally from sale rather than from continuous use. Non-current assets are only classified in this item when disposal is considered very probable, and the asset or disposal group is available for immediate sale in its current condition, given that management is committed to making the sale, which should be scheduled for completion within one year of the classification date. They are measured at the lower of book value and fair value, net of selling costs. Differences arising on valuation are booked to the income statement.

9. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year, if these amounts are likely to be recovered from or paid to the tax authorities. Tax liabilities are determined by applying the current tax rates and regulations.

The estimate of tax assets and liabilities takes into account any charges deriving from disputes notified by the Tax Authorities and not yet settled or whose outcome is uncertain, as well as any doubts about the tax treatment adopted by the Bank, given the complexity of tax legislation.

If there are deductible or taxable temporary differences at the reporting date between the value of assets and liabilities for tax purposes and the related carrying amounts, the corresponding deferred tax assets and liabilities are recognised using the liability method.

Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions:

- they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future.

Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions:

- the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them.

No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply. Deferred tax assets are only recognised when their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recorded in the financial statements to the extent that they are likely to be recovered; this is assessed by carrying out a probability test, based on the ability of the Bank or its tax group to continue generating taxable income. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal.

Deferred tax assets/liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to comprehensive income or equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This caption comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to grant loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
- Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed.
- The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
  - the company has a present obligation (legal or constructive) as a result of a past event at the reporting date;
  - it is likely that settlement of the obligation will involve the use of economic resources;
  - a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

11. Financial liabilities measured at amortised cost

Classification

This line item includes amounts due to banks and due to customers, regardless of their technical form (deposits, current accounts, loans, securities), other than those recognised in line items 20 «Financial liabilities held for trading» and 30 «Financial liabilities designated at fair value». It also includes operating payables linked to the financial services and activities defined in the Consolidated Banking Act and the Consolidated Finance Act, variation margins with clearing houses arising from derivative transactions and other operating payables associated with the provision of financial services. Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the bank's activities by customers and other banks, or by the issue of securities. They also include payables recorded by the company as a lessee in the context of lease transactions.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected. This amount does not include the charges made to creditors in order to recover administrative costs. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Amortised cost is calculated after identifying the acquisition discount or premium and the fees or costs that are an integral part of the effective interest rate. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are measured in accordance with the regulations applying to such transactions.

Lease payables are revalued when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest and similar expense». The amortisation charged using the effective interest rate is recognised among the financial charges in the income statement. Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses from sale or repurchase of financial liabilities».

Interest expense on the financial liability under the lease contract is recorded in «Interest and similar expense».

Derecognition

Financial liabilities are derecognised when the underlying obligations expire or are settled, cancelled or satisfied. Funding liabilities that are subsequently repurchased are eliminated from the financial statements.

12. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

13. Financial liabilities measured at fair value

The financial statements do not include any financial liabilities measured at fair value.

14. Currency transactions

They include all assets and liabilities denominated in currencies other than the euro.

Recognition

Assets and liabilities denominated in currencies other than the euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise. Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

15. Termination indemnities

Post-employment benefits (i.e. termination indemnities) are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by «projected unit credit method», which extrapolate the current liability, using actuarial assumptions, for the portion of the amount accrued. Under the projected unit credit method, each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out every six months by an independent actuary.

As a result of the reform of supplementary pensions by Decree no. 252 of 5 December 2005, the termination indemnities accrued up to 31/12/2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee. This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

The termination indemnities earned after 31 December 2006 are part of defined contributions plans. The contributions payable to these plans are recognised as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

16. Other information

16.1 Share-based payments – Transactions settled using equity instruments

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives. The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement.

This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year.

The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

16.2 Interest Rate Benchmark Reform

The so-called «IBOR reform» follows the recommendations of the Financial Stability Board (FSB) following the G20 request for a radical revision of the main benchmark interest rates. The request is a direct consequence of the loss of reliability of certain benchmark rates following their alleged manipulation, corroborated by the scarcity of liquidity in interbank markets in the period after the economic crisis.

At the European level, this reform was translated into the European Union Regulation 2016/1011 of 8 June 2016 (the so-called Benchmarks Regulation, BMR) in force since January 2018, implemented in Italy by Legislative Decree 19 of 13 February 2019. The regulation defined the new regulatory framework on reference rates, EURIBOR, LIBOR and EONIA, creating uncertainty about the long-term availability of some Benchmarks. In this context, Banca Popolare di Sondrio has launched an assessment project from which it emerged that the impact of the reform is of low significance with regard to the following areas of investigation: products, contracts, models and information systems.

With reference to the EURIBOR, the reference rate used for numerous types of funding and lending transactions and derivative products, calculated for different maturities and administered by the European Money Markets Institute (EMMI), from 28 November 2019 it is calculated using a new methodology in order to adapt to this regulation. This innovative methodology does not change the economic variable that the index represents, which remains the cost of funding for the contributing European banks. The change relates to the figure being measured, which now consists of the actual cost of funding recorded by the transactions effectively concluded and no longer, as was previously the case, from that relating to the purchase or sale proposals declared by the contributing banks.

Publication of the EONIA benchmark rate as previously calculated ceased as of 1 October 2019. The publication of €STR (Euro Short-Term Rate) replaced this parameter from 2 October 2019. As regards the €STR rate, the Bank's exposure appears to have no impact given the absence of products indexed to the new €STR.

In the end of the day, publication of LIBOR ceased from the end of 2021 and in the individual countries concerned there are already alternative risk-free rates that will replace LIBOR.

With regard to the disclosures pursuant to IFRS 7, paragraphs 24 I and 24 J concerning the reform of the reference indices for determining interest rates, no significant impact was seen on instruments that have already experienced the transition.

As of 2021, Regulation no. 25/2021 dated 13 January 2021, which implements the document «Reform of interest rate benchmarks - phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16», is mandatorily applicable for the first time. From the point of view of accounting presentation, it is clarified that the amendments made as a result of the IBOR Reform relating to the replacement of the existing IBOR rate with the new Risk Free Rate should not constitute a derecognition, but should be considered for accounting purposes as a modification). In this regard, a practical expedient is introduced to represent such modifications, if made as a direct consequence of the IBOR Reform and on equivalent economic bases, with a prospective adjustment of the effective interest rate, with impacts on the interest margin of future periods.

On the subject of hedge accounting, in the second phase of the project, the IASB introduced certain exceptions to IAS 39, in the case of modifications required as a direct consequence of IBOR Reform and carried out on an equivalent economic basis, which make it possible not to carry out discontinuing following the updating of the documentation on the hedging (for the change in the hedged risk, the underlying hedged item or the hedging derivative or the method of verifying the solidity of the hedge). Any effect of ineffectiveness must, however, be recognised in the income statement. It should be specified that the Bank has no hedge accounting transactions in place.

16.3 TLTRO III

The Governing Council of the European Central Bank (ECB) launched a new series of seven targeted longer-term refinancing operations (TLTRO III). The new financing operations, based on what is indicated in the ECB decision of 07/03/2019:

- envisaged auctions from September 2019 to March 2021 on a quarterly basis;
- have a duration of three years, with the possibility of voluntary early repayment (total or partial) starting one year after the settlement of each transaction.

During the meetings of 12 March and 30 April 2020, as a result of the Covid-19 emergency, the Governing Council of the ECB revised the parameters of the TLTRO III operations with reference to the maximum amount that can be financed and the related remuneration.

TLTRO-III operations have been conducted on a quarterly basis since September 2019. An additional three operations to be conducted in June, September, and December 2021 were added to the seven operations originally planned. Each operation has a term of three years. For operations conducted in June, September and December 2021, there is a voluntary redemption option exercisable quarterly beginning in June 2022.

TLTRO III operations are indexed to the average interest rate on the main refinancing operations (MRO), currently equal to 0%, or alternatively, depending on the achievement of certain benchmarks at 31 March 2021, at the average interest rate on overnight deposits at the central bank's Deposit Facility (DF).

As a result of the crisis linked to Covid-19, a cut of 50 basis points was envisaged in the above rates for the period between 24 June 2020 and 23 June 2021, and with the ECB decision of December 2020 the reduction was also extended to the period between 24 June 2021 and 23 June 2022. Again, the concessional terms are subject to the achievement of certain growth targets measured at 31 March 2021 and 31 December 2021.

As the Bank has achieved all required growth targets, it will be eligible for the application of the Deposit Facility rate, as well as the reduction of an additional 50 b.p. for the period from June 2020 to June 2022, from all funds held by the Bank, depending on their allocation date.

The Bank considered the funding provided to be non-arm's length and qualified the TLTRO III operations as a loan from a government whose benefit is treated as a government grant, in accordance with IAS 20. In line with the provisions of paragraph 8 of IAS 20, a government grant cannot be recognised until there is reasonable certainty that the entity meets the conditions.

From an accounting point of view, in consideration of paragraph 12 of IAS 20, the recognition of the benefit must be made in the years in which the entity recognizes as costs the related expenses that the contributions are intended to offset. Considering that the benefit was granted to the banks in order to support the provision of loans during the pandemic which, for the Bank, mainly consisted of granting of new loans directly linked to the pandemic, it can be concluded that the «higher cost» incurred by the Bank is attributable to both the cost of the new funding to finance new disbursements, and to a loss of cash flow on transactions subject to moratoria for the period of the suspension, which resulted in an additional financial requirement.

On 29 September 2021 the Bank repaid two T-LTRO III loans in advance for a total of 3,700 million euro and subscribed a new tranche for the same amount in order to extend the maturity.

At 31 December 2021, the book value of the TLTRO III liabilities amounted to 8,874 million euro and the related accounted interest amounted to 83 million euro.

16.4 Revenue from contracts with customers

In compliance with IFRS 15, revenue arises from the transfer of goods or services to the customer and is recognised at an amount that reflects the consideration that the Group deems it is entitled to in exchange for the above goods or services using a five-step model (identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue when the entity satisfies a performance obligation).

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both. The contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to.

The amount of commission recognised on the placement of products is adjusted to take account of any variable revenues that might have to be returned in future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

16.5 Accounting treatment of tax credits connected with the «Cura Italia» and «Relaunch» «Decrees».

Decree-Laws no. 18/2020 (so-called «Cura Italia Decree») and no. 34/2020 (so-called «Relaunch Decree») have provided for a series of measures aimed at supporting Italian individuals and businesses in their relaunch following the Covid-19 emergency, including tax incentives related to expenses incurred for specific interventions that can be used in the form of tax deductions or tax credits.

These tax incentives are applied to households or businesses, they are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). For the building interventions provided for by the specific regulations referred to in Decree Law no. 34/2020 (the so-called «Relaunch Decree»), it is also possible to take advantage of the incentive through a discount on the amount due to the supplier, who will receive a tax credit. These tax credits may be transferred to third parties, including banks, which will use them to offset their own tax debts in accordance with the specific regulations laid down; alternatively, they may in turn transfer them to financial intermediaries registered in the register provided for in article 106 of the Consolidated Law on Banking and Credit and insurance companies authorised to operate in Italy pursuant to Legislative Decree no. 209/2005.

With a view to helping to support families and businesses, the Group launched a specific project aimed at acquiring these tax credits in the second half of 2020. As at 31 December 2021, the amount of such acquired tax credits, at book values and net of uses to offset its tax liabilities, was 448 million.

They were accounted for in compliance with the provisions of the international accounting standards. In this sense, consistently with the provisions of the Bank of Italy/Consob/Ivass Document no. 9, the purchased tax credits do not represent tax assets, government grants, intangible assets or financial assets, so the most appropriate classification in the balance sheet is «other assets».

At the time of initial recognition, the tax credit is recognised at the price of the transaction (value corresponding to its fair value). For subsequent valuations, the provisions of IFRS 9 are expected to be applied in accordance with the HTC Business Model.

With reference to the representation in the income statement, the income recorded in the item interest amounted to over 5 million.

16.6 Income from dividends

Dividends are recognised when the right to collect them arises.

16.7 Treasury shares

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

16.8 Covered bond

See Part E, section D, of these notes to the financial statements.

16.9 Interbank Deposit Protection Fund - Voluntary Scheme

In December 2015, the Parent Company joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. The financial asset was fully impaired in the 2018 financial statements. No charges for other operations were recorded in subsequent years or in the year under review.

16.10 Information pursuant to art. 1, paras. 125-129 of Law 124/17 dated 4 August 2017 «Annual law for the market and competition - Measures on the transparency of public payments» as amended by Decree Law 30/4/2019 no. 34 (so-called «Growth Decree») art. 35

With regard to the above legislation, the contributions or aid received by the bank in cash or kind, that were not generally available and did not represent consideration, remuneration or reimbursements, have been published on the National Register of State Aid, to which reference is made pursuant to art. 125-quinquies of that law.

16.11 Risks, uncertainties, and impacts of the COVID-19 outbreak

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the financial statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Bank considers all available information at the reporting date, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the bank. The results reported in future might, in fact, also differ from the estimates made when preparing the interim financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated.

The principal uncertainties at this time, with a potential impact on the future operating scenarios that unfold for the Bank, include the direct and indirect adverse consequences for the Italian and global economies linked to the COVID-19 pandemic, as well as the effects of the conflict between Russia and Ukraine. In relation to the impact resulting from the COVID-19 health emergency, reference is made to the guidance provided by the Authorities and the IASB during 2020. During 2021, there were no new regulatory changes. Therefore, classifications and valuations were carried out in continuity with the 2020 financial statements, except for the extension, through the Support Bis Decree of June, of the moratoria guaranteed by the State from 30 June 2021 to 31 December 2021 and the further extension to 30 June 2022 introduced by Law no. 234 of 30 December 2021 (Budget Law), and the end, for the moratoria granted after 31 March 2021, of the period for granting simplifications in terms of their classification, for which, in the absence of further indications from the Supervisory Authorities, the assessment for the possible classification as forborne has been activated.

A. Economic results

The dynamics of the Bank's main economic aggregates recorded at 31 December 2021 are summarised below, highlighting those most affected by the effects related to the health crisis brought about by the spread of COVID-19. In particular, net interest income benefited from the positive effects deriving from the expansion of volumes and the T-LTRO III refinancing operations. Net fee and commission income have shown a positive evolution compared to last year when they had been affected by the reduction in branch operations following the restrictive measures introduced to limit the spread of the virus, with a negative impact particularly on those relating to the collection and payment system. The results of financial activities were very positive and were positively impacted by the recoveries recorded compared to 2020 by the financial markets. The cost of credit was influenced by the effects deriving from the changed macroeconomic scenario; there was a reduction in the overall cost of credit compared to the previous year, mainly attributable to the share of the performing portfolio due to its overall quality, the significant presence of government and real estate guarantees, the improvement in the macroeconomic scenarios and the resumption of payments of exposures in moratoria, for which specific provisions were set aside in 2020. On the other hand, the cost of credit on the non-performing receivables portfolio increased in 2021 following the increase in coverage levels also in relation to the massive sale carried out and the adoption of calendar provisioning in compliance with the regulatory framework. In the following paragraph, more detail is provided on the impacts on the quantification of expected losses, also highlighting the quantitative ones. Overall, this positively impacted the partial and total economic results, with a consequent positive effect also on profitability and credit quality indicators.

B. ECL – Expected credit losses

With reference to the methodological framework used by the Bank to quantify the expected losses on performing loans in 2021, in addition to the usual updating of the parameters of the macroeconomic scenarios and the weight factors associated with them based on the latest available forecasts, including the effects of the COVID-19 pandemic, the evolutionary interventions in the modelling continued, aimed at improving the estimates of the expected loss, in line with the requirements of the IFRS 9 accounting standard.

With specific reference to the explicit modelling of the scenario-dependency component as postulated by the accounting standard, it is specified that a number of macroeconomic scenarios including the COVID effects were adopted for the calculation of the write-downs relating to 31 December 2021:

– a baseline scenario, corresponding to the December 2021 update of the baseline scenario initially issued by the official provider at the time of the last forecast report referring to the third quarter of 2021;
– a (slightly) favourable scenario, corresponding to the favourable scenario issued by the official provider in the latest forecast report for the third quarter of 2021;
– a (mildly) adverse scenario, corresponding to the adverse scenario issued by the official provider in the latest forecast report for the third quarter of 2021.

Finally, as regards the weighting factors assigned to the individual scenarios during weighting, the baseline scenario, due to its nature, is assigned the prevailing weighting factor (equal to 55%), while the alternative scenarios enter with weighting factors of 20% and 25%.

In addition, due to the continuation of the macroeconomic context observed and from a prudential and prospective point of view, the analyses regarding receivables that benefited from moratoria applied in light of the COVID-19 crisis were updated in order to verify the correct classification within performing exposures.

Finally, in view of the continuing high level of uncertainty regarding the evolution of the current macroeconomic and business context, the expert-based overlay framework, aimed at capturing the risks linked to the pandemic in the best possible way, was maintained and suitably calibrated in light of the evolutionary dynamics of the above-mentioned recently observed risk factors. Overall, these revisions resulted in a level of collective loan loss adjustments of 105 million euro at 31 December 2021 compared to 162 million euro at 31 December 2020.

In any case, it cannot be excluded that the introduction of different methodologies, parameters and assumptions in determining the recoverable value of the Bank's performing credit exposures – also influenced by the evolution of the economic-financial and regulatory context of reference – could lead to valuations that are different from those carried out for the purpose of this consolidated report at 31 December 2021.

For further details on the incorporation of the COVID-19 effects in the calculation of value adjustments on loans and on the sensitivity analysis, please refer to paragraphs «2.3 Methods for measuring expected losses» and «5 Impacts deriving from the COVID-19 pandemic» contained in the section on credit risk of «Part E – Information on risks and related hedging policy» of the notes to the separate financial statements.

C. Moratoria and other support measures

In order to evaluate the effects on the financial statements, in consideration of the economic support measures implemented by the Italian government and by trade associations, which require a significant intervention by the banking system, three macro-classes of measures can be identified:

- moratoria/suspensions on mortgages and loans in favour of individuals and businesses;
- State-guaranteed loans in favour of small, medium and large enterprises;
- cash advances to workers, depending on the particular type of loan to be granted.

Through the Communication of 30 June 2020 «Guidelines of the European Banking Authority on reporting and public disclosure requirements on exposures subject to measures applied in light of the COVID-19 crisis» and 15 December 2020, the Bank of Italy implemented the Guidelines of the European Banking Authority (EBA) on reporting and public disclosure requirements on exposures subject to measures applied in light of the COVID-19 crisis. In detail, the provisions governing the financial statements of banks (Circular no. 262 of 2005) have been supplemented to provide the market with information on the effects that COVID-19 and the economic support measures have had on the strategies, objectives and risk management policies, as well as on the economic and financial position of intermediaries.

The criteria for the accounting classification of loans have been revised compared to the financial statements as at 31 December 2020, due to the new default classification rules introduced by the European Banking Authority (EBA) and implemented by the Bank of Italy. Moreover, given the exceptional nature of the situation caused by the COVID-19 pandemic and the guidelines of the Supervisory Authorities, aimed at using the margins of flexibility existing in the accounting and prudential regulations, during the 2020 it was decided to make some changes to the accounting classification, such as:

1) the new loans related to the pandemic situation, the Eba compliant suspensions and those granted in accordance with the «Cura Italia» Decree are not identified as forbearance measures at the time of granting, except for the positions identified as more risky, for which a specific activity aimed at assessing the possible forborne marking and/or the classification as a probable default has been carried out.
2) for suspensions and concessions other than point 1), the evaluation of the forborne marking takes place during the resolution phase of the facility according to the ordinary

process; concessions aimed at facilitating the repayment of past debts and facilities granted to counterparties considered to be in financial difficulty are marked forborne; facilities granted from a commercial viewpoint, those granted to finance investment needs and those granted to align financial disbursements with income/cash flows are not marked forborne.

Lastly, for details in terms of gross exposure, impairment adjustments (overall and for the year), inter-stage transfers of the support measures granted by the Bank at 31 December 2021, please refer to the following tables:

- 4.4a of «Section 4 – Financial assets measured at amortised cost», contained in «Part B – Information on the balance sheet» of these Notes;
- 8.1a and 8.2a of «Section 8 – Net adjustments for credit risk» contained in «Part C – Information on the income statement» of these Notes;
- A.1.5a and A.1.7a included in the quantitative information of the section related to credit risk of «Part E – Information on risks and related hedging policy» of these Notes.

D. Financial instruments (measurement of financial assets, equity investments and models for determining the fair value of instruments not listed in active markets

Financial instruments not listed in active markets and illiquid and complex instruments are measured using specific complex models and/or parameters not observable in the market. These measurements are therefore highly complex, as highlighted by their classification in the fair value hierarchy. See Part A.4 – «Information on fair value» in these notes to the financial statements for qualitative and quantitative information on the methods adopted to determine the carrying amounts of instruments measured at fair value and those measured at amortised cost.

With regard to equity investments, the draft financial statements and updated business plans of the companies concerned might not be available when preparing the financial statements of the bank, which would increase the uncertainties involved in measuring their value. In such cases, the carrying amounts assigned to the equity investments concerned, based on the available information, might differ from subsequent measurements made on the basis of different information that becomes available.

E. Deferred tax assets and valuation of liabilities associated with employee benefits

The assets shown in the Bank's balance sheet include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they become tax deductible and, to a lesser extent, from tax losses carried forward. Section 10 – «Tax assets and tax liabilities», contained in Part B – Assets of these notes to the financial statements, provides information about the nature of DTAs and the checks carried out on their recoverability, as well as about the results of the sensitivity analysis carried out on the time horizon for their recoverability, considering reasonable changes in the expected cash flows.

The measurement of the liability for employee benefits involves a certain degree of complexity, especially with regard to defined benefit plans and other long-term benefits, given that this involves making actuarial assumptions of a demographic (e.g. mortality rate, employee turnover) and financial (e.g. discount rates and inflation rates) nature. Part B of these notes to the financial statements contains separate analyses covering the sensitivity of the provision for employee termination indemnities and the provision for defined benefit pensions to changes in the actuarial assumptions included in the model.

A.3 TRANSFER OF FINANCIAL ASSETS HELD FOR TRADING

There were no transfers during the year due to changes in business model.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

Information on fair value as required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in an orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument.

With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the Credit Value Adjustment (CVA) and represents the potential loss associated with the counterparty credit risk, while the Debit Value Adjustment (DVA) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

Non-financial assets measured at fair value on a recurring basis:

For Banca Popolare di Sondrio, non-financial assets measured at fair value on a recurring basis are represented by real estate not used for business activity for which it was deemed appropriate to reclassify them and account for them in accordance with IAS 40.

The fair value of properties held for investment purposes is determined through the use of special appraisals prepared by independent companies, professionally qualified and operating in the specific sector, capable of providing property valuations based on RICS Valuation standards.

These standards ensure that:

- the fair value is determined in accordance with the indications of the international accounting standard IFRS 13, i.e. it represents the estimated amount for which an asset would be sold and purchased, at the date of valuation, by a seller and a buyer with no special ties, both interested in the purchase and sale, at competitive conditions, after adequate marketing in which the parties have both acted in an informed, conscious and non-coerced manner;

- experts have professional, ethical and independence requirements in line with international and European standards.

For properties of a significant amount, i.e. properties with a value of more than 5 million, a «full» appraisal is envisaged, i.e. conducted by means of an inspection of the property, as well as a detailed analysis of the available documentation. For the remaining properties, however, it is possible to have recourse to a «drive-by» type appraisal, that is, based on the examination of the documentation as well as through an external inspection of the unit being appraised.

Taking into account that for real estate held for investment purposes the measurement criterion is fair value, the value is determined on the basis of new appraisals each year.

A.4.2 Processes and sensitivity of the measurements

The Bank determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs that can be used, financial instruments are classified as Level 1, Level 2, Level 3. Financial instruments that are quoted in active markets for which the fair value is assumed based on official market quotations are classified in Level 1. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis. Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;
b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;
c) the rate applicable to risk-free monetary assets of similar duration;
d) the risk premium;
e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor. Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful. With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value. Given the limited weighting of such instruments within the bank's portfolio of financial assets and considering that the Level 3 instruments contained in the portfolio of financial assets largely comprise securities carried at cost, or through prices of previous transactions, without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

As regards the Asset Backed Securities (ABS) present in portfolio, deriving from the Diana, Luzzatti I and Luzzatti II securitisations of non-performing loan portfolios, the analyses and assessments were carried out on the basis of the most recent information available and following the so-called waterfall structure for modelling the cash flows of the securitisations. From our analyses, no elements emerged that would justify a change in the fair value of the tranches with respect to the values currently recorded in the financial statements. There are also in portfolio units of funds deriving from corporate loan restructuring, whose measurement at fair value is carried out on the basis of the NAV, corrected if necessary to take into account the investment's poor liquidity.

The instruments classified at level 3, for which non-observable quantitative inputs are used in the determination of the fair value, are largely attributable to financial instruments that did not pass the SPPI test envisaged for the classification of financial assets by IFRS 9. The fair value of most of these financial instruments is determined through a Discounted Cash Flow model or, for revocable products, set equal to the gross exposure adjusted for the credit risk loss component. The economic results do not fluctuate significantly on changes in the unobservable risk parameters. In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.12% under the adverse scenario and lower by 0.06% under the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low.
b) analysis of the sensitivity to changes in the LGD (Loss Given default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (fair value lower by 0.36% under the adverse scenario and higher by 0.06% under the favourable scenario). Here too, the changes were very limited because the credit risk associated with most of these instruments is low.
c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by -2.60% following an increase in the rate curves and, conversely, increased by +7.59% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The shocked and non-shocked fair value may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low.
d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +5.91%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is -2.47% if the rate curves are shifted up, and +2.46% if they are shifted down.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by adopted by Regulation no. 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets for the assets and liabilities being measured (level 1);
b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
c) inputs not based on market observable data (level 3). In this case, the fair value is

determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used.

Fair value hierarchy of real estate assets

The fair value of real estate held for investment purposes is classified at level 3 in the fair value hierarchy under IFRS 13, as it is determined using valuation techniques for which the significant inputs are not based on observable market data.

A.4.4. Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13. The disclosures envisaged in paras. 51, 93 (i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities designated at fair value on a recurring basis: breakdown by fair value levels

	31/12/2021			31/12/2020		
Financial assets/liabilities measured at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Financial assets measured at fair value through profit or loss**	**158,701**	**716,288**	**583,714**	**118,041**	**602,138**	**518,866**
a) financial assets held for trading	158,701	41,561	2,150	117,984	45,815	5,945
b) financial assets designated at fair value	–	–	–	–	–	–
c) other financial assets mandatorily measured at fair value	–	674,727	581,564	57	556,323	512,921
2. **Financial assets measured at fair value through other comprehensive income**	**2,992,513**	**–**	**106,347**	**2,475,149**	**–**	**141,924**
3. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
4. **Property, equipment and investment property**	**–**	**–**	**19,487**	**–**	**–**	**–**
5. **Intangible assets**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**3,151,214**	**716,288**	**709,548**	**2,593,190**	**602,138**	**660,790**
1. **Financial liabilities held for trading**	**–**	**22,796**	**–**	**–**	**30,896**	**890**
2. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**22,796**	**–**	**–**	**30,896**	**890**

There were limited transfers of financial instruments between the three fair value levels during the year.

The impact of the CVA (Credit value adjustment) and DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because most of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (Level 3)

	Financial assets measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	and Property, equipment and investment property	Intangible assets
1. **Opening balance**	**518,866**	**5,945**	**–**	**512,921**	**141,924**	**–**	**–**	**–**
2. **Increases**	**166,049**	**2,655**	**–**	**163,394**	**17,253**	**–**	**19,759**	**–**
2.1. Purchases	138,877	–	–	138,877	97	–	–	–
2.2. Income booked to:	26,149	2,631	–	23,518	16,933	–	14,669	–
2.2.1. Income statement	26,149	2,631	–	23,518	–	–	–	–
- of which gains	23,939	2,150	–	21,789	–	–	–	–
2.2.2. Equity	–	–	–	–	16,933	–	14,669	–
2.3. Transfers from other levels	81	24	–	57	–	–	–	–
2.4. Other increases	942	–	–	942	223	–	5,090	–
3. **Decreases**	**101,200**	**6,449**	**–**	**94,751**	**52,830**	**–**	**272**	**–**
3.1. Disposals	6,360	6,360	–	–	5,771	–	–	–
3.2. Reimbursements	68,096	–	–	68,096	269	–	–	–
3.3. Losses booked to:	16,982	60	–	16,922	10,457	–	272	–
3.3.1. Income statement	16,982	60	–	16,922	–	–	272	–
- of which losses	16,969	60	–	16,909	–	–	272	–
3.3.2. Equity	–	–	–	–	10,457	–	–	–
3.4. Transfers from other levels	–	–	–	–	28,434	–	–	–
3.5. Other decreases	9,762	29	–	9,733	7,899	–	–	–
4. **Closing balance**	**583,715**	**2,151**	**–**	**581,564**	**106,347**	**–**	**19,487**	**–**

The increase during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This line item also includes the units in mutual funds not held for trading that were previously classified as «financial measured carried at fair value» and «financial assets available for sale».

A.4.5.3 Annual changes in financial liabilities at fair value (level 3)

	Financial liabilities held for trading	Financial liabilities measured at fair value	Hedging derivatives
1. **Opening balance**	**890**	**–**	**–**
2. **Increases**	**–**	**–**	**–**
2.1 Issuances	–	–	–
2.2. Losses booked to:	–	–	–
2.2.1. Income statement	–	–	–
- of which losses	–	–	–
2.2.2. Equity	–	–	–
2.3. Transfers from other levels	–	–	–
2.4. Other increases	–	–	–
3. **Decreases**	**890**	**–**	**–**
3.1. Reimbursements	–	–	–
3.2. Repurchases	–	–	–
3.3. Income booked to:	890	–	–
3.3.1. Income statement	890	–	–
- of which gains	890	–	–
3.3.2. Equity	–	–	–
3.4. Transfers to other levels	–	–	–
3.5. Other decreases	–	–	–
4. **Closing balance**	**–**	**–**	**–**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2021				31/12/2020			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	38,247,795	9,627,715		29,362,141	35,353,030	7,182,624		28,930,231
2. Investment property	–	–	–	–		–	–	–
3. Non-current assets and groups of assets held for sale	–	–	–	–	–	–	–	–
Total	**38,247,795**	**9,627,715**	**-**	**29,362,141**	**35,353,030**	**7,182,624**	**-**	**28,930,231**
1. Financial liabilities measured at amortised cost	45,539,332	3,504,257	214,055	41,865,627	41,392,257	2,614,567	261,537	38,583,676
2. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**45,539,332**	**3,504,257**	**214,055**	**41,865,627**	**41,392,257**	**2,614,567**	**261,537**	**38,583,676**

A.5 INFORMATION ON THE «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IFRS 9 para. B5.1.2A derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B Information on the balance sheet

Assets

Section 1 Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31/12/2021	31/12/2020
a) Cash	126,935	113,887
b) Current accounts and sight deposits with central banks	4,483,213	4,149,487
c) Current accounts and sight deposits with banks	93,741	212,911
Total	**4,703,889**	**4,476,285**

The figures at 31/12/2020 have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

Section 2 Financial assets measured at fair value through profit or loss - item 20

2.1 Financial assets held for trading: breakdown

	31/12/2021			31/12/2020		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	24,255	–	–	25,441	–	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	24,255	–	–	25,441	–	–
2. Equity securities	65,378	–	–	66,969	–	–
3. Mutual funds	68,755	16,626	–	25,573	12,820	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**158,388**	**16,626**	**–**	**117,983**	**12,820**	**–**
B. **Derivative instruments**						
1. Financial derivatives	313	24,935	2,151	–	32,996	5,945
1.1 for trading	313	24,935	2,151	–	32,996	5,945
1.2 connected with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total (B)	**313**	**24,935**	**2,151**	**–**	**32,996**	**5,945**
Total (A+B)	**158,701**	**41,561**	**2,151**	**117,983**	**45,816**	**5,945**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Amounts	31/12/2021	31/12/2020
A. **CASH ASSETS**		
1. **Fixed-yield securities**	**24,255**	**25,441**
a) Central banks	–	–
b) Public administrations	24,255	25,441
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
2. **Equity securities**	**65,378**	**66,969**
a) Banks	14,623	16,152
b) Other financial companies	11,275	7,570
of which: insurance companies	5,408	6,405
c) Non-financial companies	39,480	43,247
d) Other issuers	–	–
3. **Mutual funds**	**85,381**	**38,393**
4. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**175,014**	**130,803**
B. **DERIVATIVE INSTRUMENTS**	–	–
a) Central counterparties	–	–
b) Other	27,399	38,941
Total (B)	**27,399**	**38,941**
Total (A+B)	**202,413**	**169,744**

2.5 Other financial assets mandatorily measured at fair value: breakdown by category

	31/12/2021			31/12/2020		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**–**	**–**	**32,649**	**–**	**–**	**33,032**
1.1 Structured securities	–	–	32,649	–	–	33,032
1.2 Other fixed-yield securities	–	–	–	–	–	–
2. **Equity securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**–**	**674,727**	**144,801**	**57**	**556,324**	**127,134**
4. **Loans**	**–**	**–**	**404,114**	**–**	**–**	**352,754**
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	404,114	–	–	352,754
Total	**–**	**674,727**	**581,564**	**57**	**556,324**	**512,920**

Loans classified under this item are financial instruments that have not passed the SPPI test. The fixed-yield securities classified under this item are instruments that are part of a business model of financial instruments managed at fair value and not held for trading.

The item «Fixed-yield securities» includes the Asset Backed Securities (ABS) mezzanine and junior for 0.839 million deriving from the sales of Diana, Luzzatti I and Luzzatti II, and the note linked with the securitisation by BNT Portfolio SPV Srl. These securities are classified in Level 3. See paragraph «C. Securitisation transactions» in Part E of these notes to the financial statements for further details.

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

	31/12/2021	31/12/2020
1. **Equity securities**	**–**	**–**
of which: banks	–	–
of which: other financial companies	–	–
of which: non-financial companies	–	–
2. **Fixed-yield securities**	**32,649**	**33,032**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	29,490	29,175
of which: insurance companies	–	–
e) Non-financial companies	3,159	3,857
3. **Mutual funds**	**819,528**	**683,515**
4. **Loans**	**404,114**	**352,754**
a) Central banks	–	–
b) Public administrations	68	92
c) Banks	–	–
d) Other financial companies	12,007	5,287
of which: insurance companies	–	–
e) Non-financial companies	263,012	223,320
f) Households	129,027	124,055
Total	**1,256,291**	**1,069,301**

Mutual funds are made up of: equity funds and sicavs for 70.891 million euro, bond funds for 622.098 million euro, balanced and flexible funds for 53.302 million euro and real estate funds for 73.237 million euro.

With regard to mutual funds acquired as part of transactions for the sale of receivables included among bond funds, please refer to the specific paragraph reported in Part E of these Explanatory Notes (Subsection E «Disposals» point «C. Financial assets sold and fully derecognised»).

Section 3 Financial assets measured at fair value through other comprehensive income - item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by category

	31/12/2021			31/12/2020		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**2,990,727**	**–**	**10,721**	**2,472,573**	**–**	**43,558**
1.1 Structured securities	409,257	–	10,165	418,402	–	42,727
1.2 Other fixed-yield securities	2,581,470	–	556	2,054,171	–	831
2. **Equity securities**	**1,787**	**–**	**95,626**	**2,576**	**–**	**98,366**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,992,514**	**–**	**106,347**	**2,475,149**	**–**	**141,924**

The fixed-yield securities portfolio is made up mostly of Italian government securities held with the intent of receiving cash flows and benefiting from any gains deriving from their sale. For unlisted equity securities with observable inputs, but for which the most recent information available to measure their fair value is insufficient, the best estimate was made considering their adjusted equity value.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	31/12/2021	31/12/2020
1. **Fixed-yield securities**	**3,001,448**	**2,516,131**
a) Central banks	–	–
b) Public administrations	2,511,285	1,956,408
c) Banks	334,019	376,001
d) Other financial companies	79,940	86,368
of which: insurance companies	–	–
e) Non-financial companies	76,204	97,354
2. **Equity securities**	**97,413**	**100,942**
a) Banks	52	5,938
b) Other issuers:	97,361	95,004
- other financial companies	85,584	73,134
of which: insurance companies	–	–
- non-financial companies	11,777	21,870
- other	–	–
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**3,098,861**	**2,617,073**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total impairment

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs*
Fixed-yield securities	3,002,406	–	–	–	–	958	–	–	–	–
Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2021	**3,002,406**	**–**	**–**	**–**	**–**	**958**	**–**	**–**	**–**	**–**
Total 31/12/2020	**2,475,838**	**–**	**42,260**	**–**	**–**	**1,427**	**540**	**–**	**–**	**–**

* Amount to be shown for information purposes

From 1 January 2018, following the entry into force of IFRS 9, financial assets valued at fair value through other comprehensive income fall within the scope of the new impairment model.

3.3a Loans measured at fair value with impact on comprehensive income subject to Covid-19 support measures: gross value and total impairment

As at 31 December 2021, there are no loans measured at fair value through comprehensive income subject to Covid-19 support measures.

Section 4 *Financial assets measured at amortised cost - Item 40*

4.1 Financial assets measured at amortised cost: breakdown of loans to banks

	31/12/2021						31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
Type of transaction/Amounts	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
A. **Loans with Central Banks**	**2,231,679**	**-**	**-**	**-**	**-**	**2,231,679**	**2,271,762**	**-**	**-**	**-**	**-**	**2,271,762**
1. Fixed-term deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	2,231,679	-	-	-	-	-	2,271,762	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. **Loans and receivables with banks**	**2,614,368**	**-**	**-**	**783,387**	**-**	**1,842,382**	**2,622,855**	**-**	**-**	**528,437**	**-**	**2,116,913**
1. Loans	1,827,119	-	-	-	-	1,827,335	2,086,370	-	-	-	-	2,086,577
1.1 Current accounts	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Fixed-term deposits	1,808,589	-	-	-	-	-	2,059,995	-	-	-	-	-
1.3. Other loans:	18,530	-	-	-	-	-	26,375	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
- Leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	18,530	-	-	-	-	-	26,375	-	-	-	-	-
2. Fixed-yield securities	787,249	-	-	783,387	-	15,047	536,485	-	-	528,437	-	30,336
2.1 Structured securities	378,339	-	-	387,291	-	-	248,789	-	-	245,020	-	15,336
2.2 Other fixed-yield securities	408,910	-	-	396,096	-	15,047	287,696	-	-	283,417	-	15,000
Total	**4,846,047**	**-**	**-**	**783,387**	**-**	**4,074,061**	**4,894,617**	**-**	**-**	**528,437**	**-**	**4,388,675**

These receivables are not specifically hedged.

The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their carrying amount.

The figures at 31/12/2020 have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

	31/12/2021						31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
Type of transaction/Amounts	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
1. **Loans**	**23,083,488**	**671,122**	**131,735**	**-**	**-**	**24,551,529**	**21,981,569**	**896,907**	**158,179**	**-**	**-**	**23,634,908**
1.1. Current accounts	2,784,455	240,198	37,704	-	-	-	2,745,231	364,004	55,774	-	-	-
1.2. Repo transactions	-	-	-	-	-	-	67,273	-	-	-	-	-
1.3. Mortgage loans	13,642,605	387,643	83,694	-	-	-	12,587,246	473,126	87,440	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	234,201	3,739	637	-	-	-	236,316	4,640	794	-	-	-
1.5 Leases	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
1.7. Other loans	6,422,227	39,542	9,700	-	-	-	6,345,503	55,137	14,171	-	-	-
2. **Fixed-yield securities**	**9,515,403**	**-**	**-**	**8,844,328**	**-**	**736,551**	**7,208,848**	**-**	**-**	**6,654,187**	**-**	**693,738**
2.1. Structured securities	1,887,530	-	-	1,197,303	-	736,551	1,967,436	-	-	1,308,945	-	693,738
2.2. Other fixed-yield securities	7,627,873	-	-	7,647,025	-	-	5,241,412	-	-	5,345,242	-	-
Total	**32,598,891**	**671,122**	**131,735**	**8,844,328**	**-**	**25,288,080**	**29,190,417**	**896,907**	**158,179**	**6,654,187**	**-**	**24,328,646**

Receivables are not specifically hedged.

Reference should be made to Part E «Information on risks and related hedging policy, Section 1, Credit risk» with regard to impaired assets.

Mortgage loans include 1,261 million euro of residential mortgages, which were the subject of covered bond transactions by the Bank.

The covered bond transaction involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers. Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

The difference between fair value and carrying amount is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

As a result of the derisking operations that took place during the year, non-performing loans (third stage) are down on the previous year. Item 2. Fixed-yield securities, this includes 319.784 million euro in senior securities issued by the vehicle Diana S.p.V., POP NPLs 2020 S.p.V., as part of the two transactions for the sale of NPL receivables defined in 2020, and Luzzatti POP NPLs 2021 S.p.V. defined in the last quarter of 2021. See Part E, Section 1, «C. Securitisation transactions» for further information.

The figures at 31/12/2020 have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans to customers

	31/12/2021			31/12/2020		
Type of transaction/Amounts	First and second stage	Third stage	Assets impaired purchased or originated	First and second stage	Third stage	Assets impaired purchased or originated
1. **Fixed-yield securities**	**9,515,404**	**–**	**–**	**7,208,848**	**–**	**–**
a) Public administrations	8,194,249	–	–	6,135,054	–	–
b) Other financial companies	1,059,591	–	–	997,945	–	–
of which: insurance companies	6,112	–	–	6,121	–	–
c) Non-financial companies	261,564	–	–	75,849	–	–
2. **Loans to:**	**23,083,487**	**671,122**	**131,735**	**21,981,569**	**896,907**	**158,179**
a) Public administrations	129,027	19	–	204,158	3	–
b) Other financial companies	4,165,007	5,337	21	3,867,825	10,929	2
of which: insurance companies	36	–	–	8,656	–	–
c) Non-financial companies	12,512,691	500,979	91,846	12,195,773	641,451	114,105
d) Households	6,276,762	164,787	39,868	5,713,813	244,524	44,072
Total	**32,598,891**	**671,122**	**131,735**	**29,190,417**	**896,907**	**158,179**

The figures at 31/12/2020 have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

4.4 Financial assets measured at amortised cost: gross value and total value adjustments

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs*
Fixed-yield securities	10,270,308	–	40,130	–	–	3,313	4,471	–	–	–
Loans	25,336,562	–	1,908,906	1,549,500	240,421	45,244	57,941	878,378	108,686	103,823
Total 31/12/2021	**35,606,870**	**–**	**1,949,036**	**1,549,500**	**240,421**	**48,557**	**62,412**	**878,378**	**108,686**	**103,823**
Total 31/12/2020	**30,995,883**	**–**	**3,259,048**	**1,935,548**	**260,832**	**54,082**	**115,816**	**1,038,642**	**102,653**	**145,725**

* Amount to be shown for information purposes

The figures at 31/12/2020 have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

4.4a Loans measured at amortised cost subject to COVID-19 support measures: gross amount and total impairment adjustments

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs*
1. Loans subject to forbearance complying with the GL	–	–	731	–	–	–	12	–	–	–
2. Loans subject to outstanding moratoria measures no longer in compliance with GL and not evaluated as granted	1,312	–	9,634	68	–	3	242	29	–	–
3. Loans subject to other forbearance measures	94	–	51,450	15,635	999	–	2,764	4,544	282	–
4. New loans	2,354,724	–	135,131	24,357	5,562	558	1,243	6,791	1,355	–
Total 31/12/2021	**2,356,130**	**–**	**196,946**	**40,060**	**6,561**	**561**	**4,261**	**11,364**	**1,637**	**–**
Total 31/12/2020	**3,640,088**	**–**	**1,343,377**	**90,224**	**–**	**3,769**	**49,709**	**25,217**	**–**	**–**

* Amount to be shown for information purposes

Section 7 *Equity investments - Item 70*

7.1 Investments: disclosures on holdings

Company Name	Registered Office	Operative office	% holding	% of votes
A. **Investments in wholly-owned subsidiaries**				
1. BANCA POPOLARE DI SONDRIO (SUISSE) SA	Lugano	Lugano	100.000	100.000
2. FACTORIT S.p.a.	Milano	Milano	60.500	60.500
3. SINERGIA SECONDA S.r.l.	Milano	Milano	100.000	100.000
4. PIROVANO STELVIO S.p.a.	Sondrio	Sondrio	100.000	100.000
5. POPSO COVERED BOND S.r.l.	Conegliano	Conegliano	60.000	60.000
6. BANCA DELLA NUOVA TERRA	Sondrio	Sondrio	100.000	100.000
7. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l.	Milano	Milano	100.000	100.000
B. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	Sondrio	Sondrio	50.000	50.000
2. RENT2GO S.r.l.	Bolzano	Bolzano	33.333	33.333
C. **Associated companies (subject to significant influence)**				
1. ALBA Leasing S.p.a.	Milano	Milano	19.264	19.264
2. ARCA VITA S.p.a.	Verona	Verona	14.837	14.837
3. UNIONE FIDUCIARIA S.p.a.	Milano	Milano	24.000	24.000
4. POLIS FONDI SGR PA	Milano	Milano	19.600	19.600
5. ARCA HOLDING S.p.a.	Milano	Milano	34.715	34.715
6. BORMIO GOLF S.p.a.	Bormio	Bormio	25.237	25.237
7. LAGO DI COMO GAL S.c.r.l.	Canzo	Canzo	28.953	28.953
8. COSSI S.p.a.	Sondrio	Sondrio	18.250	18.250

With limited exceptions, the above equity investments are held to complement the activities of the bank, since they provide supplementary services or help to support the local territories served.

7.5 Investments: changes in the year

	31/12/2021	31/12/2020
A. **Opening balance**	**613,488**	**620,399**
B. **Increases**	**288**	**951**
B.1 Purchases	–	667
B.2 Writebacks	–	–
B.3 Revaluations	–	–
B.4 Other changes	288	284
C. **Decreases**	**894**	**7,862**
C.1 Disposals	–	5,985
C.2 Adjustments	894	1,877
C.3 Write-downs	–	–
C.4 Other changes	–	–
D. **Closing balance**	**612,882**	**613,488**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(39,106)**	**(38,211)**

This item passes from 613.488 million euro to 612.882 million euro.

The increases refer to:

– coverage of the 2020 loss of Pirovano Stelvio spa of 0.288 million euro.

The decreases refer to:

– the write-down of Pirovano Stelvio spa by 0.077 million euro,
– a write-down of Rent2Go S.r.l. by 0.505 million euro,
– a write-down of Sintesi 2000 S.r.l. by 0.312 million euro

7.6 Commitments relating to investments in joint ventures

For the above information, reference should be made to the same section of the consolidated notes.

7.7 Commitments relating to investments in companies subject to significant influence

For the above information, reference should be made to the same section of the consolidated notes.

7.8 Significant restrictions

For the above information, reference should be made to the same section of the consolidated notes.

7.9 Other information

For the above information, reference should be made to the same section of the consolidated notes.

Section 8 *Property, equipment and investment property - Item 80*

8.1 Property, equipment and investment property used for business purposes: breakdown of assets measured at cost

Assets/Values	**31/12/2021**	**31/12/2020**
1. **Owned assets**	**194,299**	**187,938**
a) land	58,712	53,664
b) buildings	121,580	120,365
c) furniture	4,432	4,723
d) IT equipment	736	1,005
e) other	8,839	8,181
2. **Assets acquired under finance leases**	**183,914**	**191,839**
a) land	-	-
b) buildings	183,696	191,616
c) furniture	-	-
d) IT equipment	158	173
e) other	60	50
Total	**378,213**	**379,777**
of which: obtained through enforcement of guarantees received	-	-

Property, equipment and investment property are measured at cost, except for the leased right-of-use assets that are measured in accordance with IFRS 16. Buildings have a fair value of 371.526 million euro, as determined by an internal appraisal. The carrying amount of land and buildings totals 180.292 million euro.

Property, equipment and investment property are free from restrictions and commitments guaranteeing liabilities.

8.4 Property, plant and equipment held for investment purposes: breakdown of assets measured at fair value

	31/12/2021			31/12/2020		
Assets/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Owned assets**	**–**	**–**	**19,487**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	19,487	–	–	–
2. **Rights of use acquired through leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**19,487**	**–**	**–**	**–**
of which: obtained through enforcement of guarantees received	–	–	–	–	–	–

8.6 Property, equipment and investment property used for business purposes: changes in the year

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. **Opening gross amount**	**53,664**	**461,672**	**30,619**	**18,817**	**78,052**	**642,824**
A.1 Total net reductions in value	–	149,691	25,896	17,639	69,821	263,047
A.2 Opening net amount	53,664	311,981	4,723	1,178	8,231	379,777
B. **Increases**	**5,180**	**23,758**	**839**	**416**	**5,581**	**35,774**
B.1 Purchases	5,180	9,477	839	343	5,549	21,388
B.2 Capitalised improvement expenditure	–	2,608	–	–	–	2,608
B.3 Writebacks	–	–	–	–	–	–
B.4 Fair value increases booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate differences	–	–	–	–	–	–
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	11,673	–	73	32	11,778
C. **Decreases**	**132**	**30,463**	**1,130**	**700**	**4,913**	**37,338**
C.1 Disposals	–	103	–	–	–	103
C.2 Depreciation	–	25,402	1,130	700	4,913	32,145
C.3 Impairment adjustments booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate differences	–	–	–	–	–	–
C.6 Transfers to:	132	4,958	–	–	–	5,090
a) investment property	132	4,958	–	–	–	5,090
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**58,712**	**305,276**	**4,432**	**894**	**8,899**	**378,213**
D.1 Total net reductions in value	–	159,096	27,026	18,236	73,443	277,800
D.2 Closing gross amount	58,712	464,372	31,458	19,130	82,341	656,013
E. **Valuation at cost**	**58,712**	**305,276**	**4,432**	**894**	**8,899**	**378,213**

This item totals 378.212 million euro, a decrease of 1.565 million euro.

The principal changes relate to:

- owned buildings:
  purchases in Sondrio, Cantù, Brescia, Mandello del Lario, Albiolo
- for works in San Pietro Berbenno, Sondrio, Valmadrera, Voghera, Mandello del Lario, Monza, Brescia
- furniture, installations and other:
  increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches.

As regards the «Other changes», the impact is mainly linked to remeasurement of the right-of-use assets mainly due to the ISTAT adjustments and to the renegotiation of some lease contracts.

8.7 Investment property: changes in the year

	Total	
	Land	Buildings
A. **Opening balance**	**–**	**–**
B. **Increases**	**–**	**19,759**
B.1 Purchases	–	–
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	14,669
B.4 Writebacks	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	5,090
B.7 Other changes	–	–
C. **Decreases**	**–**	**272**
C.1 Disposals	–	–
C.2 Depreciation	–	–
C.3 Negative changes in fair value	–	272
C.4 Impairment writedowns	–	–
C.5 Exchange losses	–	–
C.6 Transfers to:	–	–
a) assets used in business	–	–
b) non-current assets and disposal groups held for sale	–	–
C.7 Other changes	–	–
D. **Closing balance**	**–**	**19,487**
E. **Valuation at fair value**	**–**	**–**

During the year, for certain properties not used for business purposes, in view of expectations regarding their present and future use, it was decided to reclassify a portfolio of properties under assets held for investment purposes measured at fair value.

Information on the methods of determining fair value is provided in Part A.4 of the Notes to the Financial Statements in the chapter entitled «Methods of determining fair value».

In this regard, it should be noted that the Bank does not hold investment assets represented by rights of use acquired through leasing.

As at 31 December 2021, assets held for investment purposes, consisting entirely of owned properties measured at fair value, totalled 19.487 million.

In order to provide a better understanding of the changes of the assets in question it should be noted that:

- positive changes attributable to changes in the estimate of fair value, indicated in sub-item B.3, are recorded in item 110 «Valuation reserves»;
- negative changes attributable to changes in the estimate of fair value, indicated in sub-

item C.3, are recorded in the income statement item «230. Net result of fair value measurement of property, equipment and investment property and intangible assets».

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

property, equipment and investment property	depreciation period (years)
buildings	33
furniture and fittings	7
electronic equipment	3
miscellaneous machinery and equipment	5
vehicles	3
security counters	3
photovoltaic plants	12
safes	8

In accordance with article 10 of Law no. 72 of 19 March 1983, the Annexes to the individual financial statements provide information on the buildings still owned by the bank for which monetary revaluations were carried out in the past.

8.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to 2.553 million euro, compared with 13.030 million euro the previous year.

Section 9 *Intangible assets - Item 90*

9.1 Intangible assets: breakdown by type of asset

Assets/Values	31/12/2021 Finite life	31/12/2021 Indefinite life	31/12/2020 Finite life	31/12/2020 Indefinite life
A.1 **Goodwill**	**–**	**–**	**–**	**–**
A.2 **Other intangible assets**	**15,706**	**–**	**12,873**	**–**
of which Software	15,706	–	12,873	–
A.2.1 Assets measured at cost:	15,706	–	12,873	–
a) intangible assets generated internally	–	–	–	–
b) other assets	15,706	–	12,873	–
A.2.2 Assets measured at fair value:	–	–	–	–
a) intangible assets generated internally	–	–	–	–
b) other assets	–	–	–	–
Total	**15,706**	**–**	**12,873**	**–**

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years.

These intangible assets are listed below by year of acquisition:

	31/12/2021	31/12/2020
recorded in 2019	3	4,579
recorded in 2020	4,147	8,294
recorded in 2021	11,556	-
Total	**15,706**	**12,873**

9.2 Intangible assets: changes in the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Specified	Unspecified	Specified	Unspecified	
A. **Opening balance**	**–**	**–**	**–**	**179,983**	**–**	**179,983**
A.1 Total net reductions in value	–	–	–	(167,110)	–	(167,110)
A.2 Opening net amount	–	–	–	12,873	–	12,873
B. **Increases**	**–**	**–**	**–**	**17,336**	**–**	**17,336**
B.1 Purchases	–	–	–	17,336	–	17,336
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Writebacks	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
– booked to equity	–	–	–	–	–	–
– booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**14,503**	**–**	**14,503**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	14,503	–	14,503
– Amortisation	–	–	–	14,503	–	14,503
– Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value:	–	–	–	–	–	–
– booked to equity	–	–	–	–	–	–
– booked to income statement	–	–	–	–	–	–
C.4 Transfers to non-current assets held for sale and discontinued operations	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**–**	**–**	**–**	**15,706**	**–**	**15,706**
D.1 Total net reductions in value	–	–	–	(181,613)	–	(181,613)
E. **Closing gross amount**	**–**	**–**	**–**	**197,319**	**–**	**197,319**
F. **Valuation at cost**	**–**	**–**	**–**	**15,706**	**–**	**15,706**

9.3 Other information

Contractual commitments to purchase software user rights amount to 7.229 million euro, compared with 9.137 million euro in the prior year.

Section 10 *Tax assets and liabilities - asset line item 100 and liability line item 60*

10.1 Deferred tax assets: composition

	31/12/2021	**31/12/2020**
Loan write-downs	237,631	290,059
Provisions for risks and charges	24,452	24,882
Securities and equity investments	2,203	862
Administrative expenses, amortisation and depreciation and other	18,201	19,972
Total	**282,487**	**335,775**

The deferred tax assets recorded in relation to the provisions for risks and charges concern the provision for legal disputes, the provision for guarantees given, the provision for personnel charges and the provision for writedown of loans from banks. Where applicable, deferred tax assets have been recognised in relation to all liabilities generating temporary differences. The recognition and subsequent retention in the financial statements depends on an assessment of their recoverability estimated on the future income forecast in forecast plans approved by the corporate bodies. In accordance with IAS 12 and the ESMA communication dated 15 July 2019, the Bank has recognised deferred tax assets (DTA) totalling 282.487 million euro. Of this amount, 17.609 million euro is offset against shareholders' equity and 264.878 euro against the income statement. Of these, 223.652 million euro comply with the requirements of Law no. 214 dated 22 December 2011 and may be transformed into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. The other tax assets not transformable into tax credits, 41.226 million euro, have been recognised after checking their recoverability by performing the so-called probability test. This opinion was expressed after analysing the likelihood that sufficient taxable income will be generated in future. In particular, the estimate of future profitability underling the recoverability opinion was based on reasonable and realistic hypotheses and assumptions, after weighting the degrees of uncertainty. The assessment relating to the capacity of future taxable income was carried out over a reference time span up to the year 2027 with economic projections for the years 2022 to 2025 deriving from the latest business plan approved by the Board of Directors and the estimate of the expected profitability for the years 2026 and 2027 obtained as a prudential restatement of the forecasts for the year 2025. The calculation of the impact of permanent IRES and IRAP variations on pre-tax profit and net interest and other banking income was carried out by considering a historical data base referring to the years 2015-2021 and applying rules for the normalisation of tax recoveries from previous years with the aim of achieving a re-expression of taxable income consistent with current tax legislation, eliminating from the taxable income of previous years the variations relating to non-recurring or extraordinary components no longer considered repeatable.

10.2 Deferred tax liabilities: breakdown

	31/12/2021	31/12/2020
Owned and leased buildings	8,347	8,439
Revaluation of property at fair value	4,851	–
Revaluation of securities and gains	14,096	17,739
Other administrative expenses	906	–
Total	**28,200**	**26,178**

The amount relating to owned buildings comprises the deferred taxation arising on the adoption of IAS, with the elimination of the accumulated depreciation of land, and that calculated in 2004 on the elimination of «fiscal interference».

The figures for the previous year have been restated for comparison purposes.

10.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2021	31/12/2020
1. **Opening balance**	**318,396**	**351,551**
2. **Increases**	**13,828**	**24,656**
2.1 Deferred tax assets arisen in the year	13,828	24,530
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) writebacks	–	–
d) other	13,828	24,530
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	126
3. **Decreases**	**67,346**	**57,811**
3.1 Deferred tax assets eliminated in the year	59,515	57,811
a) reversals	59,389	57,811
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	126	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases:	–	–
a) transformation into tax credits of which as per Law 214/2011	7,831	–
b) other	–	–
4. **Closing balance**	**264,878**	**318,396**

10.3 bis Changes in deferred tax assets as per Law 214/2011

	31/12/2021	31/12/2020
1. **Opening balance**	**274,083**	**308,853**
2. **Increases**	**–**	**–**
3. **Decreases**	**50,431**	**34,770**
3.1 Reversals	42,600	34,770
3.2 Transformation into tax credits	7,831	–
a) resulting from operating losses	–	–
b) arising from tax losses	7,831	–
3.3 Other decreases	–	–
4. **Closing balance**	**223,652**	**274,083**

The recognition of the tax loss, achieved in tax year 2020 and entirely attributable to the decreases in the write-downs of receivables due from customers, entailed, as provided for by art. 9 of Decree Law no. 201 of 6 December 2011, converted into Law no. 214 of 22 December 2011, the transformation of deferred tax assets into tax credits for 7.831 million euro.

10.4 Changes in deferred tax liabilities (balancing item in income statement)

	31/12/2021	31/12/2020
1. **Opening balance**	**8,584**	**8,732**
2. **Increases**	**905**	**–**
2.1 Deferred tax liabilities arisen in the year	905	–
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	905	–
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**91**	**148**
3.1 Deferred tax liabilities eliminated in the year	91	148
a) reversals	91	148
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**9,398**	**8,584**

10.5 Changes in deferred tax assets (balancing item in shareholders' equity)

	31/12/2021	31/12/2020
1. **Opening balance**	**17,379**	**17,748**
2. **Increases**	**1,978**	**2,206**
2.1 Deferred tax assets arisen in the year	1,978	2,206
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,978	2,206
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**1,749**	**2,575**
3.1 Deferred tax assets eliminated in the year	1,749	2,575
a) reversals	1,749	2,575
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**17,608**	**17,379**

This amount refers for 2.203 million euro to the unrealised losses recognised in equity on securities assigned to the portfolio of financial assets measured at fair value through other comprehensive income, for 15.405 million euro to actuarial losses recognised in relation to long-term employee benefits, consisting of the pension fund and termination indemnities recognised in equity.

10.6 Changes in deferred tax liabilities (balancing item in shareholders' equity)

	31/12/2021	31/12/2020
1. **Opening balance**	**17,594**	**11,781**
2. **Increases**	**6,037**	**11,126**
2.1 Deferred tax liabilities arisen in the year	6,037	11,126
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	6,037	11,126
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**4,829**	**5,313**
3.1 Deferred tax liabilities eliminated in the year	4,829	5,313
a) reversals	4,829	5,313
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**18,802**	**17,594**

The amount refers for 13.951 million euro to the taxation related to the capital gains recorded in shareholders' equity relating to the securities allocated to the portfolio of financial assets at fair value with impact on comprehensive income and for 4.851 million euro to the revaluation of real estate properties measured at fair value.

Section 12 Other assets - Item 120

12.1 Other assets: breakdown

	31/12/2021	31/12/2020
Advances paid to tax authorities	56,070	52,730
Tax credits	1,133	3,550
Tax credits DL «Cura Italia» and «Relaunch»	447,570	1,043
Current account cheques drawn on third parties	19,282	17,616
Current account cheques drawn on Group banks	411	221
Transactions in customers' securities	30,479	76,671
Inventories	885	1,128
Advances to suppliers	667	502
Advances to customers awaiting collections	21,923	19,119
Miscellaneous debits in transit	30,952	31,296
Liquid assets serving pension and similar obligations	253	15,002
Accrued income not allocated	47,051	38,953
Prepayments not allocated	10,117	8,958
Residual items	143,938	106,970
Total	**810,729**	**373,759**

The significant increase in item 120 «Other assets» is due to the acquisition of tax credits connected with the «Cura Italia» and «Relaunch» Law Decrees, amounting to 447.570 million euro. On the basis of «Bank of Italy/Consob/IVASS Document no. 9 of 5 January 2021» in the presence of tax credits introduced by Decree no. 18/2020 (so-called «Cura Italia Decree») and no. 34/2020 (so-called «Relaunch»), these receivables have been classified under the residual item «other assets» in the balance sheet, in line with paragraphs 54 and 55 of IAS 1 «Presentation of Financial Statements». For further details, reference should be made to Section 16, «Other information», of these Notes.

Accrued income and prepayments mainly relate to commission income and costs that cannot be allocated to specific asset accounts.

Liabilities

Section 1 *Financial liabilities measured at amortised cost - Item 10*

1.1 Financial liabilities measured at amortised cost: breakdown of due to banks

	Total 31/12/2021				Total 31/12/2020			
		Fair Value				*Fair Value*		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Due to central banks**	**8,891,078**	**–**	**–**	**–**	**8,082,531**	**–**	**–**	**–**
2. **Due to banks**	**798,048**	**–**	**–**	**–**	**776,077**	**–**	**–**	**–**
2.1 Current accounts and sight deposits	295,740	–	–	–	366,523	–	–	–
2.2 Fixed-term deposits	431,021	–	–	–	324,807	–	–	–
2.3 Loans	66,743	–	–	–	74,912	–	–	–
2.3.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.3.2 Other	66,743	–	–	–	74,912	–	–	–
2.4 Payables for commitments to repurchase own equity instruments	–	–	–	–	–	–	–	–
2.5 Payables for leases	60	–	–	–	127	–	–	–
2.6 Other payables	4,484	–	–	–	9,708	–	–	–
Total	**9,689,126**	**–**	**–**	**9,689,126**	**8,858,608**	**–**	**–**	**8,858,608**

Amounts due to central banks comprise three loans from the ECB totalling 8,874 million euro as part of its «Targeted Longer-Term refinancing operations» (TLTRO III).

The first was taken out in June 2020 for 4,368 million euro maturing on 28 June 2023, during the first quarter of 2021 another loan was taken out, maturing on 27 March 2024, for 806 million euro. On 29 September 2021, the Bank repaid two TLTRO III loans in advance for a total of 3,700 million euro and subscribed a new tranche for the same amount in order to extend the maturity to September 2024.

These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the carrying amount as the amounts are short-term or due on demand.

1.2 Financial liabilities measured at amortised cost: breakdown of due to customers

	Total 31/12/2021				Total 31/12/2020			
		Fair Value				*Fair Value*		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**31,578,608**	**–**	**–**	**–**	**28,934,304**	**–**	**–**	**–**
2. **Fixed-term deposits**	**352,795**	**–**	**–**	**–**	**499,766**	**–**	**–**	**–**
3. **Loans**	**–**	**–**	**–**	**–**	**56,377**	**–**	**–**	**–**
3.1 Repurchase agreements	–	–	–	–	55,422	–	–	–
3.2 Other	–	–	–	–	955	–	–	–
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Payables for leases**	**186,304**	**–**	**–**	**–**	**193,634**	**–**	**–**	**–**
6. **Other payables**	**58,794**	**–**	**–**	**–**	**40,987**	**–**	**–**	**–**
Total	**32,176,501**	**–**	**–**	**32,176,501**	**29,725,068**	**–**	**–**	**29,725,068**

These payables are not specifically hedged.

Their fair value corresponds to their book value as they are amounts due on demand or with short-term restrictions.

1.3 Financial liabilities measured at amortised cost: breakdown of issued securities by category

	Total 31/12/2021				Total 31/12/2020			
		Fair Value				*Fair Value*		
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
A. **Securities**								
1. bonds	3,546,868	3,504,257	87,219	–	2,658,515	2,614,567	111,471	–
1.1 structured	1,591,067	1,540,107	77,107	–	812,072	748,303	99,794	–
1.2 others	1,955,801	1,964,150	10,112	–	1,846,443	1,866,264	11,677	–
2. other securities	126,837	–	126,837	–	150,066	–	150,066	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 others	–	–	–	–	–	–	–	–
Total	**3,673,705**	**3,504,257**	**214,056**	**–**	**2,808,581**	**2,614,567**	**261,537**	**–**

The fair value of the sub-item «other securities» is equal to the carrying amount as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

The level 1 securities relate to covered bonds and almost exclusively subordinated bonds listed on the HI-MTF market (Multilateral Trading Facility).

1.4 Detail of subordinated payables/securities

Subordinated securities amount to 984.387 million euro and are made up of the loans indicated below:

- a bond of 300.383 million euro from 25/11/2021 and maturity on 25/02/2032 with repayment in full on maturity. It bears a fixed interest rate of 3.875%;
- a bond of 203.556 million euro from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%;
- a bond of 275.661 million euro from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%;
- a bond of 204.787 million euro from 30/07/2019 and maturity on 30/07/2029 with repayment in full on maturity. It bears a fixed interest rate of 6.25%.

1.6 Payables for leases

Financial outflows for leasing

	2021				2020
	Buildings*	Cars	Other	**Total**	**Total**
Opening Lease Liability	193,542	50	169	193,761	215,555
Financial flows	(21,008)	(22)	(90)	(21,120)	(22,220)
Interest	3,435	–	1	3,436	3,730
Other changes	10,182	32	73	10,287	(3,304)
Closing carrying amount	**186,151**	**60**	**153**	**186,364**	**193,761**

* Including finance leases under IAS 17

As regards the Other changes during the year, the impact is mainly due to recalculation of the Lease Liability following the ISTAT changes and the opening and closing of contracts.

As at 31/12/2021, the lessee's weighted average marginal borrowing rate of the rates used to discount the lease liabilities is 1.83%.

Analysis of leasing liability maturities

	within 1 year	1 to 5 years	5 to 10 years	over 10 years
Buildings*	21,457	81,024	71,197	32,369
Cars	24	37	–	–
Other types	76	78	–	–
Total	**21,557**	**81,139**	**71,197**	**32,369**

* Including finance leases under IAS 17

The amounts reported pursuant to paras. 39 and B11 of IFRS 7 «Financial instruments» represent non-discounted cash flows.

Section 2 *Financial liabilities held for trading - Item 20*

2.1 Financial liabilities held for trading: breakdown

	Total 31/12/2021					Total 31/12/2020				
		Fair Value					Fair Value			
Type of transaction/Amounts	NV	Level 1	Level 2	Level 3	FV *	NV	Level 1	Level 2	Level 3	FV *
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total (A)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. Derivative instruments										
1. Financial derivatives	–	–	22,796	–	–	–	–	30,896	890	–
1.1 For trading	–	–	22,796	–	–	–	–	30,896	890	–
1.2 Connected with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 For trading	–	–	–	–	–	–	–	–	–	–
2.2 Connected with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–	–	–	–	–
Total (B)	**–**	**–**	**22,796**	**–**	**–**	**–**	**–**	**30,896**	**890**	**–**
Total (A+B)	**–**	**–**	**22,796**	**–**	**–**	**–**	**–**	**30,896**	**890**	**–**

FV* = Fair Value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
VN = Nominal or notional value

Section 6 *Tax liabilities - Item 60*

The balance of 28.200 million euro relates to deferred taxation. As regards the composition and amount of deferred taxes, please read «Assets - Section 10» of these notes. With regard to the Bank's tax position, it should be noted that the Bank's taxable income through the year ended 31 December 2015 is fiscally defined. Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, introduced the possibility by paying a fee, subject to certain conditions, of transforming D.T.A. (Deferred Tax Assets) into tax credits. In 2016, the Bank applied to retain this right also in the future; no fee has been paid as the conditions for payment did not apply. The Bank has made the tax group election in relation to the subsidiaries Factorit S.p.a., Banca della Nuova Terra S.p.a. and Pirovano S.p.a.

Section 8 *Other liabilities - Item 80*

8.1 Other liabilities: breakdown

	31/12/2021	31/12/2020
Amounts at the disposal of third parties	419,429	434,971
Taxes to be paid on behalf of third parties	85,130	56,320
Taxes to be paid	3,802	863
Employee salaries and contributions	16,133	23,269
Suppliers	17,984	16,052
Transit accounts for sundry entities	6,724	39,345
Invoices to be received	18,859	15,421
Credits in transit for financial transactions	2,490	2,015
Value date differentials on portfolio transactions	223,620	177,613
Directors' and statutory auditors' emoluments	1,168	1,087
Loans granted to customers to be finalised	4,998	3,412
Miscellaneous credit items being settled	49,305	11,718
Accrued expenses not allocated	931	3,638
Deferred income not allocated	13,016	12,872
Residual items	53,216	45,510
Total	**916,805**	**844,106**

This line item shows an increase of 8.61%.

The «value date differentials on portfolio transactions» relate to the notes received and sent for collection with recourse or for crediting after collection, which are only recognised in the balance sheet on settlement. The value date differences between the related assets and liabilities give rise to the above differentials.

Section 9 *Termination indemnities - Item 90*

9.1 Termination indemnities: changes in the year

	Total 31/12/2021	Total 31/12/2020
A. **Opening balance**	**39,854**	**41,238**
B. **Increases**	**7,935**	**8,530**
B.1 Provisions for the year	7,935	7,764
B.2 Other changes	–	766
C. **Decreases**	**9,967**	**9,914**
C.1 Payments made	1,760	2,222
C.2 Other changes	8,207	7,692
D. **Closing balance**	**37,822**	**39,854**
Total	**37,822**	**39,854**

9.2 Other information

Other decreases relate to payments to the Arca Previdenza Fund for a total of 6.183 million euro, compared with 5.865 million euro the previous year, payments to INPS of 1.760 million euro, compared with 1.748 million euro and tax on the annual revaluation of 0.060 million euro, compared with 0.080 million euro the previous year. For the determination of the technical discount rate, account was taken of the ESMA recommendation set out in document no. 725/2012 of 12 November 2012. High-quality corporate securities with an AA rating were used as reference. A rate curve was then used that takes into account the expected average term of the obligation to be paid by the Bank.

The provision for termination indemnities required under Italian regulations amounts to 32.899 million euro. The actuarial measurement of the provision for termination indemnities was carried out on a closed group. The actuarial simulations were carried out according to the Projected Unit Credit Method.

The Projected Unit Credit Method lays down that the costs to be incurred during the year to build up the termination indemnity are determined according to the proportion of services rendered during the same period. According to the accrued benefits method, the company's obligation to the individual employee is based on the services already rendered at the measurement date.

The actuarial calculations were made on the following assumptions:

	31/12/2021	31/12/2020
Discount rate	0.31%	0.22%
Rate of inflation	1.50%	0.00%
Annual rate of increase in termination indemnities	1.50%	1.50%

The discount rate was calculated according to the I-Boxx Corporates Financial EUR AA 7-10 on 10 December 2021.

Section 10 *Provisions for risk and charges - Item 100*

10.1 Provisions for risks and charges: breakdown

Items/Amounts	Total 31/12/2021	Total 31/12/2020
1. **Provisions for credit risk related to commitments and financial guarantees given**	**26,865**	**39,507**
2. **Provisions on other commitments and other guarantees given**	**16,039**	**18,794**
3. **Pension and similar obligations**	**164,887**	**162,296**
4. **Other provisions for risks and charges**	**51,065**	**35,533**
4.1 legal disputes	33,253	20,608
4.2 personnel expenses	17,136	14,437
4.3 other	676	488
Total	**258,856**	**256,130**

At year end, the Bank is not aware of being exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above.

10.2 Provisions for risks and charges: changes in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	Total
A. **Opening balance**	**18,794**	**162,296**	**35,533**	**216,623**
B. **Increases**	**4,383**	**11,120**	**36,721**	**52,224**
B.1 Provisions during the year	4,383	2,057	36,721	43,161
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to variations in the discount rate	-	-	-	-
B.4 Other changes	-	9,063	-	9,063
C. **Decreases**	**7,138**	**8,529**	**21,189**	**36,856**
C.1 Utilisations during the year	-	4,050	15,388	19,438
C.2 Changes due to variations in the discount rate	-	4,474	-	4,474
C.3 Other changes	7,138	5	5,801	12,944
D. **Closing balance**	**16,039**	**164,887**	**51,065**	**231,991**

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given				
	First stage	Second stage	Third stage	Impaired purchased or originated	**Total**
1. Commitments to grant loans	11,571	4,510	229	29	16,339
2. Financial guarantees issued	637	78	9,811	–	10,526
Total	**12,208**	**4,588**	**10,040**	**29**	**26,865**

10.4 Provisions on other commitments and other guarantees given

The item does not have any materiality requirements.

10.5 Defined-benefit pension plans

10.5.1. Characteristics of the plans and related risks

The Bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 c.c..

The amount of the fund is adjusted taking into account the closed group of members referred to 28/04/1993. This closed group consists of 321 employees and 317 pensioners.

Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. A total of 2,379 employees have joined this fund.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

10.5.2 Changes in net (assets) liabilities and redemption rights

	31/12/2021	**31/12/2020**
At 1 January	**162,296**	**152,526**
Service cost	2,404	2,319
Interest cost	528	1,021
Actuarial gains/losses	(4,474)	8,424
Payments	(4,050)	(4,041)
Other provisions	8,183	2,047
Total	**164,887**	**162,296**

10.5.3 Other information on the fair value of plan assets

Details of the assets of the pension plan are summarised in the following table:

	31/12/2021	31/12/2020
Fixed-yield securities	120,666	106,951
Equity securities	3,647	2,396
Mutual funds invested in bonds	9,735	8,139
Mutual funds invested in shares	13,614	12,798
Mutual funds invested in property	16,972	17,010
Other assets	253	15,002
Total	**164,887**	**162,296**

The amount of the fund increases by 2.591 million euro, +1.60%.

Payments of benefits amount to 4.050 million euro compared with 4.041 million euro. The contributions paid by the employees totalled 0.209 million euro (0.214 million euro in the prior year).

10.5.4 Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	2021	2020
discount rate	0.82%	0.36%
expected increase in salaries	0.25%	0.25%
rate of inflation	1.50%	0.00%

The average annual rate of increase of pensions paid by the Fund takes into account the equalisation provided for mandatory pension benefits.

The average discount rate was determined with reference to the value of the I-Boxx Corporates Financial EUR AA 10+ index at 10 December 2021.

10.5.5 Information on the amount, timing and uncertainties of cash flows

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. The situation reflected in the financial statements was used as the base scenario and the two most significant assumptions (average discount rate and inflation rate) were increased and decreased, obtaining the following results:

Sensitivity

+0.25% increase in the discount rate, liability of 136.359 million euro

-0.25% increase in the discount rate, liability of 147.408 million euro

+0.25% increase in the inflation rate, liability of 144.197 million euro

-0.25% increase in the inflation rate, liability of 139.308 million euro

In addition, the liability in the coming years was also analysed; as a result, the payments for the next five years were estimated, as shown in the following table:

Future payments (millions of euro)

year	0-1	1-2	2-3	3-4	4-5
Cash flow	4.344	4.220	4.112	4.032	3.990

10.5.6 Multi-employer Plans

As at 31 December 2021, there are no multi-employer plans.

10.5.7 Defined benefit plans that share risks between entities under common control

As at 31 December 2021, there are no such plans.

10.6 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2021	31/12/2020
Provision for legal disputes	33,253	20,608
Provision for personnel expenses	17,136	14,437
Other provisions	676	488
Total	**51,065**	**35,533**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off for 1.597 million euro, and other disputes that have arisen in the ordinary course of business for 31.656 million euro. The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2021 as the discount rate.

The provision for legal disputes increased by 12.645 million euro due to the difference between the provisions for the period for 21.659 million euro and the release of provisions made in previous years for 9.013 million euro.

The Bank recognises liabilities for legal disputes in accordance with IAS 37. No provision or disclosure is made for contingent liabilities for which there is a remote risk of disbursement.

Potential liabilities that are considered possible are subject to disclosure, if material.

For potential liabilities for which there is a probable risk, provisions are made in agreement with the lawyers.

At 31 December 2021, for the Parent Company alone, about 180 disputes, other than tax-related ones, were pending, with a total petitum of about 134 million. This amount includes all existing disputes regardless of the estimate of the risk of disbursement of economic resources deriving from the potential loss. It therefore also includes disputes with a remote risk.

The following paragraphs provide brief information on the disputes considered significant - mainly those with claims exceeding 5 million euro and with the risk of disbursement deemed «possible» - as well as on cases considered significant.

Claims for «indemnification» relating to loans sold as part of the securitisation transactions called «Diana» and «PopSo NPLS 2020»

The assignee companies have the contractual right to make claims for compensation for alleged breaches of the guarantees given by the bank on the portfolio of assigned receivables. Approximately 150 requests for a potential amount of 36.4 million euro are pending, for which a provision of 11.9 million euro has been made.

Disputes relating to compound interest and usury

The disputes falling within this line of litigation for years represented a significant part of the litigation brought against the Italian banking system. For disputes relating to compound interest, the petitum is equal to approximately 6.87 million euro, with provisions for 2.01 million euro, while for those relating to usury, the petitum is equal to 4.92 million euro, with provisions for 0.64 million euro.

Clawback actions in insolvency proceedings

12 disputes were pending for a petitum of 6.48 million euro, with a provision of 1.60 million euro. None with a request for a refund of a particularly significant amount.

AMA – Azienda Municipale Ambiente s.p.a.

In December 2020, the Bank was notified of the summons before the Court of Rome, concerning the requests for assessment and declaration of the nullity or cancellation of the transaction in financial instruments called «Interest Rate Swap» stipulated on 30 September 2010 and the repayment of amounts unduly received by the Bank for 20.67 million euro. The Bank entered an appearance at the hearing set for 11 May 2021. The Judge ordered an expert witness report, with expert operations beginning on 4 March 2022. Currently, the risk of losing appears «possible».

Bankruptcy of Interservice s.r.l. in liquidation

In February 2015, the bankruptcy procedure sued the Bank before the Court of Milan with a request for compensation for the damage caused to the company by the illegal conduct of its director, quantified at 14.65 million euro. With a sentence published on 26 May 2020, the Court rejected the plaintiff's request, but the plaintiff has filed an appeal. The risk of losing the case appears «possible», although commensurate with a significantly reduced outlay compared to the original request (approximately 228 thousand euro).

Ginevra s.r.l.

In January 2019, the company and the shareholders Giuliana Piovan and Gianpiero De Luca sued the Bank before the Court of Genoa with a request for compensation, quantified at 11.40 million euro, for contractual liability for failure to grant credit, compound interest and usury. The Judge has already set a hearing for the clarification of the conclusions on 11 April 2022. The risk of losing appears «possible».

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It increases by 2.699 million euro, +18.70%.

The provision for charitable donations of 0.676 million euro comprises an allocation from profits authorised by the Shareholders' Meeting due to donations made during the year. It increases by 0.300 million euro in the 2020 profit distribution and decreases by 0.112 million euro due to donations made during the year.

Section 12 *Company equity - Items 110, 130, 140, 150, 160, 170 and 180*

12.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling 1,360.157 million euro, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2021.

At the year-end, the Bank held treasury shares with a carrying value of 25.322 million euro.

12.2 Share capital – Number of shares: changes in the year

Items/Type	Ordinary	Other
A. **Shares at the beginning of the year**	**449,735,777**	**–**
– fully paid	453,385,777	–
– not fully paid	–	–
A.1 Treasury shares (-)	(3,650,000)	–
A.2 Shares in circulation opening balance	449,735,777	–
B. **Increases**	**–**	**–**
B.1 New issues	–	–
– for payment:	–	–
– business combinations	–	–
– conversion of bonds	–	–
– exercise of warrants	–	–
– other	–	–
– free of charge:	–	–
– to employees	–	–
– to directors	–	–
– other	–	–
B.2 Sale of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**–**	**–**
C.1 Derecognition	–	–
C.2 Purchase of treasury shares	–	–
C.3 Disposal of businesses	–	–
C.4 Other changes	–	–
D. **Shares outstanding: closing balance**	**449,735,777**	**–**
D.1 Treasury shares (+)	3,650,000	–
D.2 Shares at the end of the year	453,385,777	–
– fully paid	453,385,777	–
– not fully paid	–	–

12.3 Share capital: other information

Share premium reserve

It amounts to 79.005 million euro, unchanged on last year.

12.4 Profit reserves: other information

Profit reserves contribute to the capital adequacy of the Bank, considering both current and future operations. They amount to 1,153.960 million euro, +16.46% on the prior year figure and comprise:

- Legal reserve, consisting of profits allocated pursuant to art. 2430 c.c. and art. 49 of the Articles of Association, which amounts to 451.807 million euro, +5,86%, following the allocation of 25.028 million euro from 2020 profit.
- Statutory reserve, which amounts to 590.411 million euro +4.00%, following the allocation of 22.733 million euro out of the 2020 profit.
- Reserve for the purchase of treasury shares, which is available to the directors under art. 8 of the Articles of Association for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to 30 million euro (used for 25.322 million euro), unchanged compared with the previous year.
- Reserve set up pursuant to art. 13 of Legislative Decree 124/93 for 0.142 million euro.
- Other reserves amounting to 81.600 million euro increased by 3.942 million euro compared to the previous year, essentially as a result of the sale of minority interests held in the

portfolio of financial assets measured at fair value with an impact on comprehensive income, including Depobank S.p.a.

We inform you that the individual equity items are freely available and distributable, except for the valuation reserves which are only distributable under the circumstances laid down in art. 6 of Legislative Decree no. 38/2005 and the portion of the «share premium reserve» that can only be distributed in its entirety if the legal reserve has reached one-fifth of the share capital (art. 2431 c.c.).

12.5 Capital instruments: composition and changes in the year

No equity instruments have been issued.

Other information

1. Commitments and financial guarantees given (excluding those designated at fair value)

	Nominal value on commitments and financial guarantees issued					
	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2021**	**Total 31/12/2020**
1. **Commitments to grant loans**	**12,631,103**	**365,486**	**112,837**	**8,258**	**13,117,684**	**12,424,017**
a) Central banks	–	–	–	–	–	–
b) Public administrations	616,250	–	3	–	616,253	701,504
c) Banks	66,832	–	–	–	66,832	25,135
d) Other financial companies	1,841,724	2,539	15,000	1	1,859,264	1,651,268
e) Non-financial companies	8,810,980	297,626	91,533	7,668	9,207,807	8,817,533
f) Households	1,295,317	65,321	6,301	589	1,367,528	1,228,577
2. **Financial guarantees issued**	**1,674,007**	**10,834**	**16,123**	**–**	**1,700,964**	**1,655,668**
a) Central banks	–	–	–	–	–	–
b) Public administrations	6,766	–	–	–	6,766	7,068
c) Banks	633,261	270	–	–	633,531	624,766
d) Other financial companies	495,522	–	210	–	495,732	631,434
e) Non-financial companies	484,069	7,298	15,086	–	506,453	335,079
f) Households	54,389	3,266	827	–	58,482	57,321

2. Other commitments and other guarantees given

	Nominal value	
	31/12/2021	**31/12/2020**
Other guarantees given	**3,524,558**	**3,103,210**
of which: non-performing	33,315	60,894
a) Central banks	–	–
b) Public administrations	36,915	65,380
c) Banks	144,434	83,816
d) Other financial companies	30,948	34,179
e) Non-financial companies	3,129,207	2,719,523
f) Households	183,054	200,312
Other commitments	**3,356,386**	**3,151,010**
of which: non-performing	48,142	59,727
a) Central banks	–	–
b) Public administrations	61,664	27,026
c) Banks	248,848	221,384
d) Other financial companies	67,967	67,114
e) Non-financial companies	2,907,638	2,736,321
f) Households	70,269	99,165

3. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2021	31/12/2020
1. Financial assets measured at fair value through profit or loss	80,023	76,359
2. Financial assets measured at fair value through other comprehensive income	615,294	467,839
3. Financial assets measured at amortised cost	11,532,794	10,424,545
4. Property, equipment and investment property	–	–
of which: property, plant and equipment held as inventories	–	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO) and to guarantee the operations of the Swiss subsidiary.

The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

4. Management and intermediation for third parties

Type of service	31/12/2021
1. **Execution of orders on behalf of customers**	**17,415**
a) purchases	–
1. settled	–
2. not settled	–
b) sales	17,415
1. settled	17,415
2. not settled	–
2. **Individual portfolio management**	**1,392,760**
3. **Custody and administration of securities**	**54,475,103**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	4,074,429
1. securities issued by the reporting bank	–
2. other securities	4,074,429
b) third-party securities on deposit (excluding portfolio management): other	16,926,650
1. securities issued by the reporting bank	2,007,043
2. other securities	14,919,607
c) third-party securities on deposit with third parties	19,211,814
d) own securities on deposit with third parties	14,262,210
4. **Other transactions**	**–**

5. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of the financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount (f=c-d-e) 31/12/2021**	**Net amount 31/12/2020**
1. Derivatives	11,599	–	11,599	7,311	3,741	547	380
2 Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4 Other	–	–	–	–	–	–	–
Total 31/12/2021	**11,599**	**–**	**11,599**	**7,311**	**3,741**	**547**	**–**
Total 31/12/2020	**13,482**	**–**	**13,482**	**4,607**	**8,495**	**–**	**380**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements».

In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparties, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of the financial assets (a)	Amount of financial assets netted in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet		**Net amount (f=c-d-e) 31/12/2021**	**Net amount 31/12/2020**
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	14,681	–	14,681	7,311	7,248	122	891
2 Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4 Other	–	–	–	–	–	–	–
Total 31/12/2021	**14,681**	**–**	**14,681**	**7,311**	**7,248**	**122**	**–**
Total 31/12/2020	**21,221**	**–**	**21,221**	**4,607**	**15,723**	**–**	**891**

PART C Information on the income statement

Section 1 Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2021**	**Total 31/12/2020**
1. **Financial assets measured at fair value through profit or loss**:	**734**	**7,417**	**-**	**8,151**	**7,466**
1.1 Financial assets held for trading	115	-	-	115	244
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	619	7,417	-	8,036	7,222
2. **Financial assets measured at fair value through other comprehensive income**	**10,311**	**-**	**-**	**10,311**	**12,184**
3. **Financial assets measured at amortised cost:**	**56,783**	**383,698**	**-**	**440,481**	**425,315**
3.1 Loans and receivables with banks	10,215	3,018	-	13,233	12,440
3.2 Loans and receivables with customers	46,568	380,680	-	427,248	412,875
4. **Hedging derivatives**	**-**	**-**	**-**	**-**	**-**
5. **Other assets**	**-**	**-**	**5,585**	**5,585**	**-**
6. **Financial liabilities**	**-**	**-**	**-**	**89,554**	**54,292**
Total	**67,828**	**391,115**	**5,585**	**554,082**	**499,257**
of which: interest income on impaired financial assets	-	26,143	-	26,143	33,545
of which: interest income on financial lease	-	-	-	-	-

1.2 Interest and similar income: other information

Interest income showed a good increase, +10.98%, going from 499.257 million euro to 554.082 million euro. Interest accrued on financial liabilities refers for 83 million to negative interest rates relating to longer-term refinancing operations (TLTRO III) in place with the ECB.

1.2.1 Interest and similar income on foreign currency assets

Items	**31/12/2021**	**31/12/2020**
Interest and similar income on foreign currency assets	9,677	14,294

1.3 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2021**	**Total 31/12/2020**
1. **Financial liabilities measured at amortised cost**	**(12,172)**	**(67,125)**	**–**	**(79,297)**	**(79,444)**
1.1 Due to central banks	(4)	–	–	(4)	(26)
1.2 Due to banks	(692)	–	–	(692)	(1,257)
1.3 Due to customers	(11,476)	–	–	(11,476)	(14,870)
1.4 Securities issued	–	(67,125)	–	(67,125)	(63,291)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**–**	**–**	**–**
5. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**
6. **Financial assets**	**–**	**–**	**–**	**(27,941)**	**(13,596)**
Total	**(12,172)**	**(67,125)**	**–**	**(107,238)**	**(93,040)**
of which: interest expense on lease payables	(3,437)	–	–	(3,437)	(3,730)

1.4 Interest and similar expense: other information

Interest expense went from 93.040 million euro to 107.238 million euro +15.26% with an increase of 14.198 million euro. While the cost of short-term funding from customers has decreased, there has been an increase in the cost of funding in the form of bond issues and a significant increase in negative interest earned on liquid deposits with the ECB.

1.4.1 Interest and similar income on foreign currency

Items	**31/12/2021**	**31/12/2020**
Interest expense on foreign currency liabilities	(629)	(2,231)

Section 2 *Commissions - Items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 31/12/2021	Total 31/12/2020
a) **Financial instruments**	**61,348**	**54,956**
1. Placement of securities	38,340	32,692
1.1 On a firm and/or irrevocable commitment basis	–	–
1.2 Without irrevocable commitment	38,340	32,692
2. Receiving and sending orders and execution of orders on behalf of customers	11,690	12,354
2.1 Receiving and sending orders for one or more financial instruments	11,690	12,354
2.2 Execution of orders on behalf of customers	–	–
3. Other commissions related to activities linked to financial instruments	11,318	9,910
of which: trading on own account	–	3
of which: individual portfolio management	11,318	9,907
b) **Corporate Finance**	**–**	**–**
1. Mergers and acquisitions advisory services	–	–
2. Treasury services	–	–
3. Other commissions related to corporate finance services	–	–
c) **Investment advisory activities**	**–**	**–**
d) **Compensation and settlement**	**–**	**–**
e) **Custody and administration**	**8,409**	**6,480**
1. Custodian bank	6,091	4,652
2. Other commissions related to custody and administration activities	2,318	1,828
f) **Central administrative services for collective portfolio management**	**–**	**–**
g) **Fiduciary business**	**–**	**–**
h) **Payment services**	**130,834**	**117,729**
1. Current accounts	37,921	35,474
2. Credit cards	16,395	13,782
3. Debit cards and other payment cards	16,779	15,199
4. Bank transfers and other payment orders	48,683	42,404
5. Other fees related to payment services	11,056	10,870
i) **Distribution of third-party services**	**28,042**	**21,874**
1. Collective portfolio management	–	–
2. Insurance products	24,402	19,026
3. Other products	3,640	2,848
of which: individual portfolio management	–	–
j) **Structured finance**	**–**	**–**
k) **Servicing for securitisation transactions**	**–**	**–**
l) **Commitments to grant**	**–**	**–**
m) **Financial guarantees issued**	**28,340**	**24,665**
of which: credit derivatives	**–**	**–**
n) **Financing operations**	**48,406**	**50,919**
of which: for factoring transactions	**–**	**–**
o) **Trading in foreign currencies**	**–**	**–**
p) **Goods**	**–**	**–**
q) **Other commission income**	**17,118**	**12,517**
of which: for management of multilateral trading systems	–	–
of which: for management of organised trading systems	–	–
Total	**322,497**	**289,140**

The figures for the previous year have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

2.2 Fee and commission income: distribution channels of products and services

Channels/Amounts	Total 31/12/2021	Total 31/12/2020
a) **bank branches**:	**77,700**	**64,474**
1. portfolio management	11,318	9,908
2. placement of securities	38,340	32,692
3. third-party services and products	28,042	21,874
b) **door-to-door** :	**–**	**–**
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party services and products	–	–
c) **other distribution channels**:	**–**	**–**
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party services and products	–	–

2.3 Fee and commission expense: breakdown

Services/Amounts	Total 31/12/2021	Total 31/12/2020
a) **Financial instruments**	**(1,805)**	**(1,605)**
of which: trading of financial instruments	(1,805)	(1,605)
of which: placement of financial instruments	–	–
of which: individual portfolio management	–	–
– Own	–	–
– Delegated to third parties	–	–
b) **Compensation and settlement**	**–**	**–**
c) **Custody and administration**	**(2,942)**	**(2,389)**
d) **Collection and payment services**	**(6,262)**	**(7,151)**
of which: credit cards, debit cards and other payment cards	(2,689)	(2,537)
e) **Servicing for securitisation transactions**	**–**	**–**
f) **Commitments to receive funds**	**–**	**–**
g) **Financial guarantees received**	**(159)**	**(353)**
of which: credit derivatives	–	–
h) **Door-to-door distribution of financial instruments, products and services**	**–**	**–**
i) **Trading in foreign currencies**	**–**	**–**
j) **Other commission expenses**	**(1,502)**	**(1,327)**
Total	**(12,670)**	**(12,825)**

The figures for the previous year have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

Section 3 Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	Total 31/12/2021		Total 31/12/2020	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,693	171	1,654	194
B. Other financial assets mandatorily measured at fair value	–	3,330	–	3,834
C. Financial assets measured at fair value through other comprehensive income	2,489	–	1,116	–
D. Equity investments	14,580	–	14,320	–
Total	**18,762**	**3,501**	**17,090**	**4,028**

Dividends on equity investments were paid for 3.668 million euro by BPS Suisse, for 7.365 euro by Arca Vita spa, for 3.472 million euro by Arca Holding Spa and for 0.075 million euro by Rajna Immobiliare S.r.l.

Section 4 *Net trading income - Item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B) - (C+D)]
1. **Financial assets held for trading**	**10,790**	**36,463**	**(2,229)**	**(197)**	**44,827**
1.1 Fixed-yield securities	–	4	(218)	(20)	(234)
1.2 Equity securities	3,466	9,968	(1,402)	(150)	11,882
1.3 Mutual funds	7,019	1,710	(349)	(27)	8,353
1.4 Loans	–	–	–	–	–
1.5 Other	305	24,781	(260)	–	24,826
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. **Financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**(52)**
4. **Derivatives**	**11,812**	**29,416**	**(8,562)**	**(27,035)**	**5,815**
4.1 Financial derivatives:	11,812	29,416	(8,562)	(27,035)	5,815
– On debt securities and interest rates	6,429	13,536	(6,503)	(12,615)	847
– On equity securities and equity indices	3,353	6,767	(60)	(5,407)	4,653
– On currency and gold	–	–	–	–	184
– Other	2,030	9,113	(1,999)	(9,013)	131
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedges related to the fair value option	–	–	–	–	–
Total	**22,602**	**65,879**	**(10,791)**	**(27,232)**	**50,590**

The net result from trading activities was positive for 50.590 million euro compared to a negative result for 6.519 million euro in the previous year. It recorded net profits from trading in securities of 11.485 million euro compared to losses of 15.918 euro; the net result on other financial assets of 24.826 million euro is mainly made up of exchange gains. The difference between capital gains and losses on securities and mutual fund units is positive for 8.516 million euro. The net result of derivative trading is positive for 5.815 million euro.

This table does not include the result of the securities in the post-employment fund, which is shown under another item.

Section 6 *Gains (losses) from sales/repurchases - Item 100*

6.1 Gains (losses) from sales/repurchases: breakdown

	Total 31/12/2021			Total 31/12/2020		
Items/Income items	Gains	Losses	Profit (loss)	Gains	Losses	Profit (loss)
A. **Financial assets**	-	-	-	-	-	-
1. Financial assets measured at amortised cost	35,580	(2,702)	32,878	23,806	(49,397)	(25,591)
1.1 Loans and receivables with banks	-	-	-	40	(3)	37
1.2 Loans and receivables with customers	35,580	(2,702)	32,878	23,766	(49,394)	(25,628)
2. Financial assets measured at fair value through other comprehensive income	16,179	(2,423)	13,756	24,812	-	24,812
2.1 Fixed-yield securities	16,179	(2,423)	13,756	24,812	-	24,812
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**51,759**	**(5,125)**	**46,634**	**48,618**	**(49,397)**	**(779)**
B. **Financial liabilities measured at amortised cost**						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	9	(27)	(18)	91	(29)	62
Total liabilities (B)	**9**	**(27)**	**(18)**	**91**	**(29)**	**62**

The losses shown in line «1.2 Loans to customers», totalling 2.702 million euro, reflect the effects of the derisking actions carried out during the 2021 financial year with the massive sale of NPL credits carried out in December.

For further details reference should be made to part E of these notes, section «C. Securitisation transactions».

In the course of 2021, operations for the sale of exposures classified as unlikely-to-pay loans were also carried out, which resulted in the recognition of gains on disposal of approximately 4.6 million euro; for further details, please refer to Part E of these explanatory notes, section «E. Disposal» sub-paragraph «C. Financial assets sold and fully eliminated».

Section 7 *Net gains/losses on financial assets and liabilities measured at fair value through profit or loss - Item 110*

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial Assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Profit (loss) [(A+B)-(C+D)]
1. **Financial assets**	**38,843**	**3,072**	**(20,225)**	**(13)**	**21,677**
1.1 Fixed-yield securities	2,005	1,714	-	-	3,719
1.2 Equity securities	-	-	-	-	-
1.3 Mutual funds	18,402	1,358	(5,987)	(13)	13,760
1.4 Loans	18,436	-	(14,238)	-	4,198
2. **Financial assets in currency: exchange differences**	**-**	**-**	**-**	**-**	**2,076**
Total	**38,843**	**3,072**	**(20,225)**	**(13)**	**23,753**

Gains, losses, proceeds from disposals concern mutual fund units and Italian Government securities. This item also includes the change in fair value of loans which did not pass the SPPI test.

Section 8 *Net adjustments for credit risk - Item 130*

8.1 Adjustments for credit risk related to financial assets measured at amortised cost: breakdown

	Adjustments (1)						Writebacks (2)					
			Third stage		Impaired purchased or originated							
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2021**	**Total 31/12/2020**
A. **Loans and receivables with banks**	**(416)**	**(7)**	**-**	**-**	**-**	**-**	**2,526**	**678**	**-**	**-**	**2,781**	**(7,566)**
- Loans	(294)	(7)	-	-	-	-	1,595	32	-	-	1,326	(1,379)
- Fixed-yield securities	(122)	-	-	-	-	-	931	646	-	-	1,455	(6,187)
B. **Loans and receivables with customers**	**(17,307)**	**(23,775)**	**(44,215)**	**(260,396)**	**(1,873)**	**(24,378)**	**83,748**	**18,412**	**119,114**	**6,639**	**(144,031)**	**(124,488)**
- Loans	(16,247)	(23,775)	(44,215)	(260,396)	(1,873)	(24,378)	81,706	18,412	119,114	6,639	(145,013)	(123,436)
- Fixed-yield securities	(1,060)	-	-	-	-	-	2,042	-	-	-	982	(1,053)
Total	**(17,723)**	**(23,782)**	**(44,215)**	**(260,396)**	**(1,873)**	**(24,378)**	**86,271**	**19,090**	**119,114**	**6,639**	**(141,251)**	**(132,055)**

8.1a Net adjustments for credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

	Adjustments							
			Third stage		Impaired purchased or originated			
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other	**Total 31/12/2021**	**Total 31/12/2020**
1. Loans subject to forbearance complying with the GL	-	(11)	-	-	-	-	(11)	(34,381)
2. Loans subject to outstanding moratoria measures no longer in compliance with GL and not evaluated as granted	(3)	(242)	-	(29)	-	-	(274)	-
3. Loans subject to other forbearance measures	-	(1,506)	-	(2,180)	-	(59)	(3,745)	(8,487)
4. New loans	290	(1,054)	-	(6,270)	-	(372)	(7,406)	(2,864)
Total	**287**	**(2,813)**	**-**	**(8,479)**	**-**	**(431)**	**(11,436)**	**(45,732)**

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

	Adjustments (1)						Writebacks (2)					
			Third stage		Impaired purchased or originated							
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2021**	**Total 31/12/2020**
A. **Fixed-yield securities**	**(609)**	**-**	**-**	**-**	**-**	**-**	**1,590**	**28**	**-**	**-**	**1,009**	**(856)**
B. **Loans**	-	-	-	-	-	-	-	-	-	-	-	
- Customers	-	-	-	-	-	-	-	-	-	-	-	
- Banks	-	-	-	-	-	-	-	-	-	-	-	
Total	**(609)**	**-**	**-**	**-**	**-**	**-**	**1,590**	**28**	**-**	**-**	**1,009**	**(856)**

8.2a Net adjustments for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown.

During 2021, no credit risk adjustments were made on loans measured at fair value through other comprehensive income subject to Covid-19 support measures.

Section 9 Gains/losses on contractual changes not resulting in derecognition - Item 140

The losses on contractual changes not resulting in derecognition amounted to 6.099 million euro, compared with 6.415 million euro in the prior year.

This line item principally includes the economic impact of contractual changes that do not qualify for the derecognition of financial assets and, therefore, that result in a change in the related amortised cost to reflect the discounting to present value of the new contractual cash flows using the original internal rate of return.

The total reflects losses from changes of 8.199 million euro, and profits from changes of 2.100 million euro.

Section 10 Administrative expenses - Item 160

10.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 31/12/2021	Total 31/12/2020
1) **Employees**	**(206,686)**	**(188,746)**
a) wages and salaries	(124,028)	(118,943)
b) social security contributions	(35,484)	(33,577)
c) termination indemnities	–	–
d) pension expenses	–	–
e) provision for employee termination indemnities	(7,896)	(7,723)
f) provision for pension and similar obligations:	(14,103)	(7,035)
– defined contribution	–	–
– defined benefits	(14,103)	(7,035)
g) payments to external supplementary pension funds:	(3,291)	(3,145)
– defined contribution	(3,291)	(3,145)
– defined benefits	–	–
h) costs deriving from payment agreements based on own capital instruments	–	–
i) other personnel benefits	(21,884)	(18,323)
2) **Other working personnel**	**(278)**	**(178)**
3) **Directors and Statutory Auditors**	**(2,100)**	**(1,808)**
4) **Retired personnel**	**–**	**–**
5) **Recovery of expenses for personnel on secondment to other firms**	**1,062**	**914**
6) **Reimbursement of expenses for personnel on secondment to the company**	**(573)**	**(449)**
Total	**(208,575)**	**(190,267)**

10.2 Average number of employees by category

	31/12/2021	31/12/2020
1) **Employees**	**2,823**	**2,769**
a) managers	26	26
b) officials	574	575
c) other employees	2,223	2,168
2) **Other personnel**	**4**	**5**
Total	**2,827**	**2,774**

	Total 31/12/2021	Total 31/12/2020
- Number of employees at year-end	2,866	2,799
- Other personnel	5	5

10.3 Company pension plans with defined benefits: total costs

Income items/Amounts	31/12/2021	31/12/2020
Service cost	2,404	2,319
Interest cost	528	1,021
Contributions from employees	(209)	(215)
Reductions and payments	11,380	3,910
Total charge to income statement (A)	14,103	7,035
Yield from assets servicing the fund (B)	11,199	3,864
Total charge (A-B)	2,904	3,171

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 10.5 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations. An additional provision of 11.199 million euro has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». A positive change of 4.474 million euro corresponding to the actuarial profit was not recognised in the income statement but in compliance with the provisions of the IAS 19 accounting standard was recorded as a positive change in equity as shown in the statement of comprehensive income.

10.4 Other employee benefits

The item essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

10.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2021	31/12/2020
Telephone, post and data transmission	(11,446)	(12,122)
Maintenance of property, equipment and investment property	(6,944)	(7,380)
Rent of buildings	(213)	(88)
Security	(3,877)	(3,752)
Transportation	(1,624)	(1,513)
Professional fees	(42,490)	(43,234)
Office materials	(1,450)	(1,587)
Electricity, heating and water	(4,658)	(5,000)
Advertising and entertainment	(2,237)	(2,093)
Legal	(11,289)	(14,314)
Insurance	(1,453)	(1,507)
Company searches and information	(7,922)	(7,542)
Indirect taxes and dues	(57,251)	(53,960)
Software and hardware rental and maintenance	(19,005)	(16,132)
Data entry by third parties	(2,452)	(2,500)
Cleaning	(5,908)	(5,587)
Membership fees	(1,638)	(1,751)
Services received from third parties	(7,591)	(7,044)
Outsourced activities	(22,722)	(20,346)
Deferred charges	(1,258)	(1,350)
Goods and services for employees	(637)	(595)
Contributions to resolution and guarantee funds	(43,066)	(35,259)
Other	(5,903)	(6,964)
Total	**(263,034)**	**(251,620)**

Section 11 *Net accruals to provisions for risks and charges - Item 170*

11.1 Net provisions for the credit risk on commitments to grant loans on financial guarantees given: breakdown

The line item is positive for 12.642 million euro made up of the difference between provisions for the year and reallocations.

11.2 Net provisions for other commitments and other guarantees given: breakdown

The line item is positive for 2.755 million euro made up of the difference between provisions for the year and reallocations.

11.3 Net accruals to other provisions for risks and charges: breakdown

The balance of 15.858 million euro is made up of the difference between provisions for the year for 21.659 million euro to the provision for legal disputes and reallocations for 5.801 million euro.

For further details on the provisions made, reference should be made to the information contained in «Section 10 - Provisions for risks and charges» - Item 100 of Part B - Liabilities of these Notes.

Section 12 *Net adjustments/writebacks of property, equipment and investment property - Item 180*

12.1. Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Writebacks (c)	Net result (a + b - c)
A. **Property, equipment and investment property**				
1. For business purposes	(32,146)	–	–	(32,146)
– Owned	(12,443)	–	–	(12,443)
– Rights of use acquired through leases	(19,703)	–	–	(19,703)
2. Investment property	–	–	–	–
– Owned	–	–	–	–
– Rights of use acquired through leases	–	–	–	–
3. Inventories	–	–	–	–
Total	**(32,146)**	**–**	**–**	**(32,146)**

Section 13 *Amortisation and net impairment losses on intangible assets - Item 190*

13.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Writebacks (c)	Net result (a + b - c)
A. **Intangible assets**				
of which: software	(14,503)	–	–	(14,503)
A.1 Owned	(14,503)	–	–	(14,503)
– Internally generated	–	–	–	–
– Other	(14,503)	–	–	(14,503)
A.2 Rights of use acquired through leases	–	–	–	–
Total	**(14,503)**	**–**	**–**	**(14,503)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year. Accordingly no further information is provided pursuant to para. 130 letters a) c) d) f) g) and para. 131 of IAS 36.

Section 14 *Other operating income and expense - Item 200*

The item amounts to 67.599 million euro and comprises the difference between other operating income of 73.634 million euro, net of other operating expenses of 6.035 million euro.

14.1 Other operating expenses: breakdown

	31/12/2021	31/12/2020
Out-of-period expense	(4,200)	(1,464)
Other	(1,835)	(4,383)
Total	**(6,035)**	**(5,847)**

14.2 Other operating income: breakdown

	31/12/2021	31/12/2020
Recovery of charges on deposits and overdrafts	945	987
Rental income from buildings	1,234	1,270
Recovery of taxes	50,122	47,515
Financial income of pension and similar obligations plan	11,199	3,864
Out-of-period income - other	1,732	1,181
Other	8,402	9,101
Total	**73,634**	**63,918**

The sub-item «other» includes 1.074 million euro for the rapid enquiry fee, which has been allocated to this item in accordance with the Supervisory Authority's interpretation as it is merely a recovery of the costs incurred.

Rental income from buildings includes 0.580 million euro from the sub-lease of right-to-use assets.

Section 15 *Net gains (losses) on equity investments - Item 220*

15.1 Net gains (losses) on equity investments: breakdown

Income item/amount	Total 31/12/2021	Total 31/12/2020
A. **Income**	**–**	**1,294**
1. Revaluations	–	–
2. Gains on disposal	–	1,294
3. Writebacks	–	–
4. Other income	–	–
B. **Charges**	**(895)**	**(1,876)**
1. Write-downs	–	–
2. Impairment writedowns	(895)	(1,876)
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**(895)**	**(582)**

The write-downs concern the subsidiary Pirovano Stelvio spa for 0.078 million euro and the associated companies Rent2Go S.R.L. for 0.505 million euro and Sintesi 2000 S.r.l. for 0.312 million euro.

Section 16 *Net result of Fair Value measurement of property, plant and equipment and intangible assets - Item 230*

16.1 Net result of the valuation at fair value (or revalued amount) or at the estimated realisable value of property, equipment and investment property and intangible assets: breakdown

Assets/Income elements	Revaluations (a)	Write-downs (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Profit (loss) (a-b+c-d)
A. Property, equipment and investment property	**–**	**(272)**	**–**	**–**	**(272)**
A.1 For business purposes:	–	–	–	–	–
– Owned	–	–	–	–	–
– Rights of use acquired through leases	–	–	–	–	–
A.2 Investment property:	–	(272)	–	–	(272)
– Owned	–	(272)	–	–	(272)
– Rights of use acquired through leases	–	–	–	–	–
A.3 Inventories	–	–	–	–	–
B. Intangible assets	**–**	**–**	**–**	**–**	**–**
B.1 Owned:	–	–	–	–	–
– Internally generated	–	–	–	–	–
– Other	–	–	–	–	–
B.2 Rights of use acquired through leases	–	–	–	–	–
Total	**–**	**(272)**	**–**	**–**	**(272)**

Section 18 *Gains (losses) on sale of investments - Item 250*

18.1 Net gains on sales of investments: breakdown

Income item/amount	**Total 31/12/2021**	**Total 31/12/2020**
A. Property	107	–
– Gains on disposal	107	–
– Losses on disposal	–	–
B. Other assets	6	12
– Gains on disposal	6	12
– Losses on disposal	–	–
Profit (loss)	**113**	**12**

Section 19 *Income taxes for the year of ordinary operations - Item 270*

19.1 Income taxes: breakdown

Income items/Amounts	**Total 31/12/2021**	**Total 31/12/2020**
1. Current taxes (-)	(47,500)	(3,600)
2. Change in prior year income taxes (+/-)	–	–
3. Reduction in current taxes (+)	–	–
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4. Change in deferred tax assets (+/-)	(40,966)	(33,282)
5. Change in deferred tax liabilities (+/-)	(815)	149
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(89,281)	(36,733)

The tax rate, i.e. the ratio of income taxes recognised to the profit on current operations before tax, is 29.62%.

19.2 Reconciliation between the theoretical and current tax burden

Profit before tax	**301,380**
IRES (corporate income taxes)	
Theoretical taxation	**82,880**
Dividends (-)	-4,459
Maxi depreciation	-356
Evaluation of securities	246
Administrative expenses (partially deductible)	1,336
ACE	-6,617
Other changes (+/-)	2,032
TOTAL IRES	**75,062**
IRAP (Regional business tax)	
Theoretical taxation	**16,787**
Dividends	-522
Personnel expenses	1,424
Administrative expenses	-3,639
Depreciation and amortisation	260
Other operating income/expense	-813
Other items	722
TOTAL IRAP	**14,219**
TOTAL INCOME TAXES	**89,281**

Income taxes are calculated at 27.50% for IRES and 5.57% for IRAP.

The total tax charge for the year is reconciled with the profit for the year as indicated in the table below.

Section 22 Earnings per share

Reference should be made to the information contained in the same section of the Consolidated Notes.

PART D *Information on comprehensive income*

Statement of other comprehensive income

Items	31/12/2021	31/12/2020
10. **Profit (Loss) for the year**	**212,099**	**75,045**
Other items of comprehensive income that will not be reclassified to profit or loss	14,414	24,918
20. **Equity securities measured at fair value through other comprehensive income:**	**286**	**32,844**
a) change in fair value	3,460	48,397
b) transfer to other components of equity	(3,174)	(15,553)
30. **Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness):**	**-**	**-**
a) change in fair value	-	-
b) transfer to other components of equity	-	-
40. **Hedge of equity securities measured at fair value through other comprehensive income**:	**-**	**-**
a) change in fair value (hedged instrument)	-	-
b) change in fair value (hedging instrument)	-	-
50. **Property, equipment and investment property**	**14,669**	**-**
60. **Intangible assets**	**-**	**-**
70. **Defined-benefit plans**	**5,982**	**(7,672)**
80. **Non-current assets and groups of assets held for sale**	**-**	**-**
90. **Share of valuation reserves of equity investments valued at net equity**	**-**	**-**
100. **Income taxes on other items of comprehensive income that will not be reclassified to profit or loss**	**(6,523)**	**(254)**
Other items of comprehensive income that may be reclassified subsequently to profit or loss	(12,232)	12,856
110. **Hedges of foreign investments:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
120. **Exchange differences:**	-	-
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
130. **Cash-flow hedges**:	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. **Hedging instruments (non-designated elements):**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
150. **Financial assets (other than equity securities) measured at fair value through other comprehensive income**:	**(17,778)**	**18,785**
a) changes in fair value	(1,901)	30,473
b) transfer to income statement	(15,877)	(11,688)
– adjustments for credit risk	(1,009)	856
– gains/losses on disposals	(14,868)	(12,544)
c) other changes	-	-
160. **Non-current assets and disposal groups held for sale:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
170. **Share of valuation reserves of equity investments valued at net equity:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
– adjustments for impairment	-	-
– gains/losses on disposals	-	-
c) other changes	-	-
180. **Income taxes on other items of comprehensive income that may be reclassified subsequently to profit or loss**	**5,546**	**(5,929)**
190. **Total other income items**	**2,182**	**37,774**
200. **Other comprehensive income (Item 10+190)**	**214,281**	**112,819**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Bank's website».

Introduction

The purpose of managing and controlling risks is to ensure the reliable and sustainable generation of value, safeguard the financial solidity and reputation of the Bank, and provide transparent disclosure about the risks accepted. In particular, this activity seeks to verify compliance with the limits placed on the acceptance of risk, to identify criteria and methodologies for the measurement/assessment of risk, to check the consistency of the work performed in each operational area with the risk objectives assigned, if any, and to monitor current and future capital adequacy.

The Board of Directors is responsible for establishing guidelines, the strategic direction and policies for the governance of business risks, in order to ensure that the principal risks to which the Bank is exposed are correctly identified and managed. Consistent with this, the Board establishes the propensity to accept risk and obtains information about the actual exposures recorded, checking that the risk profiles are monitored appropriately by the units made responsible for internal control. In addition, with support from senior management, the Board promotes the development and spread at all levels of a «risk culture», capable of recognising the importance of healthy and prudent business management and facilitating a consistent, integrated and complete understanding of the types of risk that are important for the Bank.

Based on their specific responsibilities, the managing director and the members of general management supervise implementation of the guidance, direction and instructions provided by the Board, translating them into a system of exposure limits, procedures and operations designed to ensure the moderate acceptance of risk; the practical application of significant risk policies is delegated to the central services, offices and branches, depending on how they are organised.

The Board of Statutory Auditors monitors the adequacy of the risk management processes and their consistency with regulatory requirements.

The measurement and control of risks are performed by separate functions that are organisationally independent of the units authorised to accept them. The Risk Control Department plays a primary role by constantly supervising operations via the Risk Control Offices, making use of systems, instruments, procedures and methodologies for the identification, assessment and monitoring of risk. The department manager reports to senior management, in an objective and impartial manner, on the outcome of these control activities.

The high-level information describing the risks accepted, prepared by the above department, is organised so that senior management – having regard for the duties and responsibilities of each person – can make an informed, complete and documented assessment of the various types of risk and the related management, control and mitigation mechanisms, as well as of the adequacy of the capital held to cover such risks. The changes in the risk profiles are also communicated to the operational areas, via operational reports designed to make personnel aware of the need to intensify efforts to prevent and attenuate risk.

ESG (Environmental, Social and Governance) risks: disclosures made in compliance with the recommendations in ESMA Public Statement of 29 October 2021 regarding supervisory priorities for financial and non-financial information for the year 2021

Banca Popolare di Sondrio recognises that the integration of risks associated with environmental, social and corporate governance factors (so-called «ESG risks» – Environmental, Social, Governance) in strategic processes and risk management systems is essential for an ever better understanding of the context in which it operates, for a more aware and considered assumption of risk and, ultimately, for greater effectiveness in responding to the needs of customers and communities.

ESG risk factors have an impact on economic activities, affecting the financial system through various transmission channels. As determining or accentuating factors of various existing risk categories, their occurrence could affect the ability of the bank's business model to hold up over the medium and long term, compromising its capital stability, competitive potential and reputational credibility.

Also taking into account the growing attention of regulatory authorities and public opinion, the bank intends to progressively incorporate the assessment of risks associated with climate change and environmental, social and governance issues in the formulation and implementation of its lending, financial and investment policies as well as in the provision of services to customers, by undertaking structured paths of analysis of exposure to more vulnerable sectors and markets, understanding of potential impacts in the short and longer term, identification and integration of these factors in ordinary risk management practices.

In addition to being an important driver and lender of the system, the bank is aware that it also plays a significant role as a social operator and, in this capacity, proposes to participate with its business activities in the energy transition, in the direction of a more «human scale» economy, for the benefit of future generations. It is also committed to strengthening communication channels and information publications on climate and environmental aspects and, in general, on issues related to sustainability factors and the management of related risks, in order to increase market transparency and promote understanding of the financial implications of these factors.

For Popolare di Sondrio, interaction with its stakeholders, participation in work groups and collaboration with national and international organisations represent an essential reference point to guarantee constant updates on sustainability issues. The institute, which has supported UN Global Compact since 2004 and, since 2018, has been a founding member of UN Global Compact Network Italia, is committed to identifying new sustainability initiatives that will act as a driving force to further strengthen its ESG strategy. As a first step, in March of this year, the bank joined the Forum for Sustainable Finance, a non-profit, multi-stakeholder organisation that has been supporting the Italian banking sector for years.

As part of the activities carried out on the issues related to ESG factors following the publication by the European Central Bank, in November 2020, of its «Guide on climate and environmental risks» – a document that has dictated thirteen expectations regarding the integration of these risks in the typical contexts of banking activity –, in May of last year, a multi-year macro-planning of the interventions for the development and implementation of a series of organisational, procedural and methodological solutions through which to achieve a progressive alignment with the expectations of the Supervisory Authority was developed. These expectations concern, in particular, the integration of climate-environmental risks in the formulation and implementation of strategies, in the systems of corporate governance, risk appetite and control of risk exposure, and have among their objectives those of increasing the levels of preparation, information transparency and market reporting on these aspects. Since its drafting, the plan of action has been progressively extended to include all the main adjustment initiatives regarding the management of ESG risks considered as a whole, for the purposes of a complete and coordinated monitoring of the issue.

In summary, the activities being planned can be traced to four different macro-areas:

- *ESG strategy and business model*: preparation of changes to the company's organisational structure for more effective and harmonious governance of the sphere of sustainability and climate and environmental changes; updating of the body of internal policies and documentation; development of training programs for personnel and top management;

- *ESG risk measurement*: definition of tools and methodologies aimed at identifying, quantifying and analysing exposures to ESG risk factors. In this regard, of importance is a dedicated work site aimed at including ESG factors and assessments of the environmental sustainability of credit in the policies and practices for granting loans, with consequent integration of these elements in models, procedures and risk monitoring tools;
- *Risk data management*: during 2021, activities were first of all carried out to identify the information assets necessary to achieve correct and complete ESG risk management. On the basis of the results of these analyses, external data suppliers were selected and engaged, useful for fulfilling the information requirements relating to the following main areas a) monitoring of ESG risks impacting the portfolio of credit risk exposures; b) monitoring of ESG risks associated with the portfolio of investments in financial instruments; c) creation of adequate internal reporting; d) meeting the information needs associated with the fulfilment of multiple regulatory and supervisory obligations on the subject of «sustainability», including the bank's participation, since January of this year, in an initial climate risk stress test promoted by the European Central Bank;
- *Disclosure*: adjustment of publications and reports to the market in line with the evolution of the European regulatory framework regarding disclosure on sustainability and exposure to the related risks (especially those connected with the environment and climate change), with progressive repositioning to ensure compliance with EU guidelines on the disclosure of non-financial information and the adoption of the single classification system for sustainable investments (so-called EU «taxonomy» of eco-compatible activities).

In the specific context of the ESG risk management framework, activities aimed at integrating these factors into ordinary risk control practices and processes have been intensified, favouring a governance approach based on classification in the various primary risk categories on which they materially impact, namely credit risk, market risk, operational risk and reputation risk. Significant steps forward have been made in terms of including ESG factors – and in particular climate-environmental factors – in risk relevance assessments through processes of identification and mapping of their potential financial effects, linked to «traditional» risk categories. Moreover, the first significant activities aimed at the quantitative identification and measurement of the materiality of these risks were launched, primarily by resorting to sector classification methods and tools designed to understand the bank's degree of vulnerability to the risks in question and to measure the concentration of exposures to clusters most at risk.

These activities have led to the development of a specific ESG risk score calculated at the level of economic sectors, adopted by the bank to determine on a quantitative basis the significance of ESG factors on exposure to credit and market risks.

Starting from the mapping on a sectoral basis, a methodology is being worked out for the development of a scoring system that is representative of risk in terms of ESG at the level of individual counterparties, aimed at an organic integration of ESG and environmental sustainability evaluations in the policies and procedures for granting credit, with specific attention to aspects of climatic-environmental risk. To this end, collaboration has been undertaken with qualified info providers of ESG data for the acquisition of tools and data provision services, also functional to the classification under the ESG profile of financial instruments intended both for investment as property and for the offer to savers, with a view to reorienting the investment strategies of the bank and its customers in terms of sustainability. The evidence acquired through external providers may, if necessary, be complemented by information gathered directly from clients through questionnaires.

From the reputational point of view, following a preliminary recognition of the sources and regulatory provisions on the subject, the repository of risk scenarios investigated through the company's annual self-assessment was also enriched with specific cases relating to environmental, social and corporate governance sustainability issues.

In support of the above-mentioned EU stress test exercise on climate risk, the infrastructural and methodological elements useful both for carrying out the activities requested by the Supervisor and for integrating this system into the company's stress test system were prepared. In addition, an initial targeted internal analysis exercise is planned as part of the annual ICAAP (Internal Capital Adequacy Assessment Process) process, which will be reported to the Supervisory Authorities by April 2022, aimed at verifying under stress the vulnerability to possible manifestations of physical climate and environmental risks and the related impact on credit exposure.

The reference framework for the measurement, control and monitoring of risks linked to climatic-environmental, social and governance factors will be gradually completed and refined thanks to the continuation of the planned lines of activity, aimed at: a) a progressive enrichment of the wealth of information on customers and the exposures associated with them, including analyses of alignment with respect to climate scenarios related to the achievement of the objectives of the «Paris Climate Agreements» of 2015 in connection with the strategic guidelines on the subject; b) the improvement of the techniques and tools for assessing, quantifying and reporting on the performance of ESG risks and their influence on the exposure to «traditional» risks; c) the introduction of specific ESG risk metrics and indicators into the Risk Appetite Framework (RAF) schemes.

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General aspects

The Bank's lending policy aims to provide support to local economies in the areas that we serve, by granting financial resources to applicants that are pursuing admirable objectives and who meet suitable parameters of credit-worthiness.

The size and composition of the loan portfolio reflect the financial needs of two specific customer segments: small and medium-sized businesses, mainly located in the areas where the bank operates, and households. The Bank prefers to lend to SMEs since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed, following the evolution of the business over time. However, the needs of bigger counterparties, such as large enterprises and public entities, are not overlooked, providing their credit rating following a rigorous preliminary investigation shows that they are solid and reliable.

In this context, the lending activity is based on principles of healthy and prudent management, fair remuneration of risk and professional, efficient operational conduct, with a view to establishing two-way communications with borrowers based on reciprocal trust and transparency; this in order to enhance the Bank's particular aptitude for building long-term customised relationships with local business owners.

In consideration of the Bank's strategic objectives and approach to operations, its lending strategy is based on a low propensity for risk and full awareness of the risks that are taken on; this involves:

- measurement of the current and prospective risk of the credit portfolio, both as a whole and/or at various levels of disaggregation;
- diversifying the exposure, so as to reduce concentration;
- refusing to get involved in operations that could jeopardise the Bank's profitability and solidity.

These strategies and policies have not changed since last year.

For more details on the impact of the pandemic and related support measures on credit risk, please refer to the Third Pillar public disclosure.

2. Credit risk management policies

2.1 Organisational aspects

The Bank's approach to credit risk management is based on maximum involvement at all levels of the organisation to ensure timely processing of customers' applications, combined with an analytical assessment of the risk involved in lending money to them. The various stages that make up the lending process include the planning of credit policies, the preliminary investigation, granting of the loan, periodic review, monitoring and management of non-performing loans.

Implementing the strategic guidelines established by the Corporate Bodies during the planning process and in compliance with the risk limits set, the lending policy defines the size and composition of the loan book, in order to guarantee an adequate balance between the risk profile accepted and the return earned. The guidelines cover the products, segments, sectors and categories of counterparties that maximise forecast profitability while, at the same time, governing the quality of the portfolio and ensuring capital adequacy on a prospective basis. For planning purposes, the guidelines establish objectives for the operational offices, covering the quality of the portfolio, as well as its growth and profitability. These objectives must be achieved while respecting the capital adequacy requirements and risk limits.

The procedures and organisational structure set up for this purpose have been formalised, clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, the separation between operating functions and control functions is ensured.

The system of decision-making powers approved by the Board of Directors is based on the principle of «cascade delegation», which means assigning limited powers to the branches, giving preference to control by specialist central units.

The following is an explanation of the bodies and the main corporate functions that are involved in supervising the lending process, also specifying their principal duties.

- *Board of Directors.* The Board of Directors supervises and oversees the proper allocation of financial resources and, in particular:
  - establishes the strategic direction and lending policies;
  - sets criteria for the identification;
  - ensures risk management and assessment;
  - approves the decision-making and signature powers attributable to the other corporate bodies and organisational units for the granting and revision of lines of credit;
  - checks that the structure of the control functions is defined in line with the strategic guidelines;
  - makes sure that they have an appropriate degree of independent judgement and are equipped with qualitatively and quantitatively adequate resources;
  - gains a general knowledge of rating systems, proposes their application during the various stages of the process and assesses how effective they are with the help of the internal control and internal audit functions.
- *Managing Director.* The Managing Director supervises implementation of the decisions taken by the Board of Directors with regard to the management of lending and the related risks. In addition, exercises the powers to grant loans granted under the Bank's regulations.
- *General Management.* General Management implements the strategies and policies established by the Board of Directors and, in particular:
  - prepares regulations, activities, procedures and organisational structures for the adoption and application of an efficient lending process, of an adequate rating system and of a solid system for the control of the related risks;
  - verifies the adequacy and functional capacity of these various elements, also in light of the internal and external changes that are affecting the bank;
  - takes the necessary action to eliminate any weaknesses and inefficiencies that are identified.

In addition, General Management adopts resolutions to the extent of the autonomy granted.

- *Branches.* The branches are assigned the fundamental task of handling the relationship with the customer who is borrowing or who would like to borrow money from the bank. They acquire the documentation, make an initial selection of the applications and directly approve those within the scope of their powers, and monitor the credit report on a day-to-day basis, checking for potentially anomalous situations.
- *Coordination functions.* They give the branches fundamental support in handling more complex loan positions and/or those that are looking critical. They examine requests for loans to be presented to the central functions and express an opinion, while approving directly those within the scope of their powers.
- *Loans Department.* The Credit Assessment office supports the work of the central committees by receiving applications from branches, checking their completeness and accuracy, and completing the assessment.
  The Medium-term and Special Loans Office assesses mortgages, leases, factoring arrangements, artisan and agricultural loans, loans under framework agreements and personal loans from a technical and legal point of view. Through the Risk Office, it finalises the guarantees and then activates the loan.
- *Corporate Finance Department.* The Corporate Finance Department analyses, structures and coordinates corporate finance operations and identifies the best types of financing for complex investment projects. It makes a preliminary evaluation of project financing transactions, directly structuring the intervention or proposing the Bank's participation in a lending syndicate.
- *The NPE Unit.* It oversees the performance of credit quality and verifies the effectiveness of the actions taken to settle credit anomalies and recover the debt. In particular, the current structure involves the following organisational units:
  - *Problem Loans Management.* It oversees the performance of credit quality and verifies the effectiveness of the actions taken to settle credit anomalies and recover the debt. It monitors in particular critical performing, non-performing and past due positions classified as unlikely-to-pay and implements, either directly or via the network, the appropriate actions to minimise the risks and prepare appropriate initiatives to protect the bank's credit. It also supports the network in managing positions subject to restructuring and bankruptcy proceedings, searching for negotiated solutions to business crises.
  - *In-court and out-of-court debt collection and bad debt.* For credit positions classified as bad loans, it takes legal action, in and out of court, to recover them, organising the necessary interventions directly and/or through external lawyers.
  - *Performance monitoring and support:* Monitors the NPE portfolio for management purposes and early warning purposes. Monitors operational and management performance of impaired loan recovery activities. Manages the status changes and provisions, investigation of the NPE chain, regulations and relevant processes. This organisational unit is also responsible for managing and coordinating the various processes involved in outsourcing non-performing loans.
- *Risk Control Department.* Designs, develops and manages measurement systems of a regulatory and managerial nature, ensures full implementation of risk taking, management and monitoring policies. With particular reference to credit risk, the activities carried out by the following organisational units are of note:
- *Credit Risk Office.* From the monitoring of exposure to credit risk through the use of methodologies and tools suitable for identifying the criticality of the underlying processes and the interventions aimed at overcoming them, contributing to assessing the consistency of the NPL portfolio management strategies with the RAF parameters, estimating the impacts of the reduction and recovery objectives of problem loans on profitability and capital profiles; overseeing and coordinating the activities related to the evolution of the

AIRB models, providing for the appropriate measurements; overseeing the second level controls through the assessment of the consistency of the classifications and the adequacy of the provisions related to performing and impaired credit items.

- *Credit Models Development Office.* Responsible for designing, developing and maintaining the quantitative models and metrics adopted for the measurement of credit risk for both regulatory and management purposes (AIRB rating system), as well as for defining and updating the credit risk parameters used to determine accounting provisions; Pricing and Valuation Models Office, responsible for developing and monitoring quantitative methodologies and risk models (e.g. stage allocation and IFRS 9 impairment, operational risk measurement, macroeconomic scenario analysis) and valuation (e.g. pricing models, Independent Price Verification methodologies, fair value calculation and related adjustments).
- *Pricing and valuation models.* Responsible for developing and monitoring quantitative methodologies and models for risk (i.e. IFRS 9 stage allocation and impairment, measurement of operational and counterparty risk, analysis of macroeconomic scenarios) and for valuation (i.e. pricing models, independent price verification methodologies, calculation of fair value and related adjustments).
- *Office of Risk Data Management.* Oversees the governance of risk data and the related data quality controls, guaranteeing integration with the company's data governance processes, as well as overseeing the IT architecture supporting the internal rating system.
- *Integrated Risk Office.* Oversees the definition and monitoring of the risk objectives established by the RAF, fulfils the obligations of the Second (ICAAP) and Third Pillar (Public Disclosure) and those relating to the Recovery Plan, governs the execution of the stress exercises to verify the resilience of the Group's capital and financial conditions in adverse scenarios, contributes to the Resolution Plan and the monitoring of risks not covered by other specialist units (Integrated Risk Office).

In addition, the following organisational units report to the Chief Risk Officer*:*

- *Large Exposures Office and Rating Desk*. Responsible for assessing the riskiness of major credit exposures, for validating the internal rating judgements assigned to customers belonging to the «major customers» management segment and for carrying out verification and validation activities for exceptions to rating judgements requested by the competent operational structures.
- *Validation Office*. Responsible for overseeing the validation processes of the internal models for measuring and managing Pillar I and II risks, the main risk management and monitoring systems, the assessment of corporate activities and other risk measurement methods used for management and accounting purposes.

– *Internal Audit Department.* It checks the proper functioning of controls and compliance with rules and procedures. In particular, this department checks that the criteria for the proper classification of loans are correctly applied.

2.2 Management, measurement and control systems

Control over credit risk has the support of rating models that have been specifically developed by the Bank. The Bank has models for the following segments: Private Customers (resident and non-resident consumer households), Small Economic Operators (family businesses, personal businesses and practising professionals), Small Businesses (non-financial partnerships and companies with sales unknown or less than 1.5 million euro and total credit lines at Group level of less than 1 million euro), SMEs (non-financial partnerships and companies with sales between 1.5 million euro and 100 million euro, or sales unknown or less than 1.5 million euro and total credit lines at Group level of 1 million euro or more), Corporate non-profit institutions (non-profit entities and associations with sales of 1.5 million euro or more or, if less or unknown, with total credit lines of 1 million euro or more), Retail non-profit institutions, Large Enterprises (non-financial partnerships and companies with sales in excess of 100 million euro), Public Enterprises and Non-resident, non-financial companies.

These models are designed to create a counterparty rating and an associated probability of default (PD), representing the estimated likelihood that the borrower will become insolvent within one year. The rating depends solely on the characteristics of the counterparty and is not influenced by any guarantees that the Bank has acquired. The rating assessments are produced by qualitative statistical models and are split into 14 categories for «performing» counterparties and one for those that are insolvent. They are then summarised in eight risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad», «Insolvent» and «Not classified».

Ratings are used in the credit process all the way from policy planning through to performance control. For monitoring purposes, the rating is calculated monthly with reference to the entire population of interest, whereas it is determined on an ad hoc basis when considering new loans or reviewing existing loans.

In addition to the rating and PD, the Bank estimates and adopts two other important risk factors: the loss given default (LGD) rate and the estimated exposure at default (EAD). These estimates for counterparties also derive from internal models, and they are heavily influenced by the presence and type of guarantees acquired by the Bank and by the technical form by which the loan is granted.

Lastly, the PD, LGD and EAD results make it possible to determine the Expected Loss, which is an estimate of the potential loss associated with a particular loan exposure; and as an element of cost, it also provides useful input for determining prudent loan loss provisions.

Having input on such risk factors, updated on a monthly basis, contributes towards a complete assessment of the risk profile, helping to improve the amount of information available to support the lending process.

Together with the valuations obtained through internal models, the ratings granted by leading international agencies are gathered automatically. These are used in determining the capital requirements for credit and counterparty risk, for which the Bank adopts the so-called «standardised approach»; this involves weighting the exposures on the basis of ratings, where available, assigned to each counterparty by a specialist firm (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, DBRS and Cerved Group).

With regard to the exposures to Italian and foreign banks, the ratings given by leading agencies are used wherever available. Otherwise, an internal rating, based on the application of a simplified model, is used. More specifically, this model involves the examination of a series of quantitative and qualitative indicators and information, which produce values for the determination of a final score. This score is positioned on a scale of ten classes, the first of which represents a counterparty/issuer with minimal risk, while the ninth highlights maximum risk and the tenth represents a state of insolvency. These ten classes are then grouped into four macro classes for comparison with the ratings given by international agencies.

As regards counterparty risk, in addition to continuously monitoring the main banking groups with credit lines, we periodically carry out a specific analysis of each position that has been taken on. This is performed by taking various indicators into consideration, such as their rating, accounting information and market data.

The internal rating system represents a fundamental element of the bank's credit processes and procedures. It is fully integrated with them in accordance with regulatory requirements. Specifically, IRB risk metrics are used in the following areas: lending and decision-making, credit monitoring, credit quality, management and branch network reporting, risk-adjusted pricing, credit policies and impairment.

The preliminary investigation, which aims to establish whether applicants satisfy certain conditions for credit-worthiness, includes consideration of whether the characteristics of the loan are consistent with its purpose, a check on whether any guarantees being provided are suitable to cover the risk of non-repayment, and a review of the economic aspects of the loan. In this context, the opinion expressed by the internal rating system, if available, and the associated estimates of default are taken into due consideration as essential elements for an overall evaluation of the customer.

The decision whether to grant a loan or not is taken by the competent decision-making bodies prior to disbursement, carefully assessing all of the information that emerged during the preliminary investigation, as well as any other element that might be available. In order to ensure greater control of credit risk, the mechanism for defining the autonomy limits for the decision-making bodies at the base of the hierarchical scale combines the use of the nominal value of the transaction to be resolved with the risk profile of the same, of the counterpart applicant, any related counterparties and related exposures. In addition, during 2021, the Bank integrated the Loss Given Default (LGD) parameter into the resolution body determination model.

Credit lines are then made operative and the funds made available to the borrower, but only after all matters foreseen in the approval have been dealt with, particular emphasis being put on the acquisition of guarantees and their verification and assessment in terms of being suitable to lower the credit risk.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings.

Lines of credit can also be reviewed automatically in the case of positions with low levels of risk, ascertained through a rigorous examination of suitable indicators that are established in advance, where the rating takes on a great deal of importance. The risk parameters are also assessed upon the renewal/revision of outstanding loans, allowing for automatic revision in the presence of specific solvency criteria, including maximum thresholds for the counterparty's probability of default, differentiated by risk segment.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid, to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency. This monitoring, which is carried out in accordance with formal company procedures, is designed to spot any negative symptoms as early as possible and to take rapid and effective action to avoid any further deterioration. In this regard, the home branches of the loans concerned play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately. Operating units are supported in these activities by a series of reports produced internally or by external contributors; with regard to the Parent Company, particular importance is attached to the report on changes in the risk factors at counterparty level calculated by the rating system. Specific head office units are dedicated to analysing the different information available, in order to assess continuously the merit class of each exposure and identify those potentially subject to excessive risk. The depth of this analysis is linked to the needs expressed.

The bank uses risk-adjusted value creation (EVA) indicators when determining the spread and margin on loans. Using a specific application already integrated within the electronic credit line system, it is in fact possible to determine a measure of profitability that is adjusted for credit risk (expected loss based on the customer's rating) and for the opportunity cost of the regulatory capital absorbed. This is applied to the individual lending relationship, thus resulting in an estimate of the value added by current or potential exposures. By consolidating the controls applied to contain risk in the selection, management and monitoring phases, this tool makes it possible to identify poorly performing accounts more precisely and, therefore, take action to restore profitability.

The bank also has a process of identification, resolution and monitoring of forborne exposures (i.e. credit exposures for which changes in contractual conditions or refinancing have been granted due to financial difficulties on the part of the debtor); forborne as an attribute is transversal to all loans, whatever their administrative status.

In addition, a range of management information is generated periodically in order to monitor better, via meaningful analysis, the changes in portfolio risk.

With regard to the monitoring of loans that appear anomalous, all overdrawn situations are analysed carefully with a view to taking timely action in relation to problem positions. The Problem Loans Management Department makes use of performance measurement and control methodologies that take into consideration internal and industry data, together with the opinion given by the rating system, if available, to build up the identification of potentially problematic counterparties and promotes actions to mitigate credit risk. These positions are appropriately analysed and, where there are clear signs of difficulty, they are classified as «non-performing», depending on how serious the situation is.

The task of monitoring and managing anomalous loans is given to specific central offices, which make use of «corporate managers» located throughout the territory and who carry on their activity with a view to returning the position to «performing», if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, operating in close collaboration with the home branches of the problem loans concerned.

Within the Risk Control Department, a separate unit supports the Loans Department by identifying «performing» customers that show initial anomalies and signs of difficulty, as well as those counterparties that are persistently overdrawn. In order to deal with deteriorating relationships promptly and effectively supervise the overall quality of the loans portfolio, the bank has adopted monitoring processes and support tools that promote actions leading to the regularisation of the relationships.

With reference to the controls adopted for the control and mitigation of concentration risk, it should be noted that, in the preliminary, disbursement, review and monitoring phases, in-depth controls are carried out relating to the concentration of risks for significant exposures to individual counterparties or groups of counterparties between which there are connections of a legal and/or economic nature. In particular, in accordance with the above regulations, specific procedures are followed for loan applications deemed to be «of greater significance», based on the size of the exposure and the amount of the request for new lines of credit. In particular, these applications and the related investigation report prepared by the Loan Investigation Office are sent to the Large exposures office and rating desk, which assesses the consistency of the operation, at both the individual and consolidated levels, with the system of risk objectives identified in the RAF (Risk Appetite Framework). In addition to the normal analysis by the loan investigation office, large exposures are also examined by the Large exposures office and rating desk in order to provide additional support for the approval process.

2.3 Methods for measuring expected losses

The purpose of this section is to describe the methodological framework implemented by Banca Popolare di Sondrio, in accordance with the requirements of the IFRS 9 that came into force on 1 January 2018, to calculate the Expected Credit Loss (ECL) of the loan portfolio.

The Bank has defined a specific methodological framework. Building on a suite of models already used in other business areas and processes, this activity involved developing various methodologies and methodologies relevant to the calculation of impairment, such as stage allocation methodologies, as well as the micro-modelling of scenario-dependency and the calculation of a multi-period ECL that takes account of the above key aspects.

These methodologies are considered optimal with regard to the rationale underlying the standard (including the avoidance of undue cost and effort), the current and prospective taxonomy and complexity of the portfolio, the materiality of the impact of specific modelling decisions and the following drivers of analysis considered important:

– Disclosure and consistency, with particular reference to the ease with which the approach can be explained to the various types of stakeholder, and consistency with the methodological framework currently used for stress testing.

- Conformity with current regulations, with particular reference to integration of the forward-looking element and the move from a «Through-the-Cycle» to a «Point-in-Time» approach.
- Ease of maintenance, particularly in relation to the frequency with which the model is recalibrated under the point-in-time approach.
- Representativeness of the composition of the portfolio, considering the level of specialisation with respect to the clusters within the portfolio and the essential duration of the portfolio.
- Adequacy with respect to the depth and frequency of the available data, specifically considering aspects of data availability and methodological requirements, as well as the stability of the estimates and the number of parameters to be estimated.

For the purposes of calculating the expected credit loss, the current IFRS 9 models do not currently include the effects of adopting the new definition of default, but do include prudential overlays aimed at monitoring the credit risk of the performing portfolio.

Scope of application

The above methodologies are used to calculate impairment write-downs for the loan portfolio of the Parent Company of the Banca Popolare di Sondrio Group (the Bank) in accordance with IFRS 9. More precisely, these methodologies are applied to the portfolios classified in accordance with the Held To Collect business model (portfolios measured at amortised cost if they pass the «Solely Payment of Principal and Interest» (SPPI) test and are reported in the «Due from customers» and «Loans and receivables with banks» line items) and the Held To Collect and Sell business model (portfolios measured at fair value through other comprehensive income (FVOCI), in order to determine the change in fair value that is attributable to credit risk).

In addition to the above, applicable to the «on–balance sheet» component, IFRS 9 also applies to the financial instruments associated with «off–balance sheet» categories, such as revocable margins, non-revocable margins and financial guarantees.

Credit risk parameters under IFRS 9

The process of modelling credit risk parameters started with the internal models developed for regulatory purposes. Based on these, the Bank defined a set of refined methodologies and adjustments to model in a specific and appropriate manner the point-in-time and forward-looking components, in order to ensure maximum consistency between the overall methodology adopted and the rationale underlying the standard. The probability of default (PD) was modelled on adaptation of the default rates, applying a variable scale approach. As discussed earlier regarding internal consistency with other methodologies already developed and used in other business areas, the set of AIRB models is the starting point for the methodological framework used to model the probability of default (PD.

On this basis, the Bank defined a series of specific methodological approaches, essentially covering the aspects described below, in order to develop a precise model that embodies as closely as possible the rationale and requirements of the new standard:

- Transition matrices, used to model the PD dynamics needed to calculate the IFRS 9-compliant ECLs over essentially long-term time horizons;
- Econometric models, defined for various customer segments and sectors of business activity, that make it possible to differentiate the above forward-looking dynamics by examining different macroeconomic scenarios over a long time horizon;
- Convergence dynamics towards long-term equilibrium that make it possible to extend the above-mentioned forward-looking and scenario-dependent dynamics over longer time horizons than those covered by the econometric models;
- Methodologies for estimating the long-term PD by adopting a suitable methodological framework;
- Methodologies for defining appropriate PDs for segments not covered by ratings, including

the corporate and retail segments for which no models are available, as well as the exposures to those types of counterparty (e.g. banks, public administrations) that do not fall within the scope of the AIRB models. The approach in these cases uses the ECAI transition matrices and the internal default rates.

In order to develop a model for the LGD component under IFRS 9 that embodies as closely as possible the spirit and requirements of the new standard, the Bank sought to make methodological choices and/or adopt definitions that differed from those developed in the AIRB context, as well as to develop IFRS 9-specific methodologies that model changes in the metric more precisely over long-term time horizons under different macroeconomic conditions.

More precisely, the LGD parameter used under IFRS 9 differs from those considered by the internal models in the following ways:

- Definition of LGD by state of impairment (LGS). Although the starting point for the definition of LGD by state of impairment (LGS) uses the same concept as that used in the AIRB context, in order to maximise internal consistency among the models adopted, the Bank defined a different set of underlying methodologies for the calculation of that metric, in order to ensure greater consistency with the rationale underlying the new standard.
- Development of econometric models for LGD by state of impairment. The Bank has developed a specific methodological module that renders LGD by state of impairment (LGS) dependent on the macroeconomic scenario selected.
- Definition of the danger rate parameter. The Bank has defined an alternative version of the danger rate parameter, which is estimated over a shorter time horizon than that considered in the AIRB context, achieving greater alignment with the point-in-time calibration logic touched on in the standard.
- Parameters for segments other than Corporate and Retail not covered by the AIRB model. The Bank has defined specific methodologies for estimating the LGD for those portfolio segments that, while falling within the scope of the IFRS 9 simulation, are not currently covered by the internal LGD models.

The Exposure at Default component is modelled using different methodological approaches depending on the segment to which the counterparties belong; in particular:

- for counterparties in the Retail segment, the EAD model developed by the Bank within the A-IRB framework and already validated is used;
- for counterparties in the Corporate segment, the EAD model developed by the Bank under A-IRB management is used;
- for counterparties not covered by the internal model, a standard CCF value is used.

Stage allocation

The standard requires the classification of all financial instruments subject to impairment into three different stages, considering the level of impairment of the exposure at the analysis date with respect to an initial recognition date:

- Stage 1: performing positions for which no significant increase in credit risk is found at the analysis date with respect to that at the date of initial recognition;
- Stage 2: performing positions for which a significant increase in credit risk is found with respect to that at the date of initial recognition;
- Stage 3: positions in default.

The principal innovation relates to the need, for financial instruments classified in stage 2, to calculate the expected loss over their entire residual lives, based on the increase in default risk with respect to that found on «initial recognition». The standard requires the change in credit risk to be assessed with reference to both qualitative and quantitative information.

For this purpose, the Bank has developed a series of methodologies for classifying the exposures to be analysed into the above stages that use both qualitative and quantitative information and approaches, as well as both absolute and relative staging criteria.

The following absolute criteria are considered for staging purposes:

- *Low Credit Risk Exemption*. Consistent with the rationale underlying the standard, which accepts the presumption that credit risk has not increased significantly since initial recognition if the risk level of the exposure is deemed to be «low», the Bank has identified the following types of transaction for which, given their nature, it is appropriate to make this election by classifying them automatically in stage 1: transactions with the Bank of Italy and central banks, repurchase agreements expiring within one month and sovereign securities whose issuers have an investment grade rating.
- Past due by 30 days. The standard makes explicit reference to the case in which a relationship is late in meeting its contractual obligations, as a possible indicator for classification in stage 2, given the deterioration of the relationship.
- State of forbearance. Forborne exposures comprise loans that have benefited from special concessions, marked by changes in the contractual conditions or refinancing arrangements, following a substantial change in economic condition that is considered somewhat compromised. The methodology defined by the Bank for determining stage allocation only considers that condition appropriate for classification in stage 2 in the case of Performing exposures.
- Purchased or originated credit-impaired (POCI) loans. These comprise all those positions defined as non-performing loans at the time of initial recognition, which are subject to specific regulations regarding the measurement of the credit risk. The methodology defined by the Bank for determining stage allocation only considers that condition appropriate for classification in stage 2 in the case of Performing exposures.
- Positions originated in the month prior to the reporting date. These are all those positions that originated or entered the portfolio in the month prior to the reporting date for which none of the absolute criteria entailing classification in Stage 02 exist, and which are therefore classified in Stage 01.

On the other hand, with regard to the use of relative staging criteria, the Bank has selected a metric based on the lifetime PD that, although requiring more effort to implement, allows the achievement of greater consistency with the rationale and requirements of the standard (in particular, the use of relative measurements for the assessment and adoption of a point-in-time logic). In particular, assessment of the change in creditworthiness of a generic position by comparing a suitable metric based on the lifetime PD – i.e. relating to the residual life of the relationship – determined at the reporting date, with the lifetime forward PD – i.e. relating to the same point in time – estimated with reference to the curve at the origination date of the position.

The above methodology therefore assumes the availability of a series of information and suitable methodologies for constructing lifetime cumulative PD curves, at both the reporting date and the origination date, for all counterparties included in the loan portfolio subject to the impairment calculations.

The lifetime PD curves to be used at the reporting date are calculated by applying non-homogeneous Markovian methodologies to transition matrices estimated using a frequency approach for different portfolio segments/clusters and subsequently rendered point in time and scenario dependent by applying econometric models based on a Merton-type methodological framework commonly found in the literature.

The lifetime PD curves at the origination date, on the other hand, are obtained using a simple Markovian methodology applied to transition matrices estimated over a long-term time horizon if it is prior to first-time adoption of the accounting standard, while for subsequent dates the lifetime PD curves calculated on that date are used.

The lifetime PD curves at the reporting and origination dates for positions associated with counterparties for which no internal rating is available, or that belong to segments not covered by internal models, are constructed using transition matrices estimated by external rating agencies (ECAI) and appropriately processed for banking counterparties for which an ECAI rating is available, applying an homogeneous Markovian methodology to obtain lifetime curves, and/or using internal new default rates analysed by portfolio cluster and macroclasses of creditworthiness in all other situations. More precisely, the internal new default rates are used to reconstruct a simplified transition dynamic that, together with the econometric models and the long-term convergence mechanisms described earlier, is used to obtain lifetime cumulated PD curves.

At the same time as selecting the stage allocation approach to use and specifying an appropriate metric, the Bank also devised and applied a series of analytical methodologies in order to first identify appropriate levels of detail for segmenting the loan portfolio and, subsequently, to calibrate the corresponding threshold levels for assigning a given position to either Stage 1 or Stage 2.

In general terms, the definition of different levels of detail for segmenting the loan portfolio and the calibration of the corresponding threshold levels involved the use of purely statistical or, more generally, data-driven techniques for the analyses of impact and sensitivity (using certain metrics of greatest interest to analyse the impact of applying a given set of thresholds defined for a specific level of detail and/or a specific change in them) and for benchmarking purposes (calculation and comparison of a set of metrics of interest deriving from the application of a given set of thresholds defined for a specific level of detail with the same quantities that would be obtained using alternative staging methodologies.

Based on the information obtained following the initial analyses carried out using the above methodologies, the Bank decided to calculate the writedowns using different thresholds for the following levels of detail:

- the portfolio covered by an internal model is segmented by operational macro-segment and rating class. In order to consider appropriately the flattening dynamics of the lifetime PD curve and their effect on the values of the metric, the above criteria were used to identify the segments in which that phenomenon is significant, for which the threshold levels were further differentiated with reference to the residual lives of the positions segmented into appropriate buckets.
- for portfolios not covered by an internal model, a distinction is made between banking counterparties, whose PD-based metric is estimated using lifetime PD curves generated by the ECAI transition matrices, applying the methodology described earlier, and other types of customer, whose PD-based metric is calculated with reference to the lifetime PD curves obtained via appropriate processing, in the manner described earlier, of the corresponding new default rates estimated internally, which are further segmented into appropriate macro-segments.

The threshold values for the various portfolio segments indicated above are, in the most general case, calibrated at the level of macro-segment, rating class and residual life of the position, taking as the threshold value that corresponding to the assigned percentile, taken from the metric, of the empirical observed distribution of the underlying estimation pool. This value is determined with reference to the percentage of positions in the segment analysed that, considering their trends over the observable period, have transitioned to lower classes of creditworthiness under a notching-down approach with variable scale; at this level it is possible to apply adjustments and corrections due to roundings, the application of prudential add-ons or consideration of the impact of the threshold values concerned on the final writedown calculations.

Modelling of the scenario-dependent component

One of the key points of the standard relates to the use of forecasts that contain forward-looking and, in particular, scenario-dependent elements. In order to guarantee maximum alignment with these requirements, the Bank has explicitly and specifically included that component in many aspects of the methodological framework; more precisely, modelling of the scenario-dependent component by the Bank involved the selection and definition of macroeconomic scenarios, their parametrisation in a suitable manner and the interpretation of their dynamics in order to identify scenario-dependent risk parameters and methods for calculating the ECL.

The Bank decided to adopt three different macro-scenarios that, as required by the standard, allow sufficiently detailed and precise forecasts to be made, having due regard for the size, structure and complexity of the Bank and its business:

- a baseline scenario, based on «central» trends in the macroeconomic variables with respect to the value observed when making the initial forecast that, generally, should therefore represent the outcome considered most likely;
- a moderately adverse scenario that, while undeniably representing an unfavourable but plausible development of the macroeconomic situation, should not normally result in conditions that are particularly stressed;
- a moderately favourable scenario that, conversely, should represent a positive but completely plausible development of the macroeconomic situation, based on the conditions observed at the time of the forecast.

The Bank has engaged an external supplier, with recognised expertise in the forecasting of scenarios and a consolidated reputation in Italy, to perform the related activities. This provider has already assisted the Bank for many years, supplying forecasts for macroeconomic, financial and banking variables, based on predictions or simulations of future events, that are used for strategic purposes and for the healthy and prudent management of the business.

Under standard market conditions, these macroeconomic forecasts are updated quarterly by the external supplier; however, they may be updated more frequently if the provider identifies atypical elements and/or particular turbulence affecting the general macroeconomic situation; this was the case in the current year, during which the crisis induced by the outbreak of the COVID-19 pandemic led to the release of various updates of the baseline scenario on an almost monthly basis.

The parametrisation of the above scenarios results in the supply, for each scenario considered, of hundreds of forecast variables of various types. These include quarterly forecasts covering strictly macroeconomic factors – such as Italian and EU GDP, the inflation rate, the unemployment rate, the level of Italian public debt – as well as strictly financial variables – mainly stock indices, money market and swap rates, the yields on government securities, the yield spreads on securities with different credit ratings, the prices of such commodities as gold and oil, the exchange rates between the Euro and other major currencies over a three-year time horizon.

In order to be considered properly within the multi-period ECL, the dynamics of the macroeconomic scenarios described above must be translated appropriately into scenario-dependent credit risk parameters, specifically PD and LGS, using the econometric models also mentioned above. The statistical relations on which these are based are differentiated at the level, respectively, of portfolio cluster and type of guarantee, making use of meaningful variables that statistical tests and economic intuition have identified as significant, plausible and representative.

The dynamics generated initially cover a three-year time horizon that, in order to cover the residual contractual lives of all positions in the portfolio, is then extended on a lifetime basis by developing geometric convergence dynamics driven by suitably calibrated parameters, considering the nature and severity of the scenarios modelled.

Notably, given the intrinsic risk associated with these forecasts and the potential bias that would derive from the blind adoption of estimates provided by a single research institution, however reliable and authoritative, the Bank has established a managerial «Scenarios Committee» that meets to:

- examine the results of the analyses carried out internally, in order to confirm – applying economic, financial, statistical and/or data-driven logic – the plausibility, quality and consistency of the scenarios and related «weighting factors», having regard for the benchmarking exercises carried out with alternative, reputable and independent providers;

- arrange for the communication and critical discussion of the forecasts within the organisation, in order to determine how well the wealth of information received fits with the sentiment of participants regarding the macroeconomic situation and the specific business conditions faced by the Bank, as well as to consider whether or not to include these expert-based elements in the macro-economic data used in the calculations.

Calculation of the multi-period, scenario-dependent ECL

The impairment for each position under a given scenario is calculated as the sum, discounted to present value at the measurement date, of the ECL determined by multiplying together the PD (scenario-dependent)and LGD (scenario-dependent) and the EAD associated with each contractual cash flow generated by the instrument over a time horizon that depends on the staging (i.e. positions classified in stage 1 are written down over a maximum of one year, while those classified in stage 2 are written down considering the entire residual duration of the contract).

Subsequently, these estimates are aggregated appropriately to obtain the best estimate of a final value that gives due weight to the likelihood of the various macro-economic scenarios considered. The aggregation mechanism used by the Bank in fact determines the weighted average of the various ECL, applying weighting factors linked to the probability of occurrence of each scenario.

The Bank basically uses a «hybrid» methodology to estimate these factors, balancing the results of a purely macro-economic and/or data-driven approach with considerations of a more qualitative and expert-based nature. This approach involves obtaining the estimated probability of occurrence of the scenarios presented by the provider, analysing their plausibility and using them as a starting point for formal discussion within the Bank (Scenarios Committee). This process, which also involves other persons drawn from different business functions, considers the results of the internal analyses carried out, reviews them critically and determines, if deemed appropriate, any adjustments or corrections to be made on the basis of judgemental and expert-based input.

IFRS 9 methodology for other portfolios

The write-downs required in accordance with the logic indicated in the new IFRS 9 are also calculated in relation to the securities portfolio, although it is less material than the loans portfolio discussed above.

In this case, the scope of the calculation includes the securities classified under the new C&M model as Held to Collect (which corresponds to the IAS «held to maturity» classification) and as Held to Collect & Sell (which corresponds to the IAS «available for sale» classification). The ECL must be calculated on the exposures classified in one of the above categories that have passed the solely payment of principal and interest (SPPI) test. In particular, the scope of application under the new C&M model comprises the securities measured at: amortised cost and at FVOCI.

The calculation framework is developed using methodological logic consistent with that described above, with a number of differences (e.g. estimation of the term structures of risk parameters and their segmentation, statistical and econometric models and micro-factors used as predictors) made necessary by the different type and risk profile of the positions included in the portfolio.

Lastly, with regard to subsidiaries, the models developed to calculate writedowns applied logic that, while consistent with the methodological framework developed by the Parent Company to comply with the key aspects of the new standard (e.g. estimation of risk parameters over long-term time horizons considering different scenarios, with writedown time horizon dependent on the staging of the position), takes account of their specific characteristics, such as the geographical and economic context in which they operate, the nature and level of diversification of their core businesses, and the complexity and scale of their control structures.

Amendments due to COVID-19

In order to adequately incorporate in the quantification of its provisions the effects of the crisis induced by the COVID-19 pandemic and the consequent uncertainty about how the general macro-economic context might evolve, the Bank introduced a series of evolutionary specifications into its methodological framework.

More precisely, during the year, steps were taken:

- for the maintenance and refinement of the so-called managerial overlays applied to the model-based ECL values at the level of the individual position and differentiated on the basis of information at geo-sector level and the duration of the residual contractual life of the individual position, aimed at aligning the overall level of coverage to a level considered adequate in light of the riskiness – current and prospective – of the portfolio, in order to avoid the so-called cliff effect and at the same time take into account the intrinsically asymmetrical nature of the crisis observed among the various economic sectors and national geographical areas; to this is added a further prudential add-on in consideration of the current persistence of the general context of uncertainty;
- for the updating, within the counterparties that have submitted a moratorium request, of a list of high risk positions (the so-called high risk moratorium) for which a prudential classification was made in Stage 02, based on their profile of current and prospective risk. This intervention therefore constitutes to all intents and purposes a further absolute criterion of Covid specific staging than those already present in the pre-pandemic context;
- for the modelling of forward-looking information (FLI). In this context, of importance is the so called «anchor point» provided in the suite of statistical-econometric models used to estimate the lifetime PD curves as well as the revision of the sensitivity coefficients to the macro-economic factors that determine the dependence of the LGD parameter from a forward-looking and scenario-dependent viewpoint;
- to maintain the already existing monitoring of the macro-economic scenarios used in calculating the write-downs, taking care to significantly increase both the frequency of performance and the level of detail of the activities of analysis of the macro-forecasts, periodic recognition of alternative sources (e.g. Bankit, ECB, Istat, European Commission, IMF) and benchmarking as well as their reporting and discussion both through the release of internal information (e.g. dashboards addressed to top management) and discussion in dedicated management committees;
- for the direct and constant involvement of senior management in relation to the parametrisation of the scenario-dependency components and their effects in the quantification of the collective write-downs, as well as in the calibration activities of the previously mentioned managerial overlays in order to obtain a level of overall collective write-downs;
- for the incorporation of geo-sector differentiations and government interventions to support the economy in the modelling of credit risk parameters (PD and LGD).

ECL sensitivity analyses

Generally speaking, macro-economic scenarios contain forecasts for the evolutionary dynamics of dozens of macro-economic variables, developed over multi-year time horizons and updated on a generally quarterly basis in market conditions considered standard[1] eand are made the object of specific analysis, discussion and approval in dedicated management committees. The scenarios examined address different degrees of adverse/favourable conditions affecting the overall macro-economic situation.

The estimation of write-downs generally considers a baseline scenario that applies «central» trends to the macroeconomic variables, with respect to their initial values at the time of the estimate, in order to derive an overall most likely outcome; in addition, two «alternative» scenarios are considered – «adverse» and «favourable» – that address outcomes

1. These estimates are, however, subject to ad-hoc updates should the provider identify elements of atypicality and/or particular turbulence in the general macroeconomic context.

deemed somewhat plausible and not extreme in the macroeconomic context identified. The importance of the above scenarios in the final determination of the write-downs is defined using an appropriate set of weighting coefficients that, in general, reflect the estimated severity assigned to each scenario by the external provider, as adjusted after specific internal analysis and processing.

The recently concluded accounting period was characterised by a general, progressive and significant improvement in forecasts regarding economic developments – in which the actual and forecast values of many factors recorded a «rebound» after the unprecedented downturn that occurred during 2020, which has not yet allowed the economy to reach pre-pandemic levels – which was accompanied by a simultaneous significant reduction in the dispersion observed in the macro-economic forecasts of the main national and international research institutes compared to the previous year. In order to ensure optimal monitoring of these aspects given the particular importance they have acquired in light of the pandemic context, the Bank has maintained its specific oversight in this area, as well as its analysis, benchmarking and use of nearly monthly updates issued released by the supplier with specific reference to the baseline scenario developed in the last official forecast report.

In this regard, it should be noted that, when calculating write-downs at the end of December 2021, the Parent Company adopted the following three different macro-scenarios and their respective weightings:

- a baseline scenario, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 55% is attributed;
- a (slightly) adverse scenario, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 25% is attributed;
- a (slightly) favourable scenario, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 20% is attributed.

Finally, with regard to the weighting with which the above-mentioned scenarios contribute to the final calculation of the write-downs, the baseline scenario – which, in accordance with its name, represents the evolution of the macro-economic context considered most plausible and likely at the time of formulating the forecasts – is assigned the highest probability coefficient, while the so-called alternative scenarios, due to their «residual» nature, are assigned lower weighting factors that are substantially comparable.

Table 1 shows the evolutionary dynamics of the main macro-economic variables for each of the above scenarios with reference to a three-year forecast horizon.

Table 1 - Annual forecasts for the main macro-economic variables

	Base Scen. Dec. 2021			Adv. Scen. Dec. 2021			Fav. Scen. Dec. 2021		
Macro-economic variable	2022	2023	2024	2022	2023	2024	2022	2023	2024
Italy's GDP (% on an annual basis)	4.0%	2.8%	2.0%	2.4%	1.9%	1.5%	5.8%	3.5%	2.4%
Italy's unemployment	9.6%	9.5%	8.7%	10.9%	11.7%	11.7%	9.8%	8.7%	6.9%
Italy's inflation (% on an annual basis)	1.9%	1.4%	1.7%	1.6%	1.0%	1.4%	1.7%	1.6%	1.9%
Italy's equity index (% on an annual basis)	10.4%	12.1%	7.4%	-7.8%	2.6%	8.5%	23.6%	11.6%	11.0%
10-year BTP interest rate (%)	1.13	1.44	1.76	1.10	1.59	1.91	1.02	1.20	1.45
Italian residential property price index (% on annual basis)	1.7%	2.0%	1.9%	0.6%	0.4%	0.6%	2.0%	2.8%	3.0%
Euro/dollar exchange rate	1.16	1.17	1.18	1.18	1.19	1.19	1.18	1.19	1.19
Brent oil: $ per barrel	78	75	74	75	67	66	70	67	66
Euribor 3 months	-0.5%	-0.2%	0.1%	-0.5%	-0.4%	-0.2%	-0.5%	-0.2%	0.1%

For further information on the inclusion of the so-called forward-looking information (FLI) in the impairment model, reference should be made to the preceding paragraphs.

In order to quantify the variability to which the final write-downs are subject, given all the scenario-dependent factors considered explicitly in its methodological framework, the Bank has also carried out specific sensitivity analyses in accordance with sector best practices and the most recent recommendations of the Supervisory Authorities. The results of these analyses are presented in the following tables.

In particular, Table 2 analyses by operational macro-segment and stage the different levels of write-down corresponding to the three scenarios identified – baseline, favourable and adverse – used to calculate the official amount, as well as the weighted outcome determined after applying the probabilities indicated above.

Table 2 - Write-downs [in €/million] at 31 December 2021 of the performing loans of the Parent Company associated with different macroeconomic scenarios

Management macro-segment	Stage	Fav. scen.	Base scen.	Adv. scen.	Weight. scen.
Corporate & Large Corporate	Stage 01	19.7	19.6	19.7	19.7
	Stage 02	30.8	30.7	31.4	30.9
	Total	**50.5**	**50.3**	**51.1**	**50.6**
Small Business	Stage 01	6.5	6.5	6.5	6.5
	Stage 02	13.9	13.9	14.2	14.0
	Total	**20.4**	**20.4**	**20.7**	**20.5**
Small Economic Operators	Stage 01	3.6	3.6	3.6	3.6
	Stage 02	9.5	9.7	10.0	9.7
	Total	**13.1**	**13.3**	**13.6**	**13.3**
Individuals	Stage 01	4.5	4.5	4.5	4.5
	Stage 02	10.4	10.4	10.8	10.5
	Total	**14.9**	**14.9**	**15.3**	**15.0**
Other	Stage 01	23.3	23.3	23.3	23.3
	Stage 02	0.6	0.6	0.6	0.6
	Total	**23.9**	**23.9**	**23.9**	**23.9**
Total	Stage 01	57.6	57.6	57.6	57.6
	Stage 02	65.1	65.3	67.0	65.7
	Total	**122.7**	**122.9**	**124.6**	**123.3**

Dually, Table 3 provides a representation of the value of devaluations that would be obtained in correspondence of four different choices of probabilistic coefficients[2] regarding the official one adopted.

2. The values of the weighting factors for the baseline, adverse, and favourable scenarios are 75%-15%-10% (alternative weighted scenario 1), 35%-35%-30% (alternative weighted scenario 2), 55%-35%-10% (alternative weighted scenario 3), and 55%-15%-30% (alternative weighted scenario 4), respectively

Table 3 - Write-downs [in €/million] at 31 December 2021 of the Parent Company's performing loans associated with different weightings of the macro-economic scenarios

Management macro-segment	Stage	Weight. scen. 1	Weight. scen. 2	Weight. scen. 3	Weight. scen. 4
Corporate & Large Corporate	Stage 01	19.6	19.7	19.7	19.7
	Stage 02	30.8	31.0	31.0	30.8
	Total	**50.4**	**50.7**	**50.7**	**50.5**
Small Business	Stage 01	6.5	6.5	6.5	6.5
	Stage 02	13.9	14.0	14.0	13.9
	Total	**20.4**	**20.5**	**20.5**	**20.4**
Small Economic Operators	Stage 01	3.6	3.6	3.6	3.6
	Stage 02	9.7	9.7	9.8	9.7
	Total	**13.3**	**13.3**	**13.4**	**13.3**
Individuals	Stage 01	4.5	4.5	4.5	4.5
	Stage 02	10.5	10.6	10.6	10.5
	Total	**15.0**	**15.1**	**15.1**	**15.0**
Other	Stage 01	23.3	23.3	23.3	23.3
	Stage 02	0.6	0.6	0.6	0.6
	Total	**23.9**	**23.9**	**23.9**	**23.9**
Total	Stage 01	57.6	57.6	57.6	57.6
	Stage 02	65.6	65.8	65.9	65.5
	Total	**123.2**	**123.4**	**123.5**	**123.1**

Lastly, Table 4, Table 5 and Table 6 show the different levels of collective write-downs corresponding to the baseline, adverse and favourable scenarios respectively, in the event that their parameters were used not only to calculate the ECL, but also in the stage allocation.

Table 4 - Write-downs [in €/million] at 31 December 2021 for the performing positions of the Parent Company's loan portfolio if the parameters of the baseline scenario were used both to calculate the ECL and for the stage allocation

Operational macro-segment	Stage_base	Nr. Pos	EAD	Nr. Pos%	EAD%	Baseline ECL
Corporate & Large Corporate	Stage 01	39,873	13,782.7	94.0%	92.1%	19.7
	Stage 02	2,545	1,175.8	6.0%	7.9%	30.5
	Total	**42,418**	**14,958.5**	**17.6%**	**50.4%**	**50.3**
Small Business	Stage 01	47,648	2,411.5	90.2%	84.1%	6.5
	Stage 02	5,148	457.3	9.8%	15.9%	13.9
	Total	**52,796**	**2,868.8**	**21.9%**	**9.7%**	**20.4**
Small Economic Operators	Stage 01	55,035	2,183.0	92.0%	89.5%	3.6
	Stage 02	4,802	256.7	8.0%	10.5%	9.7
	Total	**59,837**	**2,439.7**	**24.9%**	**8.2%**	**13.3**
Individuals	Stage 01	78,468	4,012.4	94.1%	93.0%	4.5
	Stage 02	4,926	303.4	5.9%	7.0%	10.4
	Total	**83,394**	**4,315.8**	**34.7%**	**14.5%**	**14.9**
Other	Stage 01	2,171	5,061.0	97.8%	99.1%	23.3
	Stage 02	48	43.7	2.2%	0.9%	0.6
	Total	**2,219**	**5,104.7**	**0.9%**	**17.2%**	**23.9**
Total	Stage 01	223,195	27,450.6	92.7%	92.5%	57.7
	Stage 02	17,469	2,236.9	7.3%	7.5%	65.1
	Total	**240,664**	**29,687.5**	**100.0%**	**100.0%**	**122.8**

Table 5 - Write-downs [in €/million] at 31 December 2021 for the performing positions of the Parent Company's loan portfolio if the parameters of the adverse scenario were used both to calculate the ECL and for the stage allocation

Operational macro-segment	Stage_adv	Nr. Pos	EAD	Nr. Pos%	EAD%	ECL adv.
Corporate & Large Corporate	Stage 01	39,825	13,748.1	93.9%	91.9%	19.7
	Stage 02	2,593	1,210.5	6.1%	8.1%	31.9
	Total	**42,418**	**14,958.6**	**17.6%**	**50.4%**	**51.6**
Small Business	Stage 01	47,467	2,393.1	89.9%	83.4%	6.4
	Stage 02	5,329	475.7	10.1%	16.6%	14.6
	Total	**52,796**	**2,868.8**	**21.9%**	**9.7%**	**21.0**
Small Economic Operators	Stage 01	54,623	2,151.1	91.3%	88.2%	3.5
	Stage 02	5,214	288.6	8.7%	11.8%	10.7
	Total	**59,837**	**2,439.7**	**24.9%**	**8.2%**	**14.2**
Individuals	Stage 01	78,041	3,978.1	93.6%	92.2%	4.5
	Stage 02	5,353	337.7	6.4%	7.8%	11.4
	Total	**83,394**	**4,315.8**	**34.7%**	**14.5%**	**15.8**
Other	Stage 01	2,171	5,061.0	97.8%	99.1%	23.3
	Stage 02	48	43.7	2.2%	0.9%	0.6
	Total	**2,219**	**5,104.7**	**0.9%**	**17.2%**	**23.9**
Total	Stage 01	222,127	27,331.4	92.3%	92.1%	57.4
	Stage 02	18,537	2,356.2	7.7%	7.9%	69.1
	Total	**240,664**	**29,687.6**	**100.0%**	**100.0%**	**126.5**

Table 6 - Write-downs [in €/million] at 31 December 2021 for the performing positions of the Parent Company's loan portfolio if the parameters of the favourable scenario were used both to calculate the ECL and for the stage allocation

Operational macro-segment	Stage_fav	Nr. Pos	EAD	Nr. Pos%	EAD%	ECL fav.
Corporate & Large Corporate	Stage 01	39,871	13,810.4	94.0%	92.3%	20.1
	Stage 02	2,547	1,148.2	6.0%	7.7%	29.7
	Total	**42,418**	**14,958.6**	**17.6%**	**50.4%**	**49.8**
Small Business	Stage 01	47,671	2,416.4	90.3%	84.2%	6.5
	Stage 02	5,125	452.4	9.7%	15.8%	13.8
	Total	**52,796**	**2,868.8**	**21.9%**	**9.7%**	**20.3**
Small Economic Operators	Stage 01	55,243	2,196.5	92.3%	90.0%	3.7
	Stage 02	4,594	243.2	7.7%	10.0%	9.1
	Total	**59,837**	**2,439.7**	**24.9%**	**8.2%**	**12.8**
Individuals	Stage 01	78,399	4,012.5	94.0%	93.0%	4.6
	Stage 02	4,995	303.3	6.0%	7.0%	10.3
	Total	**83,394**	**4,315.8**	**34.7%**	**14.5%**	**14.8**
Other	Stage 01	2,171	5,061.0	97.8%	99.1%	23.3
	Stage 02	48	43.7	2.2%	0.9%	0.6
	Total	**2,219**	**5,104.7**	**0.9%**	**17.2%**	**23.8**
Total	Stage 01	223,355	27,496.7	92.8%	92.6%	58.1
	Stage 02	17,309	2,190.8	7.2%	7.4%	63.4
	Total	**240,664**	**29,687.5**	**100.0%**	**100.0%**	**121.5**

See «Part A – Accounting policies» for information about the determination of expected losses on stage 3 exposures i.e. non-performing loans. More specifically, the expected losses on non-performing loans at 31 December 2021 are determined analytically with reference to expected recoveries, which are discounted using the original effective interest rates over the collection period. Given that the expected recoveries are determined with reference to the specific circumstances of each debtor, it is not considered meaningful to analyse the sensitivity of the ECL identified.

2.4 Credit risk mitigation techniques

In order to mitigate credit risk, the guarantees typical of banking activities are acquired: mainly of a real nature, on real estate and financial instruments, and of a personal nature. The latter, represented above all by limited generic sureties, are almost entirely issued by private individuals and manufacturing companies whose creditworthiness, subject to specific assessment, is considered adequate. Clearly it is fundamental with regard to unsecured guarantees to check the quality of the guarantor's assets. This analysis is not limited to the initial phase of the relationship but is repeated over the life of the relationship. If the guarantor is found to be economically unsuitable, the Bank reviews the relationship in order to verify the continued reliability of the borrowing counterparty.

The presence of guarantees is taken into consideration when weighting the overall credit lines to be granted to a customer or to the legal or economic group to which it might belong.

The estimated value of the security offered by counterparties is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments).

With regard to mortgage guarantees, the bank adopts reliable principles and standards for the valuation of properties in order to obtain realistic and detailed estimates of the value of the assets as collateral. The Bank has also a procedure that is able to ensure efficient management and timely assessment of properties that are subject to real encumbrances, by taking a census of the assets and filing the expert appraisals in a specific IT application. Moreover, residential and commercial/instrumental buildings are assessed at least once a year, partly with a view to complying with the supervisory instructions. Property must meet specific requirements in order to mitigate lending risk (value of the property independent of the creditworthiness of the counterparty, loan repayments independent of cash flows deriving from the asset, and residential property used directly or rented). These requirements are checked by the branches and the electronic credit application is processed for subsequent checks by the investigation office and the approval committees.

The value of security given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, to report the situation to the account managers on a timely basis.

The Bank is not party to settlement agreements regarding on- and «off-balance sheet» transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future.

At this time, there are no contractual restrictions threatening the legal validity of guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis.

3 Non-performing exposures

3.1 Strategies and operational policies

Credit risk management is carried out during all stages of lending by means of effective surveillance and monitoring, so that timely assessments can be made as soon as any anomalies arise.

Loans for which there are particularly serious signs of stress are classified as «non-performing» (Non-Performing Exposures).

As of 1 January 2021, the new European rules on the classification of counterparties to default for prudential purposes apply. The new discipline, introduced by the European Banking Authority (EBA) and implemented at national level by the Bank of Italy, establishes more restrictive criteria and methods for classifying a credit exposure as default compared to those adopted to date by Italian intermediaries, with the aim of harmonising the approaches for applying the notion of insolvency and identifying the conditions of unlikely fulfilment among financial institutions and the various jurisdictions of EU countries. On the basis of the regulatory framework in force, the Bank classifies non-performing exposures, depending on the type and severity of the impairment, into three categories, corresponding to the same number of administrative statuses of the loan:

- Past due and/or overdrawn non-performing exposures;
- Unlikely to pay;
- Bad loans.

Loans are classified as past due and/or overdrawn non-performing exposures when the following conditions are met:

- the customer has a past due and/or overdue portion of the entire exposure at the reporting date at the banking group level that exceeds both of the following materiality thresholds:
  - Relative materiality threshold: the relative component is represented by a percentage calculated as the ratio between the amount of the credit obligation in arrears and the total amount of all exposures to the same debtor recorded on the institution's financial statements; this threshold is set at one percent (1%) for both retail and non-retail exposures;
  - Absolute Materiality Threshold: the absolute component is the maximum amount that the sum of all overdue amounts owed by a debtor to the institution can reach; the maximum amount does not exceed 100 euro for retail exposures or 500 euro for non-retail exposures.
- Customer evidences past due or overdrawn amounts of credit as per previous point for 90 days continuously.

Unlikely to pay (UTP) include credit exposures for which the Bank considers it unlikely that the debtor will fulfil its obligations in full, in terms of principal and/or interest, without actions being taken to preserve the credit reasons such as, for example, the enforcement of accessory guarantees.

Finally, bad loans include on- and off-balance sheet exposures to subjects in a state of insolvency (not necessarily ascertained in court) or in substantially comparable situations, regardless of any loss forecasts. Accordingly, no account is taken of any guarantees received in support of such exposures.

The loans not allocated to the above categories are deemed to be performing exposures.

Loans are classified as non-performing exposures, depending on the case, either automatically or on the basis of expert proposals and assessments.

More specifically, the classification of impaired past-due and/or overdue exposures takes place automatically when the conditions provided for by the regulations occur. The classification as unlikely to pay (UTP), on the other hand, is based on a system of triggers which may, depending on the case, generate an automatic classification or an assessment by the reference manager. Finally, the classification as non-performing takes place on the proposal of the manager, as part of the continuous monitoring of the counterparty.

The return to performing status of non-performing exposures, governed by the Supervisory Authority as well as by specific internal regulations, takes place after verification that the critical conditions and the state of insolvency have ceased to exist

The management of «non-performing» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are:

- non-performing loans, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;

- for unlikely to pay loans, an assessment is made of the probability that the debtor will meet its contractual obligations in full, in order to re-establish the original conditions of reliability and profitability of the relationship, or, if this is impossible, steps are taken to transfer the position to the non-performing category. For unlikely to pay loans subject to restructuring agreements, checks are made continuously to ensure that the agreed conditions are met;
- past due and/or impaired overdrawn exposures are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to unlikely-to-pay or non-performing, depending on the circumstances.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. In particular, having regard for bad loans and unlikely-to-pay loans, the bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery.

Overall assessments are made solely with regard to smaller individual loans, being not more than 10,000 euro for bad loans and 350,000 euro for unlikely-to-pay loans. The objective is to adopt a prudent approach to the control of these non-performing assets that, given their intrinsic characteristics (large number of not significant amounts), can be processed rapidly and at low cost on primarily an automated basis, thus ensuring the uniformity of the assessments made.

With reference to non-performing past due and/or overdrawn exposures, the adjustment is determined with reference to the historical experience of losses on loans with that type of anomaly.

For the purposes of managing non-performing loans and the possible impacts arising from the application of the «Addendum to the ECB Guidelines for Banks on Impaired Loans (NPL): supervisory expectations regarding prudential provisions for non-performing exposures», the Bank carried out an update of the NPL strategy over the 2022-2024 horizon envisaging the combined use of ordinary and extraordinary initiatives. The combination of the above-mentioned levers will also allow for the early management of the economic and equity effects (shortfall) deriving from the application of the «calendar mechanisms».

For the sake of prudence, the Group deemed it appropriate to bring forward to 2021 the economic effects estimated for 2022 in the aforementioned strategy.

See section 2.2 above for information about the operating policies adopted with regard to non-performing loans.

3.2 Write-off

The gross carrying amount of a financial asset is written off if the amount is confirmed to be unrecoverable or there are no realistic prospects of recovery.

The timely assessment of non-recoverability is based on certain criteria, such as the inability to enforce mortgage or personal guarantees, the unsuccessful completion of enforcement/court-supervised proceedings, the start of bankruptcy procedures, removal from the register of the business name of the debtor legal entity, the lack of traceability or advanced age of the customer.

The procedure to identify the absence of any reasonable prospects of recovery is focused on the counterparties within the portfolios of non-performing loans and differs depending on the existence or otherwise of mortgage guarantees, the ageing of the position and the progress made with recovery actions and the economic convenience associated with it, the inclusion of a position within a portfolio being sold and the risk of forfeiture of credit rights. During the year, write-offs were made for a total amount of 69 million euro (no partial write-offs were made).

3.3 Financial assets impaired purchased or originated

The category of financial assets impaired purchased or originated (POCI) includes all purchased or originated financial instruments that, already on initial recognition, are found to be credit-impaired.

The accounting rules for POCI apply to the financial instruments classified in asset line item 30. «Financial assets measured at fair value through other comprehensive income» or 40. «Financial assets measured at amortised cost», or to the financial instruments that have passed the SPPI (SPPI – Solely Payments of Principal and Interests) test with reference to the business models whose objective is to hold financial assets representing the right to collect contractual cash flows (HTC – «held to collect») or to both hold and sell them (HTCS – «held to collect and sell»). The «POCI» attribute remains assigned for the entire duration of the relationship and the assets concerned are written down to reflect any losses expected over their residual lifetime.

There are two categories of product associated with POCI financial instruments arising from the granting of finance:

- standard products with instalment repayment plans: in this case, the DelFiWeb procedure recognises the creation of the new relationship that passes the SPPI test, but with an impaired counterparty and automatically assigns the «POCI» attribute for approval by the competent decision-making body;
- standard products managed in the «Current Accounts» and «Foreign» compartments and non-standard contracts originating from Corporate Finance: for these relationships, the unit responsible for monitoring and managing anomalous credit manually proposes the assignment of the «POCI» attribute, which will be subject to approval by the competent body.

Regardless of how assigned (manual or automatic), the «POCI» attribute must always be confirmed by the competent decision-making body and, once approved, remains valid for the entire duration of the relationship.

4. Financial assets subject to commercial renegotiation and exposures subject to forbearance

Financial assets subject to commercial renegotiation

This category includes those renegotiations that envisage changes for commercial reasons to the original contractual conditions governing credit exposures to counterparties that are not in financial difficulty. These changes therefore differ from forbearance and are made to align interest levels with current market conditions.

In addition, commercial renegotiations include changes to the economic conditions applied to newly-arranged credit relationships, being those established for not more than 6 months.

Commercial renegotiations are principally agreed in order to maintain the commercial relationship with the customer (retention of existing loans).

In a market context characterised by low rates, not least in view of the strategies adopted by competitors in the Italian banking systems, especially with regard to lending to businesses and households, the Bank has received many requests to review the economic conditions applied. These are considered with reference to the rating of the counterparty and its prospective profitability, with a view to maintaining and developing the relationship and, therefore, retaining the lending business.

By contrast with the forbearance measures, the renegotiations for commercial reasons relate to debtors without financial difficulties and include all operations designed to align their cost of borrowing with market conditions. Commercial renegotiations involve changing the original contractual conditions at the request of the debtor, considering the cost of borrowing or the duration of the loan, with a resulting benefit for the customer. In general, whenever the Bank agrees to renegotiate in order to avoid losing the customer, the transaction is considered substantial because, in its absence, the customer would obtain funding from other sources and the Bank would the expected future revenue streams. These transactions are comparable with early repayment of the original debt and opening a new contract.

Exposures subject to forbearance

The Bank treats as forbearance the concessions granted in relation to any exposure – loans, debt securities, revocable and irrevocable commitments to grant loans (excluding the exposures held for trading) – towards debtors that are, or are about to be, in difficulty with regard to their financial commitments (financial difficulties).

A concession is made when the amended contractual conditions are more favourable to the debtor than those applied previously. Consistent with the relevant current regulations, the Bank identifies a series of standardised concessions, distinguishing between short and medium/long-term measures, and periodically monitors their effectiveness in terms of bringing the exposures back into line.

For a relationship to be classified as «forborne», the concession must be agreed in relation to a customer that is experiencing financial difficulties. This situation is objectively verified in the case of a counterparty classified as «non-performing» while it is presumed, and must therefore be assessed following in-depth analyses, in the case of customers in a «performing» state that has a rating at the counterparty level that is identifying a high level of risk, which has expired or would have expired for at least 30 days during the three months prior to the contractual amendment or which has had a deterioration in the internal rating that identifies a rapid increase in risk. During 2021, the presumptive hardship criteria temporarily introduced for the duration of the pandemic by Covid-19 designed to identify locations potentially impacted by the public health emergency were further identified.

In order to guarantee the quality of credit exposures and monitor their trends effectively, the Bank applies «industrialised» internal processes designed to identify the most suitable concessions for debtors experiencing financial difficulties, as well as to manage the forborne classification of the related exposures.

When a concession is requested, the Operating Unit responsible for the loan determines the most suitable and sustainable measure for the customer, with support from dedicated tools that provide guidance.

As part of this process, the Unit must assess the nature of the financial difficulties (short or long term) and ensure that the expected duration of the concession is consistent with the nature of the related relationship.

Subsequently, the economic sustainability of the measure is analysed with respect to the financial situation of the customer; in particular, the adequacy of the assets of the customer is analysed on a current and prospective basis, considering the need for credibility and prudence.

On arrangement of the concession, dedicated IT procedures check if the conditions exist for classifying the relationship as «forborne» and, if they do, propose the assignment of this attribute to the competent Operating Unit. Any exceptions made to this classification must be supported by adequate reasons.

Following approval of the concession and the proposed «forborne» classification by the competent decision-making body, specific objectives and deadlines are added to the loan contract, with which the customer must comply when repaying the debt.

These supplementary conditions are determined using prudent criteria and checked as part of the more general monitoring of the position.

The gross exposure associated with «forborne» positions at 31 December 2021 totals 1,500 million euro, as analysed in the following table:

Gross balances at 31/12/2021 €/000	Retail Secured	Retail Unsecured	Corporate Secured	Corporate Unsecured	Large Corporate	Other	Total
Performing «forborne» – First year of probation period	183,297	42,243	159,403	62,859	45,790	19,910	513,502
Performing «forborne» – Second year of probation period	47,457	8,284	82,136	7,869	6,603	–	152,349
Non-performing «forborne»	243,300	83,936	334,968	158,268	13,781	296	834,549
Total	**474,054**	**134,463**	**576,507**	**228,996**	**66,174**	**20,206**	**1,500,400**

Of this amount, about 379 million euro relates to concessions granted during 2021: 71% «performing» and 29% «non-performing» relationships. During the year, about 7% of the opening «non-performing forborne» balance have been cured, while 36% of the opening «performing forborne» balance became «fully performing» and no longer classified as forborne.

The stock of forbearance measures associated with customers classified as «performing» at the beginning of 2021 which was classified among credit-impaired assets during the year comes to approximately 10% of the gross exposure.

In the event of non-substantial changes to a position, IFRS 9 requires the resulting gain or loss to be determined. A change is deemed non-substantial when it does not result in closure of the pre-existing relationship and/or involve the addition of clauses that might cause the relationship to fail the SPPI test.

The profit or loss on non-substantial changes to forborne relationships is calculated as the difference between the present value of the new contractual cash flows following renegotiation or amendment, discounted using the original effective interest rate (rate before the renegotiation or amendment of the loan contract), and the present value of the original contractual cash flows, also discounted using the original effective interest rate.

Furthermore, in compliance with the «Guidelines on the application of the definition of default pursuant to article 178 of Regulation (EU) no. 575/2013», this calculation (Delta Net Present Value) is performed in the presence of a position that is the subject of a grant measure. In accordance with regulatory requirements, where the NPV delta is greater than 1%, the company is identified as being in financial difficulty and classified as being in default.

The forbearance measures granted during the year resulted in net amendment losses of about 6.1 million euro being charged to the income statement. These losses reduced the carrying amount of the gross exposure and, therefore, the expected future losses.

All performing «forborne» positions are classified in stage 2 and the related adjustments are stated at an amount equal to the lifetime losses expected on the loan. The reduction in credit risk and the allocation of the relationship to stage 1 reflects loss of the «forborne» attribute.

Contractual amendments resulting from COVID-19

With specific reference to the contractual amendments resulting from COVID-19, the requests for payment extensions, received following the measures implemented by the government to deal with the COVID-19 pandemic in support of the economy, were managed according to the company's procedures already in place and reported previously. So, in the presence of financial difficulty, the accounting treatment of the amendment was applied. If the condition is not the same, it is assumed that the amendment to the original conditions of the contract regards aspects linked to the onerousness of the debt or its duration.

The impact of these amendments on the income statement was negative and amounted to approximately 0.51 million euro.

5. Impacts resulting from the COVID-19 pandemic

With reference to credit risk, Banca Popolare di Sondrio has welcomed all of the initiatives implemented by the Government and the EU to support customers during this period and reduce the negative effects of the crisis as much as possible. All concessions are defined to respond to the disadvantage deriving from the temporary slowdown in the economic cycle and the related impacts on liquidity. The potential impact on the Bank's risk profile is mitigated:

- with the acquisition of public guarantees in line with the mechanisms put in place by the various governments;
- with an ex ante/ex post assessment of the customer's risk profile.

Banca Popolare di Sondrio has established guidelines (GLs) for the disbursement, monitoring and management of moratoria, in order to identify promptly any potential signs of deterioration in asset quality. With specific reference to the moratorium measures and in order to limit the effects of the restrictions introduced to contain the Covid-19 pandemic, the Bank has made available to customers a series of initiatives that generally allow the deferral of instalment payments and an extension of the residual duration of credit exposures.

Specific rating guidelines were also introduced with a request to adopt a prospective approach with the aim of avoiding significant macro-economic variations in the future.

During 2021, most of the moratoria linked to Covid-19 expired naturally; at 31 December 2021, there was 80 million of exposure related to transactions with Covid-19 moratoria still active. For the most significant positions still in place, the Bank conducted an activity aimed at assessing the adequacy of the borrower's cash and cash equivalents and the consequent prospective ability of the same to generate cash flows to support the debt. The positions for which signs of anomaly were found were, prudently, classified as stage 2 together with those of smaller amounts for which the single file analysis was not carried out. The amount of exposure to relationships with active stage 2 moratoria at the end of the year was 62 million (or 77.5% of total active moratoria).

With reference to positions with expired moratoria, a regular resumption of payments was observed; the exposure of relations with irregularities after the end of the suspension is equal to 2.2% of the total of relations with expired moratoria.

In addition to the above activity, the risk control function carried out specific second-level controls to ensure effective monitoring of the risk related to the Covid-19 moratoria and the repercussions on the processes of reclassification and prudential provisions.

The following table shows the volume of loans subject to government guarantees originated by the Bank at 31 December 2021.

	Gross carrying amount (millions of €)	Net carrying amount (millions of €)
Loans subject to government guarantees	2,570	2,559

On the subject of a significant increase in credit risk (SICR), the authorities have specified that the IFRS 9 rules must not be applied mechanically, but that the assessment of SICR should differentiate debtors whose credit quality is significantly affected by the current situation in the long term, from those who will probably restore their creditworthiness, also considering the mitigating interventions in the form of government guarantees. In other words, the moratoria granted would not necessarily entail a reclassification of the loans involved to Stage 2.

It should be noted that, where necessary, the 2020 data in the following quantitative tables have been made homogeneous following the 7th update of Bank of Italy Circular 262/2005.

QUANTITATIVE INFORMATION

A. Loan quality

A.1 Performing and impaired

A.1.1 Distribution of financial assets by portfolio and quality of lending (carrying)

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Non-performing past due exposures	Performing past due exposures	Other performing exposures	**Total**
1. Financial assets measured at amortised cost	188,922	551,692	16,478	349,392	37,141,311	38,247,795
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	3,001,447	3,001,447
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	17,962	1,153	10,902	406,746	436,763
5. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2021	**188,922**	**569,654**	**17,631**	**360,294**	**40,549,504**	**41,686,005**
Total 31/12/2020	**342,053**	**675,195**	**14,670**	**61,593**	**36,948,532**	**38,042,043**

The word exposures is understood as excluding equity securities and mutual funds.

A.1.2 Distribution of financial assets by portfolio and asset quality (gross and net values)

Portfolio/quality	Non-performing				Performing			Total net exposure
	Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	
1. Financial assets measured at amortised cost	1,741,702	984,610	757,092	103,823	37,604,127	113,424	37,490,703	38,247,795
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	3,002,405	958	3,001,447	3,001,447
3. Financial assets designated at fair	–	–	–	–	–	–	–	-
4. Other financial assets mandatorily measured at fair value	31,526	12,411	19,115	–	–	–	417,648	436,763
5. Financial assets being sold	–	–	–	–	–	–	–	-
Total 31/12/2021	**1,773,228**	**997,021**	**776,207**	**103,823**	**40,606,532**	**114,382**	**40,909,798**	**41,686,005**
Total 31/12/2020	**2,184,713**	**1,152,795**	**1,031,918**	**145,738**	**36,826,559**	**174,776**	**37,010,125**	**38,042,043**

* Amount to be shown for information purposes

The gross carrying amount of financial assets measured at fair value at year end includes the credit risk component.

Partial write-offs recorded over the years in relation to the above portfolios total 103 million euro, reflecting the bad loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» shows the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the remaining financial assets.

Portfolio/quality	Assets with evident poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	35	122	51,531
2. Hedging derivatives	–	–	–
Total 31/12/2021	**35**	**122**	**51,531**
Total 31/12/2020	**16**	**331**	**64,051**

A.1.3 Distribution of financial assets by past due categories (carrying amount)

Portfolios/stages of risk	First stage			Second stage			Third stage			Impaired purchased or originated		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	279,487	65	–	50,022	17,280	851	32,778	30,363	351,212	3,177	197	37,985
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–	–	-
3. Financial assets being sold	–	–	–	–	–	–	–	–	–	–	–	-
Total 31/12/2021	**279,487**	**65**	**-**	**50,022**	**17,280**	**851**	**32,778**	**30,363**	**351,212**	**3,177**	**197**	**37,985**
Total 31/12/2020	**9,888**	**2**	**-**	**13,558**	**22,876**	**13,030**	**1,977**	**15,876**	**603,434**	**1,074**	**555**	**54,714**

A.1.4 Financial assets, commitments to grant loans and financial guarantees issued: dynamics of total value adjustments and total provisions p. 1

Reasons/stages of risk	Total write-downs							
	Assets included in the first stage						Assets included in the second stage	
	Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual write-downs	of which: collective write-downs	Loans with banks and central banks on demand	Financial assets measured at amortised cost
Total opening adjustments	**1,058**	**54,083**	**1,427**	**–**	**–**	**56,568**	**34**	**115,816**
Increases in financial assets purchased or originated	–	14,151	–	–	–	14,151	–	6,559
Derecognition other than write-offs	(483)	(10,518)	–	–	–	(11,001)	–	(13,825)
Net adjustments/writebacks for credit risk (+/-)	(418)	(10,158)	(981)	–	–	(11,557)	(25)	(46,401)
Contractual amendments without derecognition	–	37	–	–	–	37	–	87
Changes in estimation methodology	–	–	–	–	–	–	–	–
Write-offs not recognised directly in the income statement	–	–	–	–	–	–	–	–
Other changes	–	963	512	–	–	1,475	–	177
Total closing adjustments	**157**	**48,558**	**958**	**–**	**–**	**49,673**	**9**	**62,413**
Recoveries on financial assets subject to write-offs	–	–	–	–	–	–	–	–
Write-offs recognised directly in the income statement	–	–	–	–	–	–	–	–

A.1.4 Financial assets, commitments to grant loans and financial guarantees issued: dynamics of total value adjustments and total provisions p. 2

Reasons/stages of risk	Total write-downs				
	Financial assets impaired acquired or originated				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual write-downs	of which: collective write-downs
Total opening adjustments	**102,653**	**–**	**–**	**99,742**	**2,911**
Increases in financial assets purchased or originated	–	–	–	–	–
Derecognition other than write-offs	(5,834)	–	–	(5,722)	(112)
Net adjustments/writebacks for credit risk	15,341	–	–	17,858	(2,517)
Contractual amendments without derecognition	4	–	–	4	–
Changes in estimation methodology	–	–	–	–	–
Write-offs not recognised directly in the income statement	(3,383)	–	–	(3,383)	–
Other changes	(95)	–	–	(95)	–
Total closing adjustments	**108,686**	**–**	**–**	**108,404**	**282**
Recoveries on financial assets subject to write-offs	–	–	–	–	–
Write-offs recognised directly in the income statement	(1,873)	–	–	(1,873)	–

Total write-downs									
Assets included in the second stage				Assets included in the third stage					
Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual write-downs	of which: collective write-downs	Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual write-downs	of which: collective write-downs
540	**–**	**–**	**116,390**	**–**	**1,038,642**	**–**	**–**	**1,038,642**	**–**
–	–	–	6,559	–	28,257	–	–	28,257	–
(28)	–	–	(13,853)	–	(317,693)	–	–	(317,693)	–
–	–	–	(46,426)	–	141,282	–	–	141,282	–
–	–	–	87	–	394	–	–	394	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	(19,852)	–	–	(19,852)	–
(512)	–	–	(335)	–	7,348	–	–	7,348	–
–	**–**	**–**	**62,422**	**–**	**878,378**	**–**	**–**	**878,378**	**–**
–	–	–	–	–	12,944	–	–	12,944	–
–	–	–	–	–	(44,215)	–	–	(44,215)	–

Total provisions for commitments to grant loans and financial guarantees given				
First stage	Second stage	Third stage	Commitments to make loans and fin. guarantees issued impaired purchased or originated	**Total**
20,408	**9,419**	**9,680**	**–**	**1,353,761**
–	–	–	29	48,997
–	–	–	–	(348,381)
(8,199)	(4,832)	360	(1)	85,968
–	–	–	–	521
–	–	–	–	–
–	–	–	–	(23,235)
–	–	–	–	8,394
12,209	**4,587**	**10,040**	**28**	**1,126,025**
–	–	–	–	12,944
–	–	–	–	(46,088)

A.1.5 Financial assets, commitments to grant loans and financial guarantees given transfers between the various stages of credit risk (gross and nominal values)

Portfolios/stages of risk	Gross exposure/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	First stage to second stage	Second stage to first stage	Second stage to third stage	Third stage to second stage	First stage to third stage	Third stage to first stage
1. Financial assets measured at amortised cost	834,670	1,718,326	139,992	34,745	80,017	5,455
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets being sold	-	-	-	-	-	-
4. Commitments to grant loans and financial guarantees given	55,666	219,538	1,954	1,587	13,501	1,432
Total 31/12/2021	**890,336**	**1,937,864**	**141,946**	**36,332**	**93,518**	**6,887**
Total 31/12/2020	**3,114,676**	**1,083,179**	**107,068**	**54,220**	**223,967**	**16,833**

A.1.5a Loans subject to Covid-19 support measures: transfers between the various stages of credit risk (gross values)

	Gross amounts/nominal amounts					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolio/quality	First stage to second stage	Second stage to first stage	Second stage to third stage	Third stage to second stage	First stage to third stage	Third stage to first stage
A. **Loans measured at amortised cost**	**119,027**	**93,091**	**10,374**	**131**	**14,949**	**1,218**
A.1 subject to forbearance compliant with GLs	731	–	–	–	–	–
A.2 subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–	–
A.3 subject to other forbearance measures	30,927	–	3,752	131	1,006	–
A.4 new loans	87,369	93,091	6,622	–	13,943	1,218
B. **Loans measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 subject to forbearance compliant with GLs	–	–	–	–	–	–
B.2 subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–	–
B.3 subject to other forbearance measures	–	–	–	–	–	–
B.4 new loans	–	–	–	–	–	–
Total 31/12/2021	**119,027**	**93,091**	**10,374**	**131**	**14,949**	**1,218**
Total 31/12/2020	**854,684**	**226,560**	**21,503**	**11,205**	**17,205**	**29**

A.1.6 On and off-balance sheet loans to banks: gross and net values

Type of exposure/amounts	Gross exposure				
		First stage	Second stage	Third stage	Impaired purchased or originated
A. **ON-BALANCE SHEET CREDIT EXPOSURES**					
A.1 **ON DEMAND**	**4,577,120**	**4,576,657**	**463**	**–**	**–**
a) Non-performing	–	–	–	–	–
b) Performing	4,577,120	4,576,657	463	–	–
A.2 **OTHERS**	**5,185,860**	**5,145,385**	**40,475**	**–**	**–**
a) Bad loans	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
c) Non-performing past due exposures	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	1,350	1,005	345	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	5,184,510	5,144,380	40,130	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**9,762,980**	**9,722,042**	**40,938**	**–**	**–**
B. **OFF-BALANCE SHEET CREDIT EXPOSURES**					
a) Non-performing	–	–	–	–	–
b) Performing	1,307,987	1,317,717	270	–	–
Total (B)	**1,307,987**	**1,307,717**	**270**	**–**	**–**
Total (A+B)	**11,070,967**	**11,029,759**	**41,208**	**–**	**–**

* Amount to be shown for information purposes

Cash exposures include loans and receivables with banks shown in item 40 a) and in item 10 as well as other financial assets represented by bank securities included in items 20 c) and 30 of the assets side of the balance sheet, excluding equity securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to equity securities and mutual funds).

A.1.7 On and off-balance sheet loans to customers: gross and net values

Type of exposure/amounts	Gross exposure				
		First stage	Second stage	Third stage	Impaired purchased or originated
A. **ON-BALANCE SHEET CREDIT EXPOSURES**					
a) Bad loans	712,064	–	–	666,258	45,806
– of which: exposures subject to forbearance	194,408	–	–	169,698	24,710
b) Unlikely-to-pay loans	1,041,451	–	–	895,119	146,332
– of which: exposures subject to forbearance	636,798	–	–	556,433	80,365
c) Non-performing past due exposures	19,713	–	–	19,649	64
– of which: exposures subject to forbearance	3,333	–	–	3,277	56
d) Performing past due exposures	363,768	286,463	75,565	–	1,740
– of which: exposures subject to forbearance	17,215	–	17,123	–	92
e) Other performing exposures	35,498,809	33,533,254	1,919,076	–	46,480
– of which: exposures subject to forbearance	650,777	–	633,496	–	17,281
Total (A)	**37,635,805**	**33,819,717**	**1,994,641**	**1,581,026**	**240,422**
B. **OFF-BALANCE SHEET CREDIT EXPOSURES**					
a) Non-performing	214,993	–	–	210,417	4,576
b) Performing	20,445,561	19,575,857	866,023	–	3,682
Total (B)	**20,660,554**	**19,575,857**	**866,023**	**210,417**	**8,258**
Total (A+B)	**58,296,359**	**53,395,574**	**2,860,664**	**1,791,443**	**248,680**

* Amount to be shown for information purposes

Total adjustments and provisions						
	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Write-off total partial*
166	**158**	**8**	**–**	**–**	**4,576,954**	**–**
–	–	–	–	–	–	–
166	158	8	–	–	4,576,954	–
5,792	**1,320**	**4,472**	**–**	**–**	**5,180,068**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
2	–	2	–	–	1,348	–
–	–	–	–	–	–	–
5,790	1,320	4,470	–	–	5,178,720	–
–	–	–	–	–	–	–
5,958	**1,478**	**4,480**	**–**	**–**	**9,757,022**	**–**
–	–	–	–	–	–	–
374	371	3	–	–	1,307,613	–
374	**371**	**3**	**–**	**–**	**1,307,613**	**–**
6,332	**1,849**	**4,483**	**–**	**–**	**11,064,635**	**–**

Total adjustments and provisions						
	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Write-off partial total*
523,143	–	–	491,747	31,396	188,921	103,823
140,560	–	–	123,353	17,208	53,848	9,746
471,796	–	–	396,962	74,834	569,655	–
280,441	–	–	246,633	33,807	356,357	–
2,083	–	–	2,080	2	17,630	–
315	–	–	314	1	3,018	–
4,822	1,871	2,898	–	52	358,946	–
908	–	901	–	7	16,307	–
103,768	46,325	55,041	–	2,402	35,395,041	–
26,285	–	25,733	–	552	624,492	–
1,105,612	**48,196**	**57,939**	**890,789**	**108,686**	**36,530,193**	**103,823**
24,897	–	–	24,897	–	190,096	–
17,633	12,572	5,032	–	29	20,427,928	–
42,530	**12,572**	**5,032**	**24,897**	**29**	**20,618,024**	**–**
1,148,142	**60,768**	**62,971**	**915,686**	**108,715**	**57,148,217**	**103,823**

Cash exposures include the customer loans shown in item 40b) as well as other financial assets represented by non-bank securities included in items 20c) and 30 of the assets side of the balance sheet, excluding equity securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to equity securities and mutual funds).

A.1.7a On-balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net values

	Gross exposure				
Type of exposure/Amounts		First stage	Second stage	Third stage	Impaired purchased or originated
A. **EXPOSURES CLASSIFIED AS BAD LOANS**	**–**	**–**	**–**	**–**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–
c) Subject to other forbearance measures	–	–	–	–	–
d) New loans	–	–	–	–	–
B. **EXPOSURES CLASSIFIED AS UNLIKELY-TO-PAY LOANS**	**47,415**	**–**	**–**	**41,540**	**5,876**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	68	–	–	68	–
c) Subject to other forbearance measures	16,711	–	–	15,712	999
d) New loans	30,636	–	–	25,760	4,877
C. **NON-PERFORMING PAST DUE EXPOSURES**	**2,302**	**–**	**–**	**2,246**	**56**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–
c) Subject to other forbearance measures	115	–	–	115	–
d) New loans	2,187	–	–	2,131	56
D. **PERFORMING PAST DUE EXPOSURES**	**1,833**	**–**	**1,833**	**–**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–
c) Subject to other forbearance measures	–	–	–	–	–
d) New loans	1,833	–	1,833	–	–
E. **OTHER PERFORMING EXPOSURES**	**2,599,570**	**2,394,662**	**204,277**	**–**	**630**
a) Subject to forbearance compliant with GLs	731	–	731	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	11,147	1,312	9,835	–	–
c) Subject to other forbearance measures	51,767	94	51,672	–	–
d) New loans	2,535,925	2,393,256	142,039	–	630
Total (A+B+C+D+E)	**2,651,120**	**2,394,662**	**206,110**	**43,786**	**6,562**

Total adjustments and provisions						
–	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Write-off total partial*
–	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
13,934	**–**	**–**	**12,303**	**1,630**	**33,481**	**–**
–	–	–	–	–	–	–
29	–	–	29	–	39	–
4,849	–	–	4,567	282	11,862	–
9,056	–	–	7,707	1,348	21,580	–
74	**–**	**–**	**73**	**1**	**2,228**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
11	–	–	11	–	104	–
63	–	–	62	1	2,124	–
19	**–**	**19**	**–**	**–**	**1,814**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
19	–	19	–	–	1,814	–
4,808	**561**	**4,242**	**–**	**5**	**2,594,762**	**–**
12	–	12	–	–	719	–
245	3	242	–	–	10,902	–
2,764	–	2,764	–	–	49,003	–
1,787	558	1,224	–	5	2,534,138	–
18,835	**561**	**4,261**	**12,376**	**1,636**	**2,632,285**	**–**

A.1.9 On-balance sheet credit exposures to customers: analysis of gross impaired exposures

Reasons/Categories	Non-performing loans	Unlikely-to-pay loans	Non-performing past due exposures
A. **Opening gross exposure**	**1,050,424**	**1,117,241**	**17,047**
– of which: exposures sold not derecognised	–	6,623	79
B. **Increases**	**186,695**	**308,248**	**20,942**
B.1 transfers from performing loans	13,593	213,534	18,223
B.2 transfers from financial assets impaired purchased or originated	2,973	11,140	56
B.3 transfers from other categories of impaired exposures	94,666	9,108	–
B.4 contractual amendments without derecognition	1	1,347	1
B.5 other increases	75,462	73,119	2,662
C. **Decreases**	**525,055**	**384,038**	**18,276**
C.1 transfers to performing loans	–	53,703	526
C.2 write-offs	47,622	21,661	–
C.3 collections	92,744	184,449	4,849
C.4 proceeds from disposals	85,009	17,529	–
C.5 losses on disposal	63,345	2,831	–
C.6 transfers to other categories of non-performing exposures	9,099	94,666	12
C.7 contractual amendments not resulting in derecognition	–	241	–
C.8 other decreases	227,236	8,958	12,889
D. **Closing gross exposure**	**712,064**	**1,041,451**	**19,713**
– of which: exposures sold not derecognised	–	11,476	3,062

A.1.9bis On-balance sheet credit exposures to customers: changes in gross exposures granted by credit quality

Reasons/Quality	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. **Opening gross exposure**	**915,701**	**667,952**
– of which: exposures sold not derecognised	3,073	29,937
B. **Increases**	**231,586**	**322,850**
B.1 transfers from performing loans not subject to forbearance	27,895	199,596
B.2 transfers from performing loans subject to forbearance	70,389	–
B.3 transfers from exposures subject to forbearance and non-performing	–	44,855
B.4 transfers from non-performing exposures not subject to forbearance	71,521	191
B.5 other increases	61,781	78,208
C. **Decreases**	**312,748**	**322,809**
C.1 transfers to performing loans not subject to forbearance	–	137,942
C.2 transfers to performing loans subject to forbearance	44,855	–
C.3 transfers to loans subject to forbearance and non-performing	–	70,389
C.4 write-offs	31,490	–
C.5 collections	133,370	113,480
C.6 proceeds from disposals	36,873	–
C.7 losses on disposal	9,403	–
C.8 other decreases	56,757	998
D. **Closing gross exposure**	**834,539**	**667,993**
– of which: exposures sold not derecognised	6,712	34,862

A.1.11 Impaired on-balance sheet credit exposures to customers: analysis of total impairment

Reasons/Categories	Non-performing loans		Unlikely-to-pay loans		Non-performing past due exposures	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
A. **Total opening adjustments**	**708,371**	**162,260**	**442,047**	**253,461**	**2,378**	**515**
– of which: exposures sold not derecognised	–	–	2,201	950	7	–
B. **Increases**	**217,998**	**50,241**	**203,877**	**127,912**	**2,386**	**384**
B.1 adjustments to impaired assets purchased or originated	2,059	–	3,657	–	1	–
B.2 other adjustments	111,954	23,194	188,170	100,582	1,621	144
B.3 losses on disposal	63,345	8,656	2,831	746	–	–
B.4 transfers from other categories of impaired exposures	40,020	18,391	1,216	362	57	55
B.5 contractual amendments without derecognition	–	–	452	–	–	–
B.6 other increases	620	–	7,551	26,222	707	185
C. **Decreases**	**403,226**	**71,941**	**174,128**	**100,932**	**2,681**	**584**
C.1 writebacks on valuation	8,985	2,729	52,095	28,543	279	20
C.2 writebacks due to collections	23,488	11,106	39,954	23,063	442	84
C.3 gains on disposal	20,694	4,781	5,736	3,607	–	–
C.4 write-offs	47,622	12,396	21,661	19,094	–	–
C.5 transfers to other categories of impaired exposure	4	–	39,509	18,331	1,779	477
C.6 contractual amendments without derecognition	–	–	54	–	–	–
C.7 other decreases	302,433	40,929	15,119	8,294	181	3
D. **Total closing adjustments**	**523,143**	**140,560**	**471,796**	**280,441**	**2,083**	**315**
– of which: exposures sold not derecognised	–	–	3,906	2,312	305	23

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of financial assets, commitments to grant loans and financial guarantees given by external rating classes (gross amounts)

	External rating classes							
Exposures	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	**Total**
A. **Financial assets measured at amortised cost**	**6,916,574**	**1,491,577**	**1,532,968**	**395,735**	**22,127**	**–**	**28,986,849**	**39,345,830**
– First stage	6,916,574	1,491,577	1,532,968	370,661	7,071	–	25,288,022	35,606,873
– Second stage	–	–	–	25,074	15,056	–	1,908,906	1,949,036
– Third stage	–	–	–	–	–	–	1,549,500	1,549,500
– Impaired purchased or originated	–	–	–	–	–	–	240,421	240,421
B. **Financial assets measured at fair value through other comprehensive income**	**2,189,730**	**407,647**	**311,318**	**75,575**	**8,014**	**–**	**10,121**	**3,002,405**
– First stage	2,189,730	407,647	311,318	75,575	8,014	–	10,121	3,002,405
– Second stage	–	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–	–
– Impaired purchased or originated	–	–	–	–	–	–	–	–
C. **Financial assets being sold**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–	–
– Impaired purchased or originated	–	–	–	–	–	–	–	–
Total (A+B+C)	**9,106,304**	**1,899,224**	**1,844,286**	**471,310**	**30,141**	**–**	**28,996,970**	**42,348,235**
D. **Commitments to grant loans and financial guarantees given**	**49,021**	**12,810**	**164,672**	**73,383**	**270**	**–**	**14,518,490**	**14,818,646**
– First stage	49,021	12,810	164,672	73,383	–	–	14,005,222	14,305,108
– Second stage	–	–	–	–	270	–	376,050	376,320
– Third stage	–	–	–	–	–	–	128,960	128,960
– Impaired purchased or originated	–	–	–	–	–	–	8,258	8,258
Total (D)	**49,021**	**12,810**	**164,672**	**73,383**	**270**	**–**	**14,518,490**	**14,818,646**
Total (A+B+C+D)	**9,155,325**	**1,912,034**	**2,008,958**	**544,693**	**30,411**	**–**	**43,515,460**	**57,166,881**

The distribution of exposures other than those in equity securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Bank's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	from AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard & Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB	from B+ to B-	from CCC+ down
Fitch Ratings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	from CCC+ down

A.2.2 Distribution of financial assets, commitments to grant loans and financial guarantees given: by internal rating classes (gross values)

INDIVIDUALS

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**23,567**	**39,596**	**114,408**	**444,496**	**954,102**	**754,125**	**663,815**
– First stage	23,567	39,169	112,733	439,896	936,011	726,108	627,876
– Second stage	–	427	1,675	4,600	18,091	28,017	35,939
– Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– First stage	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**23,567**	**39,596**	**114,408**	**444,496**	**954,102**	**754,125**	**663,815**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**39,037**	**38,525**	**62,987**	**131,094**	**116,483**	**65,162**	**102,802**
– First stage	39,037	38,295	62,946	127,731	115,177	63,954	100,532
– Second stage	–	230	41	3,363	1,306	1,208	2,270
– Third stage	–	–	–	–	–	–	–
Total (C)	**39,037**	**38,525**	**62,987**	**131,094**	**116,483**	**65,162**	**102,802**
Total (A+B+C)	**62,604**	**78,121**	**177,395**	**575,590**	**1,070,585**	**819,287**	**766,617**

SMEs

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**147,247**	**714,054**	**1,075,782**	**1,373,626**	**1,165,665**	**1,069,668**	**953,482**
– First stage	146,438	711,030	1,061,067	1,320,458	1,080,186	937,397	818,257
– Second stage	809	3,024	14,715	53,168	85,479	132,271	131,255
– Third stage	–	–	–	–	–	–	3,970
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– First stage	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**147,247**	**714,054**	**1,075,782**	**1,373,626**	**1,165,665**	**1,069,668**	**953,482**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**390,429**	**1,043,155**	**898,095**	**984,984**	**574,434**	**367,223**	**237,299**
– First stage	390,429	1,043,130	883,188	959,661	545,174	347,827	226,322
– Second stage	–	25	14,907	25,323	29,260	19,396	10,977
– Third stage	–	–	–	–	–	–	–
Total (C)	**390,429**	**1,043,155**	**898,095**	**984,984**	**574,434**	**367,223**	**237,299**
Total (A+B+C)	**537,676**	**1,757,209**	**1,973,877**	**2,358,610**	**1,740,099**	**1,436,891**	**1,190,781**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
325,533	**223,039**	**91,904**	**77,682**	**76,514**	**59,794**	**225,052**	**4,073,627**
286,475	187,820	72,992	55,881	50,222	4,561	65	3,563,376
39,058	35,219	18,912	21,801	26,292	55,233	5	285,269
–	–	–	–	–	–	224,982	224,982
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
325,533	**223,039**	**91,904**	**77,682**	**76,514**	**59,794**	**225,052**	**4,073,627**
43,357	**17,315**	**7,247**	**4,340**	**1,716**	**849**	**7,918**	**638,832**
39,015	14,664	5,440	3,389	1,578	281	3,876	615,915
4,342	2,651	1,807	951	138	568	353	19,228
–	–	–	–	–	–	3,689	3,689
43,357	**17,315**	**7,247**	**4,340**	**1,716**	**849**	**7,918**	**638,832**
368,890	**240,354**	**99,151**	**82,022**	**78,230**	**60,643**	**232,970**	**4,712,459**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
580,330	**316,337**	**101,131**	**76,694**	**47,111**	**13,180**	**975,015**	**8,609,321**
463,539	243,287	57,018	23,330	10,137	1,153	27,505	6,900,802
116,791	73,050	39,033	50,544	36,974	12,027	2,230	751,369
–	–	5,080	2,820	–	–	945,280	957,150
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
580,330	**316,337**	**101,131**	**76,694**	**47,111**	**13,180**	**975,015**	**8,609,321**
145,004	**57,140**	**34,214**	**11,721**	**3,501**	**1,926**	**62,927**	**4,812,052**
134,275	55,749	32,108	5,304	1,880	1,420	7,152	4,633,619
10,729	1,391	2,105	5,175	1,621	506	302	121,717
–	–	1	1,242	–	–	55,473	56,716
145,004	**57,140**	**34,214**	**11,721**	**3,501**	**1,926**	**62,927**	**4,812,052**
725,334	**373,477**	**135,345**	**88,415**	**50,612**	**15,106**	**1,037,942**	**13,421,373**

SMALL BUSINESS

Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
							Internal rating classes
A. **Financial assets measured at amortised cost**	**81,382**	**102,412**	**230,658**	**322,880**	**355,480**	**325,721**	**242,419**
– First stage	79,341	96,218	211,730	268,711	293,571	265,370	184,901
– Second stage	2,041	6,194	18,928	54,169	61,909	60,351	57,518
– Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**81,382**	**102,412**	**230,658**	**322,880**	**355,480**	**325,721**	**242,419**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**232,778**	**136,437**	**176,678**	**145,087**	**110,743**	**85,425**	**55,633**
– First stage	231,388	136,104	175,023	137,283	105,336	80,713	51,361
– Second stage	1,390	333	1,655	7,804	5,407	4,712	4,272
– Third stage	–	–	–	–	–	–	–
Total (C)	**232,778**	**136,437**	**176,678**	**145,087**	**110,743**	**85,425**	**55,633**
Total (A+B+C)	**314,160**	**238,849**	**407,336**	**467,967**	**466,223**	**411,146**	**298,052**

SMALL ECONOMIC OPERATORS

Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
							Internal rating classes
A. **Financial assets measured at amortised cost**	**75,898**	**154,131**	**469,496**	**427,669**	**114,676**	**281,595**	**182,222**
– First stage	75,230	151,850	455,612	408,027	104,977	253,611	148,258
– Second stage	668	2,281	13,884	19,642	9,699	27,984	33,964
– Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**75,898**	**154,131**	**469,496**	**427,669**	**114,676**	**281,595**	**182,222**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**55,802**	**72,984**	**97,035**	**57,970**	**20,823**	**51,994**	**33,659**
– First stage	55,601	72,916	95,981	56,717	18,650	49,242	31,020
– Second stage	201	68	1,054	1,253	2,173	2,752	2,639
– Third stage	–	–	–	–	–	–	–
Total (C)	**55,802**	**72,984**	**97,035**	**57,970**	**20,823**	**51,994**	**33,659**
Total (A+B+C)	**131,700**	**227,115**	**566,531**	**485,639**	**135,499**	**333,589**	**215,881**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
145,687	**93,295**	**61,431**	**34,494**	**20,197**	**16,560**	**314,519**	**2,347,135**
107,651	62,617	32,585	18,668	7,841	589	-	1,629,793
38,036	30,678	28,846	15,826	12,356	15,971	291	403,114
-	-	-	-	-	-	314,228	314,228
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
145,687	**93,295**	**61,431**	**34,494**	**20,197**	**16,560**	**314,519**	**2,347,135**
25,582	**12,553**	**11,659**	**5,004**	**3,562**	**847**	**28,507**	**1,030,495**
23,408	10,981	6,809	4,112	1,571	285	1,220	965,594
2,174	1,572	4,850	892	1,991	562	16	37,630
-	-	-	-	-	-	27,271	27,271
25,582	**12,553**	**11,659**	**5,004**	**3,562**	**847**	**28,507**	**1,030,495**
171,269	**105,848**	**73,090**	**39,498**	**23,759**	**17,407**	**343,026**	**3,377,630**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
164,614	**88,952**	**75,721**	**60,759**	**42,841**	**23,489**	**180,324**	**2,342,387**
143,723	65,957	45,917	33,952	17,242	2,449	15	1,906,820
20,891	22,995	29,804	26,807	25,599	21,040	55	255,313
-	-	-	-	-	-	180,254	180,254
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
164,614	**88,952**	**75,721**	**60,759**	**42,841**	**23,489**	**180,324**	**2,342,387**
24,960	**14,451**	**7,351**	**4,840**	**3,431**	**1,518**	**5,833**	**452,651**
23,566	12,931	5,925	3,722	2,458	658	1,590	430,977
1,394	1,520	1,426	1,118	973	860	68	17,499
-	-	-	-	-	-	4,175	4,175
24,960	**14,451**	**7,351**	**4,840**	**3,431**	**1,518**	**5,833**	**452,651**
189,574	**103,403**	**83,072**	**65,599**	**46,272**	**25,007**	**186,157**	**2,795,038**

LARGE ENTERPRISES; PUBLIC ENTERPRISES

Exposures	Internal rating classes						
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**44,472**	**214,795**	**501,720**	**610,291**	**366,777**	**749,267**	**343,638**
– First stage	44,472	214,795	501,720	609,584	360,185	744,584	272,806
– Second stage	–	–	–	707	6,592	4,683	70,832
– Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**2,592**	**6,033**	**16,761**	**16,311**	**34,539**	**–**
– First stage	–	2,592	6,033	16,761	16,311	34,539	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**44,472**	**217,387**	**507,753**	**627,052**	**383,088**	**783,806**	**343,638**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**95,612**	**435,022**	**685,197**	**1,003,779**	**419,023**	**250,573**	**132,836**
– First stage	95,612	435,022	685,197	990,178	413,275	248,578	116,047
– Second stage	–	–	–	13,601	5,748	1,995	16,789
– Third stage	–	–	–	–	–	–	–
Total (C)	**95,612**	**435,022**	**685,197**	**1,003,779**	**419,023**	**250,573**	**132,836**
Total (A+B+C)	**140,084**	**652,409**	**1,192,950**	**1,630,831**	**802,111**	**1,034,379**	**476,474**

OTHER

Exposures	Internal rating classes						
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**–**	**10,892**	**22,870**	**47,228**	**81,911**	**73,648**	**44,949**
– First stage	–	10,892	22,870	46,886	81,087	69,043	43,904
– Second stage	–	–	–	342	824	4,605	1,045
– Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**–**	**10,892**	**22,870**	**47,228**	**81,911**	**73,648**	**44,949**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**800**	**8,691**	**42,731**	**201,509**	**103,318**	**80,105**	**230,684**
– First stage	800	8,691	42,731	196,359	101,938	73,832	229,235
– Second stage	–	–	–	5,150	1,380	6,273	1,449
– Third stage	–	–	–	–	–	–	–
Total (C)	**800**	**8,691**	**42,731**	**201,509**	**103,318**	**80,105**	**230,684**
Total (A+B+C)	**800**	**19,583**	**65,601**	**248,737**	**185,229**	**153,753**	**275,633**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
288,406	**8,868**	**12,841**	**-**	**-**	**-**	**45,770**	**3,186,845**
220,603	8,868	587	-	-	-	-	2,978,204
67,803	-	12,254	-	-	-	-	162,871
-	-	-	-	-	-	45,770	45,770
-	**-**	**-**	**-**	**-**	**-**	**-**	**76,236**
-	-	-	-	-	-	-	76,236
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
288,406	**8,868**	**12,841**	**-**	**-**	**-**	**45,770**	**3,263,081**
131,351	**128,063**	**11,251**	**-**	**-**	**-**	**53,298**	**3,346,005**
116,029	37,963	11,147	-	-	-	26,616	3,175,664
15,322	90,100	104	-	-	-	-	143,659
-	-	-	-	-	-	26,682	26,682
131,351	**128,063**	**11,251**	**-**	**-**	**-**	**53,298**	**3,346,005**
419,757	**136,931**	**24,092**	**-**	**-**	**-**	**99,068**	**6,609,086**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
60,817	**15,841**	**33,587**	**15,898**	**1**	**3**	**18,378,868**	**18,786,512**
50,012	5,130	21,678	2	1	3	18,276,371	18,627,879
10,805	10,711	11,909	15,896	-	-	83,179	139,316
-	-	-	-	-	-	19,318	19,317
-	**-**	**-**	**-**	**-**	**-**	**2,926,170**	**2,926,170**
-	-	-	-	-	-	2,926,170	2,926,170
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
60,817	**15,841**	**33,587**	**15,898**	**1**	**3**	**21,305,038**	**21,712,682**
20,684	**4,495**	**1,460**	**33**	**-**	**-**	**3,844,101**	**4,538,611**
19,964	109	1,420	-	-	-	3,808,264	4,483,343
720	4,386	40	33	-	-	20,834	40,265
-	-	-	-	-	-	15,003	15,003
20,684	**4,495**	**1,460**	**33**	**-**	**-**	**3,844,101**	**4,538,611**
81,501	**20,336**	**35,047**	**15,931**	**1**	**3**	**25,149,139**	**26,251,293**

The table shows, in rising order of risk, the distribution by rating class of exposures in the Customers portfolio for which the internal rating models are operative.

As regards «Customers», the ratings are split into thirteen classes for performing counterparties and one for those that are insolvent. The first class identifies customers with the lowest risk, while the thirteenth class indicates the maximum risk; situations of insolvency go into another category;

The Bank uses internal ratings to calculate the capital requirements in relation to it corporate and retail portfolios, for which the related IRB models have been validated.

A.3 Distribution of secured exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in the «guarantees» columns refer to the actual value of the guarantee («fair value»), with an upper limit represented by the book value of the guaranteed exposure: this means that the actual value of the guarantee may be higher than that shown in the table.

A.3.1 Guaranteed cash and off-balance sheet exposures to banks

			Secured guarantees (1)			
	Gross exposure	Net exposure	Buildings-mortgages	Buildings-Loans for leases	Securities	Other secured guarantees
1. **Guaranteed cash exposures**:	**39,752**	**39,725**	**–**	**–**	**–**	**–**
1.1. fully guaranteed	35,657	35,633	–	–	–	–
– of which: non-performing	–	–	–	–	–	–
1.2. partially guaranteed	4,095	4,092	–	–	–	–
– of which: non-performing	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**19,263**	**19,263**	**–**	**–**	**5,524**	**4,275**
2.1. fully guaranteed	8,905	8,905	–	–	4,447	3,782
– of which: non-performing	–	–	–	–	–	–
2.2. partially guaranteed	10,358	10,358	–	–	1,077	493
– of which: non-performing	–	–	–	–	–	–

Personal guarantees (2)									
Derivatives on loans					Endorsement loans				
Other derivatives									
CLN	Central counterparties	Banks	Other financial corporations	Other parties	General governments	Banks	Other financial corporations	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**2,045**	**37,334**	**–**	**–**	**39,379**
–	–	–	–	–	1,809	33,825	–	–	35,634
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	236	3,509	–	–	3,745
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**1,066**	**6,161**	**–**	**–**	**17,026**
–	–	–	–	–	100	577	–	–	8,906
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	966	5,584	–	–	8,120
–	–	–	–	–	–	–	–	–	–

A.3.2 Guaranteed cash and off-balance sheet exposures to customers

	Gross exposure	Net exposure	Secured guarantees (1)			
			Buildings-mortgages	Buildings-Loans for leases	Securities	Other secured guarantees
1. **Guaranteed cash exposures**:	**15,535,191**	**14,668,079**	**8,811,970**	**–**	**387,260**	**276,433**
1.1. fully guaranteed	12,812,929	12,026,461	8,810,701	–	320,004	178,455
– of which: non-performing	1,392,808	676,001	565,969	–	6,717	3,383
1.2. partially guaranteed	2,722,262	2,641,618	1,269	–	67,256	97,978
– of which: non-performing	104,007	30,299	337	–	1,119	245
2. **Guaranteed off-balance sheet exposures**:	**3,534,809**	**3,518,138**	**331,980**	**–**	**153,727**	**123,089**
2.1. fully guaranteed	2,774,662	2,760,969	331,789	–	124,747	97,582
– of which: non-performing	75,143	64,932	8,651	–	559	1,460
2.2. partially guaranteed	760,147	757,169	191	–	28,980	25,507
– of which: non-performing	11,098	9,215	149	–	68	710

A.4 Financial and non-financial assets obtained by enforcing guarantees received

	Credit exposure cancelled	Gross value	Total write-downs	Carrying amount	of which obtained during the year
A. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**
A.1. For business purposes	–	–	–	–	–
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	–	–	–	–
B. **Equity securities and fixed-yield securities**	**–**	**–**	**–**	**–**	**–**
C. **Other assets**	**72,625**	**32,694**	**–**	**32,694**	**32,694**
D. **Non-current assets and disposal groups held for sale**	**–**	**–**	**–**	**–**	**–**
D.1. Property, equipment and investment property	–	–	–	–	–
D.2. Other assets	–	–	–	–	–
Total 31/12/2021	**72,625**	**32,694**	**–**	**32,694**	**32,694**
Total 31/12/2020	**160,978**	**61,259**	**–**	**61,259**	**61,259**

Personal guarantees (2)									
Derivatives on loans									
	Other derivatives				Endorsement loans				
CLN	Central counterparties	Banks	Other financial corporations	Other parties	General governments	Banks	Other financial corporations	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**2,666,026**	**12,078**	**307,155**	**1,749,742**	**14,210,664**
–	–	–	–	–	884,426	7,339	246,252	1,564,335	12,011,512
–	–	–	–	–	18,250	240	14,116	63,611	672,286
–	–	–	–	–	1,781,600	4,739	60,903	185,407	2,199,152
–	–	–	–	–	10,844	–	3,845	11,301	27,691
–	**–**	**–**	**–**	**–**	**40,224**	**17,838**	**151,956**	**2,370,185**	**3,188,999**
–	–	–	–	–	3,298	11,252	125,144	2,016,400	2,710,212
–	–	–	–	–	145	–	872	51,056	62,743
–	–	–	–	–	36,926	6,586	26,812	353,785	478,787
–	–	–	–	–	320	–	41	6,905	8,193

B. Distribution and concentration of exposure

Preparation of this section has excluded in the exposures reported in tables A.1.6. and A.1.7., exposures to counterparty risk relating to loans of securities or goods, granted or received.

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

Exposures/Counterparties	Public administrations		Non-financial companies	
	Net exposure	Total write-downs	Net exposure	Total write-downs
A. **On-balance credit sheet exposures**				
A.1 Non-performing	–	–	39	5,109
– of which exposures subject to forbearance	–	–	–	296
A.2 Unlikely-to-pay loans	16	11	5,305	13,672
– of which exposures subject to forbearance	–	–	3,963	10,582
A.3 Non-performing past due exposure	2	–	12	4
– of which exposures subject to forbearance	–	–	–	–
A.4 Performing exposures	10,858,884	3,248	5,346,037	19,060
– of which exposures subject to forbearance	19,648	260	618	27
Total (A)	**10,858,902**	**3,259**	**5,351,393**	**37,845**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	3	–	15,017	402
B.2 Performing exposures	766,629	310	2,425,223	3,193
Total (B)	**766,632**	**310**	**2,440,240**	**3,595**
Total (A+B) 31/12/2021	**11,625,534**	**3,569**	**7,791,633**	**41,440**
Total (A+B) 31/12/2020	**9,121,722**	**4,856**	**7,372,591**	**49,214**

B.2 Territorial distribution of cash and off-balance sheet exposures to customers

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposures	Total write-downs	Net exposures	Total write-downs
A. **On-balance sheet credit exposures**				
A.1 Non-performing	188,183	512,311	738	10,832
A.2 Unlikely-to-pay loans	566,715	470,820	2,610	809
A.3 Non-performing past due exposure	16,613	1,945	1,012	137
A.4 Performing exposures	33,082,673	106,241	2,624,883	1,338
Total (A)	**33,854,184**	**1,091,317**	**2,629,243**	**13,116**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	190,071	24,897	25	–
B.2 Performing exposures	19,817,858	17,554	563,819	75
Total (B)	**20,007,929**	**42,451**	**563,844**	**75**
Total (A+B) 31/12/2021	**53,862,113**	**1,133,768**	**3,193,087**	**13,191**
Total (A+B) 31/12/2020	**49,134,406**	**1,359,826**	**2,883,396**	**16,937**

As regards the geographical distribution of exposures to customers resident in Italy, note that assets included under «Loans and receivables with customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West, 55% and Centre, 34%. This is followed by North East, 9%, and South and Islands, 2%.

Financial companies (of which: insurance companies)		Non-financial companies		Households	
Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
–	–	145,189	379,811	43,693	138,223
–	–	40,922	94,244	12,926	46,020
–	–	432,082	378,005	132,252	80,108
–	–	258,360	218,175	94,034	51,684
–	–	4,079	409	13,537	1,670
–	–	839	49	2,179	266
6,148	2	13,128,104	55,114	6,420,962	31,168
–	–	426,982	17,503	193,551	9,403
6,148	**2**	**13,709,454**	**813,339**	**6,610,444**	**251,169**
–	–	167,088	23,480	7,988	1,015
15,597	–	15,568,725	10,540	1,667,351	3,590
15,597	**–**	**15,735,813**	**34,020**	**1,675,339**	**4,605**
21,745	**2**	**29,445,267**	**847,359**	**8,285,783**	**255,774**
21,058	**254**	**27,928,207**	**971,442**	**7,706,976**	**351,732**

AMERICA		ASIA		REST OF THE WORLD	
Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs
–	–	–	–	–	–
43	28	287	139	–	–
4	1	1	–	–	–
26,097	42	19,169	967	1,165	2
26,144	**71**	**19,457**	**1,106**	**1,165**	**2**
–	–	–	–	–	–
26,826	4	494	–	18,931	–
26,826	**4**	**494**	**–**	**18,931**	**–**
52,970	**75**	**19,951**	**1,106**	**20,096**	**2**
37,466	**109**	**21,330**	**350**	**52,898**	**22**

B.3 Territorial distribution of cash and off-balance sheet exposures to banks

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposures	Total write-downs	Net exposures	Total write-downs
A. **On-balance sheet credit exposures**				
A.1 Non-performing	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Non-performing past due exposure	–	–	–	–
A.4 Performing exposures	7,992,238	5,553	1,686,453	353
Total (A)	**7,992,238**	**5,553**	**1,686,453**	**353**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	–	–	–	–
B.2 Performing exposures	165,334	179	1,084,990	192
Total (B)	**165,334**	**179**	**1,084,990**	**192**
Total (A+B) 31/12/2021	**8,157,572**	**5,732**	**2,771,443**	**545**
Total (A+B) 31/12/2020	**7,866,955**	**8,755**	**2,664,981**	**942**

B.4 Large exposure

	31/12/2021	**31/12/2020**
Number of positions	24	17
Exposure	29,225,223	22,598,680
Risk position	7,750,345	6,004,974

The exposure limit of 10% of Tier 1 capital – the threshold for inclusion of a counterparty in the category of «Large exposure» – has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual Large exposure, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

It should be noted that the positions shown above include the Italian Republic (nominal exposure, 12,019 million; Risk position, 0.7 million), purely on the basis of sovereign securities held in proprietary portfolios, and the Bank of Italy (nominal exposure, 6,722 million; risk position, 6.8 million), mainly for term deposits and the compulsory reserve.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

C. Securitisations

QUALITATIVE INFORMATION

During the 2021 financial year, the Bank continued to finalise securitisation transactions through the bulk sale of non-performing loans in line with the corporate objectives of derisking and improving asset quality. As explained in the report on operations, in the last quarter of 2021 the Bank completed a securitisation transaction through the sale of non-performing loans called Luzzatti II.

Note that the carrying amount of the securitisations originated by third party companies, shown in the following table C.2, at 31 December 2021 amounts to 428 million euro.

AMERICA		ASIA		REST OF THE WORLD	
Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
9,773	9	39,876	40	28,682	3
9,773	**9**	**39,876**	**40**	**28,682**	**3**
–	–	–	–	–	–
13,441	–	33,735	3	10,113	–
13,441	**–**	**33,735**	**3**	**10,113**	**–**
23,214	**9**	**73,611**	**43**	**38,795**	**3**
15,743	**10**	**32,831**	**8**	**34,417**	**5**

New transactions during the year

Luzzatti II securitisation

In December 2021, the Bank carried out the third securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 11 banks, for a total value of 789.2 million in terms of gross book value, of which 420.9 million attributable to Banca Popolare di Sondrio (made up 57% of secured loans).

The payment of the purchase price by the Vehicle Company, specifically established pursuant to Law 130 of 30 April 1999, called «POP NPLs 2021 Srl» (SPV) was financed by issuing asset-backed securities for a total nominal value of 226 million, split as follows:

- a Senior tranche (Class A) of 191 million, with investment grade ratings (BBB assigned by DBRS Morningstar and Arc Ratings) consistent with the requirements of the regulations for the issue of the government guarantee (GACS) by the Economic and Finance Ministry, pursuant to Decree Law 18/2016, for which the formal procedure has been started. These securities provide a yield equal to the 6-month Euribor plus an annual spread of 0.25%;
- a Mezzanine tranche (Class B) for 25 million, unrated, with a yield equal to the sum of an annual spread of 12% and the 6-month Euribor;
- a Junior tranche (Class J) for 10 million, unrated, with a yield equal to the 6-month Euribor plus an annual spread of 15% and any variable yield based on the performance of the securitisationrizzazione.

On 23 December 2021, the issue date of the securities, the originating banks subscribed 100% of the Senior notes and in application of the retention rule provided for by Article 405 of the CRR, each of the originating banks maintained a stake of not less than 5% of the Mezzanine and Junior tranches. The rest of the Mezzanine and Junior securities were subscribed by third-party investors. On 23 December, an application was also submitted to the MEF to obtain the GaCS (state guarantee provided for by Law Decree 18 of 14/2/2016, as amended by conversion law 49 of 8/4/2016) on the Senior securities.

The SPV has entered into an Interest Rate Cap (IRC) type derivative contract in order to protect itself from interest rate risk. The originating banks are not a counterparty – neither «direct» nor «indirect» (through an investee) – of derivative instruments designed to attribute part of the risks assumed by the vehicle to the Originating Bank.

Consistently with the provisions of IFRS 9, due to the regulation of the sale of 95% of the said notes (Mezzanine and Junior), in compliance with the retention rule, pursuant to the provisions of Article 6, paragraph 4, of the Securitisation Regulation, the conditions for derecognition of the bad loans sold were met, as the related rights and benefits were substantially transferred.

The following table shows the securitisation positions held by the Bank at the reporting date.

Seniority	Maturity	Nominal Amount	Rating DBRS Morningstar	Arc Ratings
Senior	October 2045	97,715,000	BBB	BBB
Mezzanine	October 2045	665,614	N/A	N/A
Junior	October 2045	266,246	N/A	N/A
Total		**98,646,860**		

All of the senior securities are classified as «Financial assets measured at amortised cost» for an amount net of expected losses on the basis of the IFRS 9 impairment model of 97.715 million euro; conversely, the portions owned of the mezzanine (fair value 79,607 euro) and junior (fair value 266 euro) securities have been classified as «Financial assets mandatorily measured at fair value through profit or loss».

The loss on disposal, equal to 2.7 million euro, is included in «Gains (losses) from the sale or repurchase of financial assets measured at amortised cost». In addition, other charges of 1.5 million euro connected with the sale are also added.

The credit management and recovery activity was entrusted by the Vehicle Company to

Zenith Service S.p.A. and doValue S.p.A., servicers appointed in accordance with article 2, paragraphs 3 and 6-bis of Law 130/1999.

For the sake of completeness of information, it should be noted that as part of the transaction, the selling banks granted the vehicle POP NPLs 2021 S.r.l. a «Limited Recourse Loan» of 8.040 million euro, intended, on the date of issue of the securities, as a cash reserve available to the SPV to cover any misalignments between the recovery plan of the Portfolio Sold and the payments to be made to the security holders. The «Limited Recourse Loan» made by Banca Popolare di Sondrio is equal to 4.113 million and is recorded under «Financial assets measured at amortised cost»; it will be repaid based on the available liquidity of the SPV in the order of priority of payments and, in any case, prior to the repayment of the principal of the senior securities, so it does not represent any form of credit support for the securitisation.

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	13/12/2021
Vehicle Company	POP NPLs 2021 S.r.l.
Servicers	Zenith Service S.p.A. and doValue S.p.A.
Securities issue date	23/12/2021
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	4.113 million
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Non-performing loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 374 million euro.
Sale price of the securitised assets	The sale price is 99.250 million euro
Organisational structure	Zenith Service S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

Securitisation transactions already in place

Securitisation transactions completed in 2020 included:

- subscription of the Senior securities issued by the vehicle company and sale of the Mezzanine and Junior tranches to third parties, in compliance with the requirements of prudential regulations. As a result of this holding, the receivables sold have been derecognised, as the Group has substantially transferred the rights and benefits of the financial assets sold;
- obtaining the State guarantee on the Senior securities (so-called Guarantee for Securitisation of Non-performing loans - GACS pursuant to Decree 18 of 14 February 2016 converted into Law no. 49 of 8 April 2016 and subsequent MEF decree of 3 August 2016).

A summary of the transactions completed in the previous year is provided below; for further information, please refer to the financial statements as at 31 December 2020.

Diana securitisation

Portfolio sale date	01/06/2020
Vehicle Company	Diana S.P.V. S.r.l.
Servicers	Prelios Credit Servicing S.p.A.
Securities issue date	17/06/2020
Type of transaction	Traditional with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	10.925 million original, 7.966 million residual as at 31/12/2021
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Non-performing loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 872 million euro.
Sale price of the securitised assets	The sale price is 274 million euro
Organisational structure	Prelios Credit Servicing S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The vehicle company has issued the following securities:

Seniority	Maturity	Amount Issue amount	Rating DBRS Morningstar	Rating Moody's	Rating Scope Ratings
Senior	December 2038	235,000,000	BBB	Baa2	BBB
Mezzanine	December 2038	35,000,000	N/A	N/A	N/A
Junior	December 2038	3,651,000	N/A	N/A	N/A
TOTAL		**273,651,000**			

All senior securities are classified in the portfolio of «Financial assets valued at amortised cost»: based on the reimbursements received in 2020 and 2021, and the expected losses recognised on the basis of the IFRS 9 impairment model, the net carrying amount at the end of the year, amounts to 134.392 million. The units of mezzanine (fair value 667,368 euro) and junior (fair value 527 euro) securities owned by the Company have instead been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

Luzzatti securitisation

In December 2020, the Bank carried out the second securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 15 banks, for a total value of 919.9 million in terms of gross book value, of which 371.8 million attributable to Banca Popolare di Sondrio.

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	03/12/2020
Vehicle Company	POP NPLs 2020 S.r.l.
Servicers	Credito Fondiario S.p.A. and Fire S.p.A.
Securities issue date	23/12/2020
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	The portfolio being sold is made up principally of corporate debtors.
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	4.505 million original, 3.808 million residual as at 31/12/2021
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Non-performing loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 345 million euro.
Sale price of the securitised assets	The sale price is 112 million euro
Organisational structure	Credito Fondiario S.p.a. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The following table shows the securitisation positions held by Banca Popolare di Sondrio:

Seniority	Maturity	Nominal amount	Rating DBRS Morningstar	Rating Scope Ratings
Senior	November 2045	109,783,000	BBB	BBB
Mezzanine	November 2045	568,250	CCC	CC
Junior	November 2045	227,400	N/D	N/D
TOTAL		**110,578,650**		

All senior securities are classified in the portfolio of «Financial assets valued at amortised cost»: based on the reimbursements received in 2020 and 2021, and the expected losses recognised on the basis of the IFRS 9 impairment model, the net carrying amount at the end of the year, amounts to 87.706 million. The units of mezzanine (fair value 90,693 euro) and junior (fair value 227 euro) securities owned by the Company have been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

QUANTITATIVE INFORMATION

C.1 Analysis of exposures arising from major own securitisations by type of securitised asset and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
Type of underlying assets/Exposures	Carrying amount	Adjustment/ rev.	Carrying amount	Adjustment/ rev.	Carrying amount	Adjustment/ rev.
A. **Fully derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
Non-performing loans	319,784	163	838	–	1	–
B. **Partially derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
C. **Not derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**

The table shows the on-balance sheet exposures assumed by the Bank in relation to its Diana, Luzzatti and Luzzatti II securitisations. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.2 Exposures deriving from the main «third-party» securitisations broken down by type of securitised assets and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
Type of underlying assets/Exposures	Carrying amount	Adjustment/ rev.	Carrying amount	Adjustment/ rev.	Carrying amount	Adjustment/ rev.
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042						
Mortgage loans	28,651	–	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045						
Lease contracts	399,905	123	–	–	–	–

The note linked with the securitisation by Bnt Portfolio Spv Srl is classified among the financial assets mandatorily measured at fair value through profit or loss. That fair value is indicated in the «Carrying amount» column. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.3 Special purpose vehicle for securitisation

			Assets			Liabilities		
Company Name	Registered office	Consolidation	Loans	Fixed-yield securities	Other	Senior	Mezzanine	Junior
Alba 6 Spv Srl	Conegliano (TV)	NO	623,928	–	29,441	400,031	–	126,626
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	146,703	–	14,039	158,441	–	–
Diana SPV	Conegliano (TV)	NO	160,811	–	11,870	134,484	35,009	3,654
Pop Npls 2020 Srl	Roma (RM)	NO	194,215	–	51,633	194,966	25,000	10,000
Pop Npls 2021 Srl	Milano (MI)	NO	176,389	–	29,625	191,000	25,072	10,038

C.4 Non-consolidated special purpose vehicle for securitisation

Pursuant to Circular 262 of the Bank of Italy, the information referred to in this section does not have to be provided by banks that prepare consolidated financial statements.

C.5 Servicer activities – own securitisations: collection of securitised loans and redemption of securities issued by the SPV for securitisation

At 31 December 2021, the Bank does not perform any servicer activity for its own securitisations in which the assets sold have been derecognised in accordance with IFRS 9.

D. Disclosure of structured entities not consolidated for accounting purposes (other than SPV for securitisation)

Pursuant to Circular 262 of the Bank of Italy, the qualitative and quantitative information referred to in this section does not have to be provided by banks prepare the consolidated financial statements.

Please refer to the corresponding part of the consolidated explanatory notes.

E. Disposals

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

Pursuant to IFRS 7, paragraph 42D, letters a), b) and c), the following table shows the carrying amount of repurchase agreements on securities owned (mainly classified in the portfolio of «Financial assets measured at amortised cost») which did not lead to derecognition of the underlying financial assets from the financial statements.

The non-derecognition of the securities, with reference to repurchase agreements, is linked to the Bank retaining all the risks and benefits associated with the security, since there is an obligation to repurchase it forward at a contractually established price. Depending on the type of counterparty, the consideration for the sale is recognised under payables to banks or to customers, while the securities involved in the transaction remain recorded in their portfolios.

QUANTITATIVE INFORMATION

E.1 Financial assets sold recognised for their full amount and associated financial liabilities: carrying amount

	Financial assets sold and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which: non-performing	Carrying amount	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. **Financial assets held for trading**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	-	-	-
B. **Other financial assets mandatorily measured at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
C. **Financial assets designated at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
E. **Financial assets measured at amortised cost**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2020	**52,782**	**-**	**52,782**	**-**	**55,422**	**-**	**55,422**

E.2 Financial assets sold recognised partially and associated financial liabilities: book values

In both the current and the previous year, the Bank has no financial assets sold but still partially recognised and associated financial liabilities.

E.3 Sale transactions with liabilities having recourse only to the assets sold and not derecognised in full: fair value

	Recognised in full	Recognised in part	**Total 31/12/2021**	**Total 31/12/2020**
A. **Financial assets held for trading**	**–**	**–**	**–**	**1,101**
1. Fixed-yield securities	–	–	–	1,101
2. Equity securities	–	–	–	–
3. Loans	–	–	–	–
4. Derivatives	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Equity securities	–	–	–	–
3. Loans	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Loans	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Equity securities	–	–	–	–
3. Loans	–	–	–	–
E. **Financial assets measured at amortised cost (fair value)**	**–**	**–**	**–**	**54,294**
1. Fixed-yield	–	–	–	54,294
2. Loans	–	–	–	–
Total financial assets	**–**	**–**	**–**	**55,395**
Total associated financial liabilities	**–**	**–**	**–**	**(55,422)**
Net carrying amount 31/12/2021	**–**	**–**	**–**	**–**
Net carrying amount 31/12/2020	**(27)**	**–**	**–**	**(27)**

B. Financial assets sold and fully derecognised with recognition of continued involvement

At 31 December 2021, there are no financial assets sold and fully derecognised with recognition of continued involvement.

C. Financial assets sold and not fully derecognised

Pursuant to the provisions of the Communication of the Bank of Italy of 23 December 2019, the following section provides the qualitative and quantitative information regarding the sale of non-performing loans, classified as «Unlikely to pay», carried out during the course of the two-year period 2020-2021 of a multi-originator type in favour of a mutual investment fund with simultaneous subscription of units issued by the fund.

During 2021, two sale transactions were completed with counterparty illimity Credit & Corporate Turnaround Fund.

On 31 March 2021, the first transaction was completed involving the sale of loans, qualified with the status of «probable defaults» by the Bank. This deal was carried out through the contribution of non-performing loans at the price of 5.305 million, offsetting the sale price with the subscription price, for the same amount, of 5,304.771 class A units, of the «illimity Credit & Corporate Turnaround Fund». Taking into account the carrying amount of the loans at 1 January 2021, the sale transaction resulted in the recognition of a negative economic effect of 0.3 million.

The second was completed on 21 October and also involved the sale of receivables with the status of «probable defaults». This deal was carried out through the contribution of non-performing loans at the price of 11,668.905 million, offsetting the sale price with the subscription price, for the same amount, of 11,668.905 class A units, of the «illimity Credit & Corporate Turnaround Fund». Taking into account the carrying amount of the loans at 1 January 2021, the sale transaction resulted in the recognition of a positive economic effect of 5.65 million.

The «illimity Credit & Corporate Turnaround Fund» is an Italian alternative investment fund (AIF) of a closed-end, single-sub-fund type reserved for qualified investors, established and managed by illimity SGR S.p.A.

The Fund's management policies are focused on maximising the recovery rate of the receivables acquired and the return on the financial instruments invested in, and on providing new finance as part of the restructuring plans of the companies in the portfolio, through instruments that allow a higher degree of priority in repayment than the financial debt already in place (Debtor-in-Possession Financing).

The structure and functioning of the transaction are governed, also in terms of governance, by the Fund Regulations.

The body responsible for managing the Fund is the Board of Directors which makes use of an Advisory Board that can express a binding opinion to the Board of Directors only in the event of any investment or divestment or contract or other act in conflict of interest, actual or potential, between related parties and with other funds managed by the AMC. There is also a third decision-making body, namely the Fund Meeting, in which all unit-holders of the Fund's Sub-Funds participate.

From an accounting point of view, in line with the provisions of IFRS 9, the aforementioned sale operation involved derecognition of the loans sold, as a counter-entry to the recognition of the shares attributed to the ICCT fund, as the Bank substantially transferred all the risks and benefits deriving from the possession of the assets being sold and, moreover, did not retain any power of management over the fund, which was taken on by the fund management company.

For further details on the determination of the fair value of the units, please refer to part A.4 of these notes.

The shares of the fund, with reference to the first and second sale, were recognised in the accounting portfolio of «Financial assets mandatorily valued at fair value through profit or loss», the fair value as at 31 December 2021 was equal to 16 million euro.

Multi-originator assignment of receivables to mutual funds completed in 2020

IDEA CCR Corporate Credit Recovery II Fund - Credit Section

On 7 October 2020, the DeA Capital deal was completed with the transfer of loans with the status of «unlikely to pay» by Banca Popolare di Sondrio to the Italian alternative mutual investment fund (FIA) of the closed-end multi-sector type reserved for qualified investors, called «IDEA CCR (Corporate Credit Recovery) II» (hereinafter IDEA CCR II), managed by DeA Capital Alternative Funds SGR, which aims to contribute to the relaunch of Italian companies under financial stress, but with solid industrial foundations.

The fund units have been booked to the portfolio of «Financial assets mandatorily valued at fair value through profit or loss», with a fair value of 9 million euro at 31 December 2021.

Refer to the financial statements as of 31/12/2020 for further details.

D. Covered bond transactions

On 6 November 2013, the Board of Directors of the Parent Company authorised a covered bond programme for a maximum amount of 5 billion euro, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 1 June 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling 802 million euro was sold without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for 500 million euro.

A second sale of performing loans totalling 202 million euro took place on 5 December 2015, under the same contract.

An additional 2 disposals were made during 2016. The first, on 1 February 2016, of a portfolio of a total of 576 million euro of performing loans in connection with the issuance of the second series of covered bonds totalling 500 million euro on 4 April 2016. The second, on 1 November 2016, of a portfolio of performing loans totalling 226 million euro.

During 2017, a fifth sale of performing loans for a total of 307 million euro took place on 1 October 2017 under the same contract.

Likewise, during 2018, a sixth sale of performing loans for a total of 323 million euro took place on 1 October 2018.

During 2019, a seventh sale of performing loans for a total of 352 million euro took place on 1 December 2019, under the same contract.

These securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as a non-recourse sale pursuant to IFRS 9. These loans were not therefore derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparties involved for various reasons, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bond issued by Banca Popolare di Sondrio S.p.A. for which the vehicle company, Popso Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Currency	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Coupon	Annual
Applicable law	Italian

The first series of bonds, with ISIN Code IT0005039711, was repaid in full on 5 August 2019.

F. Models for the measurement of credit risk

The Bank does not use internal portfolio models for the assessment of credit risk (VaR methodology).

Section 2 *Market risks*

2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The securities classified among the «financial assets held for trading» are the principal source of interest rate risk and trading portfolio price risk. The value of financial assets held for trading rose slightly, bucking the trend seen in previous years. At year end, the financial assets held for trading (other than those held by the pension and real estate funds) comprise Italian government securities, 16%; shares, 40%; and mutual funds, 44%.

The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio is short. The equity securities largely comprise those issued by leading companies, with a large market. In order to benefit from a better diversification of the equity portfolio, historically very concentrated on the Italian market, exposure to other markets was increased through the purchase of ETFs.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the bank, based on the prudent management of all risks.

The fixed-yield securities classified as «financial assets held for trading» are the principal source of interest rate risk.

As regards the transactions in derivative instruments (derivatives in the strictest sense), the offices occasionally arrange interest rate options and interest rate swaps in order to satisfy the hedging needs of customers; these are then matched with operations of opposite sign arranged with leading financial counterparties.

The main source of price risk consists of equity securities and units in mutual funds classified as «financial assets held for trading»; as regards derivatives, there have been transactions in equity options and index options mostly listed on the IDEM market.

A1. Impacts resulting from the Covid-19 pandemic

Despite the persistence of contained volatility on the markets, with the exception of a few peaks influenced by fears of a resumption of inflation and interest rates and the threat of a return of restrictions linked to the spread of new variants of the Covid-19 virus, proprietary trading activities continued regularly during 2021, in compliance with the guidelines approved by the competent bodies, and with an extremely prudential view, maintaining partial hedging of the Italian equity sector through options on indices.

The activity in derivative instruments on behalf of customers, with the related balancing operations, has resumed, returning to pre-pandemic levels, thanks also to the increased commercial activity of customers.

B. Management processes and measurement methods of interest rate risk and price risk

The internal processes for the measurement, control and management of trading portfolio interest rate risk use two separate monitoring systems that are based respectively on:

- an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 2.2 below (interest rate risk and price risk of the bank book).

With reference to the model based on the calculation of VaR, the Bank adopts an overall system of limits for exposure to risks in the context of financial activities, in particular those of the market (interest rate in the risk-free and credit spread components, inflation, exchange rate, price, commodity and optionality). This system has the following characteristics: as part of its strategic supervision functions, the Board of Directors quantifies the Maximum Acceptable Loss for the period, consistent with the investment policies defined and with financial operations expected over the next year; with reference to the Maximum Acceptable Loss determined by the Board, the Risks Committee establishes appropriate potential exposure limits in terms of the Value at Risk (VaR); the Financial Risk Office, within the Risk Control Department, measures risk on a daily basis, produces the related reports and monitors compliance with credit limits; the «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets in compliance with the identified limits.

The characteristics of the internal management and control of price risk in relation to the trading portfolio are the same – in terms of organisational structure and the limitation of risk acceptance – as those described in relation to interest rate risk.

In line with the Bank's risk map, the above limits do not apply to the securities servicing pensions and similar obligations of employees and real estate funds.

VaR is a probabilistic estimate of the maximum amount that can be lost with reference to a specific time horizon and a given probability level (consistent with the investor's level of risk aversion).

The model used is historical. On the basis of this methodology, the distribution of profits and losses of a portfolio is deduced from the actual historical observations of the returns of the elements that constitute it, obtained by carrying out the repricing of each position with application of the risk factors corresponding to each day falling within the time interval taken as a reference, using the full revaluation method. The VaR therefore corresponds to the worst value of the series of profits and losses thus obtained, chosen considering the desired confidence interval. At the reporting date, the following financial instruments of the regulatory trading book are included in the related risk measurements: for interest rate risk, debt securities, lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes) and forward contracts on exchange rates, in addition to other financial derivatives (in a strict sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, options on interest rates, interest rate swaps); for price risk, equity securities and options on shares and indices. Apart from the instruments included in the following table 2, mutual funds are also covered by the VaR model. Forward contracts on commodities negotiated by the Exchange Centre fall within the category dedicated to commodity risk.

For instruments with optionality, a specific VaR («optionality VaR») is calculated in order to capture the impact on the series of profits and losses of fluctuations in the volatility of the underlying.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of one year (corresponding to approximately 252 business days) with a decay factor of 0.99 and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The internal policies and procedures for after-the-event verification of the results of the model with the real ones (so-called «back testing») are expressed in a comparison between the daily VaR and:

– the change in market value of the following day referring to the same positions on which the VaR was calculated («theoretical P&L»);
– the change in the hypothetical present value of the instrument/portfolio, calculated using the respective pricing model applied by the risk exposure calculation tool, of the following day referring to the same positions on which the VaR was calculated («theoretical P&L according to the model»);
– the change in market value on the following day on the portfolio including the movements that have taken place («actual P&L»).

For back testing purposes, the VaR and P&L figures incorporate all of the risk factors impacting the positions under analysis.

With regard to risk exposure, measured in terms of VaR, the global VaR on interest rate risk at the end of the period amounted to 0.051 million (0.038 million for the risk-free rate and 0.018 million for the credit spread) compared to 0.101 million for the last year (0.041 million for the risk-free rate and 0.107 million for the credit spread), while the global price VaR at the end of the period was 3.890 million from 3.503 million at the end of 2020.

The internal model described is not used to determine the capital requirements for market risk reported for supervisory purposes. The Standardised Approach is used in this case.

With reference to the second method cited, based on sensitivity analyses, conducted through an ALM procedure, please refer to section 2.2 (Interest rate risk and price risk – Banking book), which also explains stress testing. With regard to the results, please refer to the contents of the following paragraph (Quantitative information).

B1. Impacts resulting from the Covid-19 pandemic

The absence of situations of strong market turbulence allowed for a gradual return of VaR measures, with a slight upturn during the last month of the year due to fears linked to the spread of the South African variant of Covid-19. With the exception of sporadic episodes of limited entity relating to the more detailed limits of potential exposure in terms of Value at Risk (VaR) on a particular type of risk factor, there were no significant violations during the year in the system of limits to risk exposure insisting on the set of instruments held for trading purposes («trading portfolio»).

QUANTITATIVE INFORMATION

1. Regulatory trading portfolio: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**4,013**	**20,218**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	4,013	20,218	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	4,013	20,218	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,204,681**	**502,602**	**270,896**	**1,276,696**	**367,978**	**96,076**	**–**
3.1 With underlying securities	–	95,785	85,089	–	11,218	–	–	–
- Options	–	–	–	–	603	–	–	–
+ Long positions	–	–	–	–	603	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	95,785	85,089	–	10,615	–	–	–
+ Long positions	–	50,440	45,293	–	–	–	–	–
+ Short positions	–	45,345	39,796	–	10,615	–	–	–
3.2 Without underlying securities	–	3,108,896	417,513	270,896	1,265,478	367,978	96,076	–
- Options	–	14,942	32,168	51,652	289,328	328,700	96,076	–
+ Long positions	–	7,471	16,088	25,826	144,664	164,350	48,038	–
+ Short positions	–	7,471	16,080	25,826	144,664	164,350	48,038	–
- Other derivatives	–	3,093,954	385,345	219,244	976,150	39,278	–	–
+ Long positions	–	1,551,030	185,107	109,987	495,337	19,639	–	–
+ Short positions	–	1,542,924	200,238	109,257	480,813	19,639	–	–

1. Regulatory trading portfolio: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,870,431**	**487,164**	**295,164**	**107,054**	**6,002**	**–**	**–**
3.1 With underlying securities	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying securities	–	1,870,431	487,164	295,164	107,054	6,002	–	–
- Options	–	15,348	30,556	42,536	3,594	–	–	–
+ Long positions	–	7,674	15,274	21,268	1,797	–	–	–
+ Short positions	–	7,674	15,282	21,268	1,797	–	–	–
- Other derivatives	–	1,855,083	456,608	252,628	103,460	6,002	–	–
+ Long positions	–	923,579	228,308	126,321	51,730	3,001	–	–
+ Short positions	–	931,504	228,300	126,307	51,730	3,001	–	–

2. Regulatory trading portfolio: distribution of exposures in equity securities and equity indices for the main countries of the listing market

Type of operations/Listing index	Listed						Unlisted
	ITALY	FRANCE	SPAIN	NETHERLANDS	GERMANY	OTHER COUNTRIES	
A. **Equity securities**							
- long positions	46,951	5,736	4,273	2,158	4,930	1,329	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in equity securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on equity securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	1,726
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	4,652	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes – internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of period

	(thousands of euro)
1. **Cash assets**	**27**
1.1 Fixed-yield securities	27
1.2 Other assets	–
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**25**
3.1 With underlying securities	6
- Options	6
+ Long positions	–
+ Short positions	6
- Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying securities	20
- Options	–
+ Long positions	13
+ Short positions	16
- Other derivatives	20
+ Long positions	24
+ Short positions	16
Total interest rate risk	**51**
A. **Equity securities**	**2,519**
- long positions	2,519
- short positions	–
B. **Purchase/sale transactions not yet settled in equity securities**	**–**
- long positions	–
- short positions	–
C. **Other derivatives on equity securities**	**195**
- long positions	–
- short positions	195
D. **Derivatives on stock indices**	**–**
- long positions	–
- short positions	–
Total Price risk transactions tab.2	**2,111**
Mutual funds	**1,779**
Total Price risk	**3,890**
Global trading (net of exchange)	**3,715**

Interest-rate risk

Information on average, minimum and maximum VaR is provided below.

Interest rate Value at Risk (VaR)

	(thousands of euro)
average	48
minimum	17
maximum	99

With regard to the distribution of VaR during the year, the average interest rate VaR for each month in 2021 is shown below.

January	91
February	78
March	60
April	53
May	49
June	45
July	38
August	32
September	25
October	24
November	43
December	42

With reference to fixed-yield securities included in the trading book, the number of days in which actual losses exceeded the VaR was 4 out of 257 total observations, the number of days in which theoretical losses exceeded the VaR was 4 out of 257 total observations, the number of days in which theoretical losses according to the model exceeded the VaR was 2 out of 257 total observations.

With regard to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates, interest rate swaps, the following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the bank book. Please note that the outcomes below refer to the hypothetical rate movement scenarios in use for the monthly risk analyses, including:

– the six scenarios described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority;
– two new hypothetical scenarios for the shift of rates, introduced on the survey at the end of 2021, aimed respectively at capturing future market expectations («ongoing») and specific particularly adverse situations that have occurred in the past («historical»).

On the recognition at the end of the period of 31/12/2021, following the relevant resolution by the Board of Directors on 22 December 2021, the recognition perimeter was expanded to include all active and passive repurchase agreements in the banking book. An updated version was also adopted, following a thorough review, of the behavioural models relating to asset and liability items repayable on demand.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

The figures given below do not include the effects generated by forward contracts on exchange rates.

Figures in thousands of euro Risk exposure	Change in net interest income from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	31/12/2020
positive parallel shift	36	13,589	36	18,666	1,401
negative parallel shift	-8	-3,029	-4,127	-8	-303
shock up parallel shift	36	13,589	36	18,666	1,401
shock down parallel shift	-8	-3,029	-4,127	-8	-303
steepener shock shift	-8	-3,028	-4,127	-8	-303
flattener shock shift	12	9,389	12	12,917	948
short shock up shift	24	12,945	24	17,797	1,312
short shock down shift	-8	-3,029	-4,127	-8	-303
ongoing shift	4	4	4	4	n.d.
historical shift	-4	-4	-4	-4	n.d.
worst-case scenario	-8	-3,029	-4,127	-8,303	-303

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

The figures given below do not include the effects generated by forward contracts on exchange rates.

Figures in thousands of euro Risk exposure	Change in profit from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	31/12/2020
positive parallel shift	-680	12,669	-680	17,625	299
negative parallel shift	194	-2,815	-3,895	194	-93
shock up parallel shift	-680	12,669	-680	17,625	299
shock down parallel shift	194	-2,815	-3,895	194	-93
steepener shock shift	194	-2,815	-3,895	194	-93
flattener shock shift	-406	8,939	-406	12,437	504
short shock up shift	-582	12,248	-582	17,036	568
short shock down shift	194	-2,815	-3,895	194	-93
ongoing shift	-136	-136	-136	-136	n.d.
historical shift	143	143	143	143	n.d.
worst-case scenario	-680	-2,815	-3,895	-136	-93

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

Figures in thousands of euro Risk exposure	Change in equity value from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	31/12/2020
positive parallel shift	-461	-948	-1,138	-461	-1,062
negative parallel shift	169	206	140	343	155
shock up parallel shift	-459	-946	-1,135	-459	-1,058
shock down parallel shift	169	206	140	343	155
steepener shock shift	323	246	191	328	212
flattener shock shift	-491	-532	-626	-484	-488
short shock up shift	-635	-775	-908	-635	-733
short shock down shift	195	207	139	342	155
ongoing shift	-164	-164	-164	-164	n.d.
historical shift	79	79	79	79	n.d.
worst-case scenario	-635	-948	-1,138	-635	-1,062

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(thousands of euro)
average	2,411
minimum	1,389
maximum	4,383

With regard to the distribution of price VaR during the year, the average VaR for each month in 2021 is presented below.

January	2,995
February	2,880
March	2,562
April	2,145
May	1,688
June	1,556
July	2,034
August	2,363
September	2,043
October	1,973
November	2,495
December	4,166

With reference to equity securities and mutual funds forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded the VaR was 1 out of 257 observations, the number of days on which theoretical losses exceeded the VaR was 1 out of 257 observations, the number of days on which theoretical losses according to the model exceeded the VaR was 2 out of 257 observations.

2.2 Interest rate risk and price risk – Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

As already described in section 2.1 above, the internal processes for the measurement, control and management of the bank book interest rate risk also uses two distinct monitoring systems:

- an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

More specifically, the daily calculation of VaR is used to monitor the financial assets classified as «other financial assets mandatorily measured at fair value», and the «financial assets measured at fair value through other comprehensive income», excluding the investments made by the pension funds; the internal process for the control and management of interest rate and price risk, as well as the related methodology, are much the same as those detailed in the qualitative information provided regarding the «Interest rate risk and price risk – trading book for supervisory purposes». Compared with last year, «financial assets measured at amortised cost» are no longer monitored via VaR, but a purely credit risk metric, deemed more representative of the typical risk profile of this type of investment, has been adopted.

With regard to monitoring based on sensitivity analysis using strategic ALM methodologies, a distinction is made between interest rate risk from fair value and interest rate risk from cash flow: the main sources of interest rate risk from fair value reside in funding (especially on demand but with appropriate modelling of maturities) and lending transactions (mainly mortgages and fixed-yield securities) at a fixed rate; on the other hand, the cash flow rate risk also originates from the remaining assets and liabilities at sight or at an indexed rate.

The internal management and control processes of interest rate risk adopt a system of indicators that hinges on a first group of summary metrics consisting of six risk indicators called «complementary» whose respective threshold systems are defined by the Board of management within the Risk Appetite Framework and on a second group of metrics consisting of three risk indicators called «operational» whose limits are established by the Risk Committee, in harmony with the risk appetite established by the board. The first pair of indicators in the first set of metrics monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total own funds. The numerator of the quotient is obtained for both indicators using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating parallel shifts in the benchmark rate curves of +/- 200 basis points. The second pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator of the quotient is obtained using the «Interactive Simulation» method under static conditions with constant volumes, simulating parallel shifts in the benchmark curves of +/- 200 basis points. The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book calculating the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, to the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from a parallel movement of the reference curves alternatively equal to +/- 200 basis points, to which is added the variation in the value of instruments through profit or loss or the balance sheet – securities classified as «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) – calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. The first indicator of the second set of metrics is calculated as the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total Tier 1 capital. The numerator of the indicator is obtained using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The second «operational» indicator is calculated as the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator is obtained using the «Interactive Simulation» method under static conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority; the denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third «operational» indicator is calculated as the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, and the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from the movements of the reference curves contained in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority, to which is added the change in the value of instruments through profit or loss or the balance sheet - securities classified in «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) - calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. These indicators are monitored monthly. The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

With regard to the principal assumptions and underlying parameters, the model used supports the Sensitivity Analysis in Full Evaluation method for analysing the sensitivity of equity and the Interactive Simulation method for analysing the sensitivity of net interest income, at constant volumes, considering solely the transactions outstanding at the reference date and the combination of both methods for the sensitivity analysis of profits. Specifically, the first methodology is used to determine the flows of principal and interest originated by the individual assets and liabilities held in the bank book applying, where necessary, the coupon rate for each instrument or, if that is not predetermined, the market curve associated with the risk factor to which the rate is indexed. Next, the present values of the assets and liabilities concerned are calculated by summing their cash flows as discounted using the yield curves.

Then, shocks to the benchmark curves are simulated, reflecting different scenarios that would cause market rates to change. The flows of interest and principal, as redetermined with reference to the modified curves, are discounted with reference to the new rate curves to obtain the «stressed present value» of each asset and liability.

Then, for each operation, the change in present value is calculated as the difference between the «stressed present value» and the «non-stressed present value».

In this way, the model estimates the sensitivity of the bank book, in terms of change in the economic value of equity caused by each scenario expressing movements in market rates, by summing for each operation in the bank book the change in present value obtained above.

In addition, euro loan and deposit current accounts and savings deposits, which are highly stable in volume terms and whose rates are not usually established by contract, are represented by behavioural models that take account of the persistence of their volume and their elasticity with respect to changes in market rates.

Another type of operations subject to its own modelling is mortgages and unsecured loans in euro granted by the Parent Company. In these transactions, the borrower has an early repayment option and an option to renegotiate the contractual terms of the loan, both of which can be exercised at any time.

The adoption of a specific scenario-dependent model is the best way to address this phenomenon, known as «prepayment», which is negatively correlated with the level of interest rates. This model is defined using a historical series of a suitable length in terms of time, containing prepayment events, those of renegotiation and other variables that help to differentiate behaviours.

The above analyses are supplemented by the results of applying the "Interactive Simulation" analysis methodology that, following a shock to the market rate curves, measures the sensitivity of net interest income for the current year to the positioning of the flows of principal at the time when the funding and lending operations start to become sensitive to changes in market interest rates.

Ideally, the bank book, made up of both debit and credit items that generate the interest margin, is subdivided between transactions that are partly sensitive to changes in interest rates and those that are entirely sensitive. The first type, mostly comprising fixed-rate transactions, is neutral when it comes to determining the sensitivity of net interest income up to the natural expiry of the transaction, but is impacted at the time of renewal; the second, represented by variable-rate transactions, is conditioned by changes in interest rates at the time of revision of the coupon rate.

The difference between the net interest income generated by each asset or liability item following the application of shocked market curves, and that generated under current market conditions, determines the marginal contribution to overall sensitivity.

Summing this differential for all the operations comprising the bank book determines the total sensitivity of net interest income to the risk of changes in market rates.

The measurements of interest-rate risk using fair value and using cash flows both consider any maximum cap or minimum floor on the coupon rate associated with bank book activities.

The source of price risk lies in the equity securities and mutual funds not included in the trading portfolio for supervisory purposes, excluding treasury shares. It therefore includes the equity securities classified as equity investments and the equity securities and mutual funds classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», excluding the investments that service employees' pension and similar obligations and real estate funds.

The strategies for governing interest-rate risk include, as part of the annual stress testing of the principal economic, financial and equity variables, carrying out joint simulations to determine the impact of adverse shocks on:

- the economic value of assets and liabilities in the banking book;
- the performance of the total net interest income generated by the bank book and the trading portfolio.

Consistent with the «Sensitivity Analysis in Full Evaluation» and «Interactive Simulation» methods explained above, stress tests are carried out by performing simulations that include volume changes and the use of a set of scenarios regarding rate trends aimed at identifying the trend in the interest rate risk profile under particularly adverse market conditions. The main objective of stress tests is to estimate the impact on risk exposure caused by sudden and unpredictable changes in the general level of interest rates caused by a change in one or more specific risk factors.

The stress analysis is carried out both in terms of the fair value interest rate risk profile, and in terms of cash flow interest rate risk.

A1. Impacts resulting from the Covid-19 pandemic

With specific reference to the securities of the banking book, similarly to what is reported in the previous section 2.1, the movement of the portfolios was carried out in compliance with the guidelines approved by the competent Bodies, using the windows deemed most appropriate.

A gradual return of VaR measures was also observed on securities in the banking portfolio, with a slight increase in risk in the latter part of the year due to fears linked to the spread of the Omicron variant. This, together with the positive income trend, made it possible to comply with the related limit system.

QUANTITATIVE INFORMATION

1. Banking portfolio: distribution by residual maturity (by repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**1,328,765**	**291,576**	**48,409**	**54,465**	**163,186**	**8**	**5**	**–**
3.1 With underlying securities	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying securities	1,328,765	291,576	48,409	54,465	163,186	8	5	–
- Options	1,328,765	291,576	48,409	54,465	163,186	8	5	–
+ Long positions	663,992	178,472	22,746	28,320	49,672	–	5	–
+ Short positions	664,773	113,104	25,663	26,145	113,514	8	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. **Other off-balance sheet transactions**	**787,169**	**121,656**	**76,968**	**3,001**	**174,371**	**149**	**1,263**	**–**
+ Long positions	204,880	121,656	76,968	3,001	174,371	149	1,263	–
+ Short positions	582,289	–	–	–	–	–	–	–

This table only shows financial derivatives as an interest rate risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Interest-rate risk

With reference to the assets and liabilities that generate the net interest income - except for the fixed-yield securities held in the trading book for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading book for supervisory purposes), forward contracts on exchange rates, options on interest rates and interest rate swaps, as the information on these is disclosed in the section on the trading book for supervisory purposes – as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Please note that the outcomes below refer to the hypothetical rate movement scenarios in use for the monthly risk exposure analyses, including:

- the six scenarios described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority;
- two new hypothetical scenarios for the shift of rates, introduced on the survey at the end of 2021, aimed respectively at capturing future market expectations («ongoing») and specific particularly adverse situations that have occurred in the past («historical»).

On the recognition at the end of the period of 31/12/2021, following the relevant resolution by the Board of Directors on 22 December 2021, the recognition perimeter was expanded to include all active and passive repurchase agreements in the banking book. An updated version was also adopted, following a thorough review, of the behavioural models relating to asset and liability items repayable on demand.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

Figures in thousands of euro	Change in net interest income				
	from 01/01/2021 to 31/12/2021				
Risk exposure	at period end	average	minimum	maximum	**31/12/2020**
positive parallel shift	65,938	112,920	65,938	136,245	137,661
negative parallel shift	25,014	30,457	24,363	36,549	28,616
shock up parallel shift	66,563	113,470	66,563	136,787	138,247
shock down parallel shift	25,000	30,453	24,351	36,550	28,615
steepener shock shift	33,723	36,469	31,170	41,987	31,140
flattener shock shift	16,902	54,346	16,902	69,498	73,660
short shock up shift	40,121	90,697	40,121	110,988	117,875
short shock up shift	25,692	31,430	25,208	37,221	28,693
ongoing shift	-409	-409	-409	-409	n.d.
historical shift	20,517	20,517	20,517	20,517	n.d.
worst-case scenario	-409	-409	-409	-409	28,615

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

Figures in thousands of euro	Change in profit				
	from 01/01/2021 to 31/12/2021				
Risk exposure	at period end	average	minimum	maximum	**31/12/2020**
positive parallel shift	-23,207	-13,030	-58,896	38,403	17,600
negative parallel shift	74,557	79,269	69,257	96,081	57,721
shock up parallel shift	-22,582	-12,480	-58,342	38,717	18,186
shock down parallel shift	74,543	79,266	69,245	96,083	57,721
steepener shock shift	47,912	43,768	26,666	57,188	33,357
flattener shock shift	-8,735	34,647	-8,735	56,358	60,885
short shock up shift	-10,848	31,040	-10,848	62,883	63,131
short shock down shift	73,206	78,251	68,953	93,523	57,759
ongoing shift	-11,977	-11,977	-11,977	-11,977	n.d.
historical shift	64,776	64,776	64,776	64,776	n.d.
worst-case scenario	-23,207	-13,030	-58,896	-11,977	17,600

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

Figures in thousands of euro Risk exposure	Change in equity value from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	**31/12/2020**
positive parallel shift	-339,466	-318,900	-404,591	-260,731	-169,460
negative parallel shift	180,763	159,930	100,832	214,683	68,745
shock up parallel shift	-337,423	-316,827	-402,412	-258,613	-167,107
shock down parallel shift	180,766	159,930	100,832	214,684	68,745
steepener shock shift	30,823	40,762	20,166	56,085	44,960
flattener shock shift	-31,372	-6,785	-42,305	18,914	-11,826
short shock up shift	-133,610	-111,495	-155,114	-84,238	-74,649
short shock down shift	158,943	159,954	115,586	198,307	85,159
ongoing shift	-44,076	-44,076	-44,076	-44,076	n.d.
historical shift	185,630	185,630	185,630	185,630	n.d.
worst-case scenario	-339,466	-318,900	-404,591	-260,731	-169,460

With respect to fixed-yield securities classified as «other financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(thousands of euro)
average	10,141
minimum	6,501
maximum	17,335

With regard to the distribution of VaR during the year, the average VaR for each month in 2021 is presented below.

January	16,089
February	15,592
March	12,228
April	10,515
May	9,283
June	8,267
July	7,089
August	7,446
September	7,094
October	7,175
November	12,443
December	9,553

With reference to the fixed-yield securities included in the «other financial assets mandatorily measured at fair value», and the «financial assets measured at fair value through other comprehensive income», the number of days in which actual losses exceeded the VaR was 2 out of 257 observations for Italian government securities and 3 out of 257 observations for the other fixed-yield securities. With regard to theoretical losses, the number of days in which the losses exceeded the VaR was 2 out of 257 total observations for Italian government bonds and other fixed-yield securities. With reference to the theoretical losses from the model, the number of exceeds was 2 out of 257 observations for Italian government bonds and 3 out of 257 total observations for other fixed-yield securities.

Price risk

With reference to the closing date, we report above all the VaR figures of equity securities (shares and mutual funds) classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of period

	(thousands of euro)
Equity securities	2,721
Mutual funds	3,358
Total	**6,115**
Equity investments	**17,872**

The following information is provided about the average, minimum and maximum VaR regarding the equity securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(thousands of euro)
average	5,424
minimum	3,889
maximum	6,859

With regard to the distribution of VaR during the year, the average VaR for each month in 2021 is presented below.

January	6,769
February	6,395
March	4,918
April	4,264
May	4,261
June	4,082
July	4,921
August	5,670
September	5,202
October	6,435
November	6,082
December	6,282

With reference to the perimeter indicated above, the theoretical and actual losses exceeded VaR once out of 257 observations, while there were 2 overruns with reference to theoretical losses according to the model.

2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk are: the investment in Banca Popolare di Sondrio (SUISSE) SA, denominated in Swiss francs, certain other equity securities, fixed-yield securities and mutual funds denominated in foreign currencies, if any, and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the implications of the Bank’s foreign exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits etc.).

Excluding securities, the Bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs.

The characteristics of the internal management and control of exchange risk are the same – in terms of organisational structure and the limitation of risk acceptance – as those described in relation to interest rate risk in section 2.1, to which reference is made.

The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described in section 2.1 above.

At the reporting date, the following assets in terms of financial instruments exposed to exchange rate risk are covered by the VaR model: all assets and liabilities in foreign currency are shown in table 1 below; moreover, the balances used by the internal model do not include accrued income and prepaid expenses, accrued expenses and deferred income, the interest portion of unpaid instalments, the differentials on adoption of the amortised cost principle and loan writedowns. In addition to those shown in table 1 above (options on exchange rates and forward contracts on commodities), the financial derivatives (in a strict sense) traded by the Exchange Centre also include interest rate swaps.

The forward contracts on exchange rates, financial derivatives (in a strict sense), fixed-yield securities and equity securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standard methodology is used in this case.

A1. Impacts resulting from the Covid-19 pandemic

Currency operations returned to pre-pandemic levels, thanks in part to the gradual recovery of customers' business activities. No major tensions were experienced in the currency market.

At the risk level, similarly to the other types of risk, a gradual return to risk measures was observed, with a slight increase in the last month of the year linked to the risk of closures due to the spread of the Omicron variant. The latter effect, however, was limited thanks to the policy of limiting the open foreign exchange position. There were no incidents of violation of the respective limit during 2021.

B. Hedging of exchange risk

The Bank has not arranged any specific hedges of exchange risk. The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations of the «Exchange Centre».

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US dollars	Pound Sterling	Japanese yen	Swiss francs	Canadian dollars	Other currencies
A. **Financial assets**	**595,343**	**152,318**	**13,168**	**428,036**	**4,026**	**89,677**
A.1 Fixed-yield securities	–	–	–	–	–	–
A.2 Equity securities	51,198	1,213	1,460	148,077	–	689
A.3 Loans to banks	81,895	141,736	9,370	44	4,026	88,973
A.4 Loans to customers	462,250	9,369	2,338	279,915	–	15
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**64,969**	**2,310**	**551**	**10,729**	**382**	**11,319**
C. **Financial liabilities**	**600,575**	**153,363**	**12,906**	**296,028**	**4,367**	**99,446**
C.1 Due to banks	302,219	4,917	255	202,282	1,560	31,640
C.2 Due to customers	298,356	148,446	12,651	93,746	2,807	67,806
C.3 Fixed-yield securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**1,788**	**2**		**59**	**28**	
E. **Financial derivatives**	**1,533,827**	**165,264**	**130,957**	**100,876**	**11,534**	**259,029**
- Options	92,036	–	–	–	–	–
+ Long positions	46,014	–	–	–	–	–
+ Short positions	46,022	–	–	–	–	–
- Other derivatives	1,441,791	165,264	130,957	100,876	11,534	259,029
+ Long positions	718,222	82,561	65,484	49,482	5,767	129,258
+ Short positions	723,569	82,703	65,473	51,394	5,767	129,771
Total assets	**1,424,548**	**237,189**	**79,203**	**488,247**	**10,175**	**230,254**
Total liabilities	**1,371,954**	**236,068**	**78,379**	**347,481**	**10,162**	**229,217**
Net balance (+/-)	**52,594**	**1,121**	**824**	**140,766**	**13**	**1,037**

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of period

	(thousands of euro)
Fixed-yield securities	–
Equity securities	928
Net balance between other assets and liabilities	56
Financial derivatives	65
- Options	–
+ Long positions	379
+ Short positions	423
- Other derivatives	65
+ Long positions	5,000
+ Short positions	4,974
Total transactions table 1	**925**
- Interest Rate Swap	1
+ Long positions	1
+ Short positions	–
Total	**926**
Details of the principal currencies	
US dollars	435
Pound Sterling	8
Yen	9
Swiss francs	816
Canadian dollars	–
Other currencies	1
Total	**926**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(thousands of euro)
average	946
minimum	445
maximum	1,322

With regard to the distribution of VaR during the year, the average VaR for each month in 2021 is presented below.

January	1,271
February	1,184
March	1,157
April	1,062
May	1,003
June	939
July	872
August	801
September	757
October	737
November	736
December	895

Section 3 *Derivative instruments and related hedging policy*

3.1 Trading derivative instruments

A. Financial derivatives

A.1 Trading financial derivatives: period-end notional amounts

Underlying assets/Types of derivatives	Total 31/12/2021				Total 31/12/2020			
	Over the counter				Over the counter			
		Without Central counterparties				Without Central counterparties		
	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**1,775,078**	**–**	**–**	**–**	**1,911,347**	**–**
a) Options	–	–	25,531	–	–	–	29,820	–
b) Swaps	–	–	1,749,547	–	–	–	1,881,527	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Others	–	–	–	–	–	–	–	–
2. **Equity securities and stock indices**	**–**	**–**	**36,313**	**–**	**–**	**–**	**26,500**	**–**
a) Options	–	–	36,313	–	–	–	26,500	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Others	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**2,092,071**	**–**	**–**	**–**	**1,726,119**	**–**
a) Options	–	–	184,122	–	–	–	42,195	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	1,907,949	–	–	–	1,683,924	–
d) Futures	–	–	–	–	–	–	–	–
e) Others	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**89,593**	**–**	**–**	**–**	**34,196**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**3,993,055**	**–**	**–**	**–**	**3,698,162**	**–**

As foreseen in the Bank of Italy's Circular 262/05, the tables in this section do not include trades in securities, commodities or foreign currencies with settlement by a date in line with market practice for transactions of the same kind or within five working days of the transaction date.

A.2 Trading financial derivatives: positive and negative gross fair value – analysis by type of product

Types of derivatives	Total 31/12/2021				Total 31/12/2020			
	Over the counter				Over the counter			
		Without Central counterparties				Without Central counterparties		
	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Positive fair value**								
a) Options	–	–	4,767	–	–	–	6,323	–
b) Interest rate swaps	–	–	9,266	–	–	–	18,277	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	10,018	–	–	–	13,023	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	3,348	–	–	–	1,318	–
Total	**–**	**–**	**27,399**	**–**	**–**	**–**	**38,941**	**–**
2. **Negative fair value**								
a) Options	–	–	2,289	–	–	–	1,262	–
b) Interest rate swaps	–	–	7,515	–	–	–	16,417	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	9,696	–	–	–	12,810	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	3,295	–	–	–	1,295	–
Total	**–**	**–**	**22,795**	**–**	**–**	**–**	**31,784**	**–**

The fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

A.3 OTC Financial trading derivatives – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial corporations	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	1,481,378	–	293,700
- positive fair value	–	7,727	–	1,654
- negative fair value	–	7,454	–	166
2) **Equity securities and stock indices**				
- notional value	–	33,813	–	2,500
- positive fair value	–	313	–	2,150
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	1,572,687	–	519,384
- positive fair value	–	9,179	–	3,028
- negative fair value	–	5,428	–	6,452
4) **Commodities**				
- notional value	–	45,658	–	43,935
- positive fair value	–	916	–	2,432
- negative fair value	–	2,441	–	854
5) **Others**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
2) **Equity securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Commodities**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Others**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–

A.4 Residual life of OTC trading financial derivatives: notional amounts

Underlying/Residual life	Within 1 year	1 to 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	300,575	1,411,563	62,940	1,775,078
A.2 Financial derivatives on equity securities and stock indices	33,813	2,500	–	36,313
A.3 Financial derivatives on currency and gold	2,079,135	12,936	–	2,092,071
A.4 Financial derivatives on commodities	88,301	1,292	–	89,593
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2021	**2,501,824**	**1,428,291**	**62,940**	**3,993,055**
Total 31/12/2020	**2,016,174**	**1,588,171**	**93,817**	**3,698,162**

3.3 Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial corporations	Other parties
A. **Financial derivatives**				
1) **Fixed-yield securities and interest rates**				
- notional value	–	1,481,378	–	293,700
- net positive fair value	–	7,727	–	1,654
- net negative fair value	–	7,454	–	166
2) **Equity securities and stock**				
- notional value	–	33,813	–	2,500
- net positive fair value	–	313	–	2,150
- net negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	1,572,687	–	519,384
- net positive fair value	–	9,179	–	3,028
- net negative fair value	–	5,429	–	6,452
4) **Commodities**				
- notional value	–	45,658	–	43,935
- net positive fair value	–	916	–	2,433
- net negative fair value	–	2,441	–	854
5) **Others**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
B. **Credit derivatives**				
1) **Purchase of protection**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
2) **Sale of protection**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–

Section 4 *Liquidity risk*

QUALITATIVE INFORMATION

A. General aspects, management processes and methods of measuring liquidity risk

Liquidity risk typically reveals itself in the form of an inability to meet payment commitments or an incapacity to finance assets with the necessary punctuality on a cost/effective basis. These negative circumstances can occur as the company finds it impossible:

- to raise funds or obtain them at a reasonable cost (funding liquidity risk);
- to sell or reduce its position without severely affecting the price, due to low efficiency or malfunctioning on the part of the market (market liquidity risk).

The Bank's overall strategy for managing liquidity risk, with its low propensity for risk, manifests itself firstly in the adoption of specific operating guidelines that make it possible to reduce the likelihood of such problems arising.

In particular, as regards the first of these sources of risk, the Bank is primarily committed to have a wide and stable retail funding base, which by definition is widely diversified; further significant sources of funding are represented by national and international entities and companies, from which the Bank has never had problems raising money at market conditions, given its high reputation. The Bank also makes use of loans granted by the European Central Bank (Targeted Longer-Term Refinancing Operations), amounting to 8.874 billion euro at 31 December 2021.

The potential liquidity risk deriving from difficulties in unwinding positions is contained by the decision of the Bank maintain a portfolio of high quality bonds: most of this portfolio consists of government securities and, to a lesser extent, of other corporate bonds; overall, the portfolio is highly liquid as it mostly comprises instruments that can easily be sold on the market or used, when liquidity is needed, either in repurchase agreements with banks or in refinancing operations arranged with the European Central Bank if, as in most cases, the securities held are eligible.

Another element that contributes positively to the reserve availability known as the «counterbalancing capacity» is represented by the loans granted to the European Central Bank, in addition to eligible fixed-yield securities, in the form of collateral, so-called ABACO loans (A.BA.CO stands for Attivi BAncari COllateralizzati or collateralised bank assets).

Control over liquidity risk is carried out by various units: the first level control is performed by the business functions involved in liquidity management, in order to ascertain by themselves that they carry out their duties properly and provide summary reports on the business operations on a daily basis.

Then there is systematic monitoring of the expected liquidity position by the Risk Control Department using a variety of indicators and different analytical time horizons. Focusing on the principal indicators used for short-term analysis, the profile of liquidity mismatches is determined and highlighted in specific tables, covering the following twelve months, using operational treasury and similar data and the counterbalancing capacity. Similar information is made available to the Supervisory Authorities every week, focusing on the time horizon up to 3 months. In addition, contingency indicators are calculated every day in order to identify, on a timely basis, any internal or external tensions affecting operational liquidity. Operational liquidity is also subjected to specific stress tests every month, in order to verify the ability of the Group to survive, using expected cash flows and its counterbalancing capacity, unfavourable endogenous and exogenous events that increase in the liquidity requirement following the drawdown of lines of credit, downgrades of the Parent Company or the Italian State, or potential combinations of adverse events with cumulative effects. The Group is in fact able to survive independently such serious adverse events beyond the target time horizon established by the Board of Directors, while maintaining a «counterbalancing capacity» which, although reduced, is in any case not zeroed.

The long-term liquidity position is also monitored monthly, with no time limits, by reference to a dedicated diary of due dates and set of metrics designed to check the structural equilibrium of the consolidated balance sheet and measure specific aspects, including the concentration of funding.

The short and long-term regulatory indicators, Liquidity Coverage Ratio and Net Stable Funding Ratio, are also quantified monthly and quarterly, respectively; the same metrics are also quantified under stressed conditions, simulating the unfavourable events described above, in order to evaluate the potential risks that would emerge in those circumstances and prepare possible countermeasures. Also monitored on a monthly basis, as required by the supervisory regulations relating to the so-called Additional Liquidity Monitoring Metrics, are additional risk measures relating, inter alia, to the concentration of funding and its cost, as well as the composition of the «counterbalancing capacity»; the indicators relating to the intra-day liquidity risk provided by the Basel Committee for Banking Supervision are also quantified (the latter also subjected to stress tests, applying hypotheses in part specific and in part corresponding to those already mentioned above with reference to the position of operational liquidity).

The following disclosures are provided in accordance with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. Cash assets	**4,037,525**	**519,365**	**2,121,098**	**922,778**	**1,968,207**	**1,559,391**	**3,275,853**	**15,550,802**	**9,624,450**	**2,262,725**
A.1 Government securities	-	-	430	375	8,256	286,959	1,493,287	5,894,000	2,701,000	-
A.2 Other fixed-yield securities	825	-	135	4,897	51,560	63,604	69,847	994,744	1,788,370	-
A.3 Mutual funds	840,816	-	-	-	-	-	-	-	-	-
A.4 Loans	3,195,884	519,365	2,120,533	917,506	1,908,391	1,208,828	1,712,719	8,662,058	5,135,080	2,262,725
- Banks	30,738	250,653	345	2,315	3,962	403,071	305,508	520,000	-	2,231,679
- Customers	3,165,146	268,712	2,120,188	915,191	1,904,429	805,757	1,407,211	8,142,058	5,135,080	31,046
B. Cash liabilities	**31,360,788**	**4,978**	**950**	**306,378**	**226,974**	**246,382**	**450,502**	**10,635,351**	**1,192,956**	**-**
B.1 Deposits and current accounts	31,170,569	886	875	204,474	8,340	121,463	2,763	310	-	-
- Banks	200,966	-	-	-	-	-	-	-	-	-
- Customers	30,969,603	886	875	204,474	8,340	121,463	2,763	310	-	-
B.2 Fixed-yield securities	126,909	-	70	101,895	209,507	119,272	429,681	1,653,437	1,082,145	-
B.3 Other liabilities	63,310	4,092	5	9	9,127	5,647	18,058	8,981,604	110,811	-
C. «Off-balance sheet» transactions	**7,265,977**	**313,137**	**139,341**	**3,037,761**	**962,289**	**1,199,320**	**2,333,695**	**427,241**	**836,582**	**-**
C.1 Financial derivatives with exchange of capital	-	310,657	128,236	785,519	363,500	208,952	168,805	58,548	45,000	-
- Long positions	-	161,862	64,124	392,785	181,785	104,492	84,449	5,078	45,000	-
- Short positions	-	148,795	64,112	392,734	181,715	104,460	84,356	53,470	-	-
C.2 Financial derivatives without exchange of capital	17,983	-	-	-	-	-	-	-	-	-
- Long positions	9,974	-	-	-	-	-	-	-	-	-
- Short positions	8,009	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to grant loans	7,247,994	2,480	11,105	2,252,242	598,789	990,368	2,164,890	368,693	791,582	-
- Long positions	33,922	2,480	11,105	2,252,242	598,789	990,368	2,164,890	368,693	791,582	-
- Short positions	7,214,072	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the reporting date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «on demand» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Non-performing loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statement purposes.

Irrevocable commitments to grant loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

1. Distribution by residual duration of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**165,782**	**581,110**	**28,862**	**50,813**	**85,548**	**42,264**	**66,809**	**84,734**	**122,814**	**481**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	64,093	-	-	-	-	-	-	-	-	-
A.4 Loans	101,689	581,110	28,862	50,813	85,548	42,264	66,809	84,734	122,814	481
- Banks	78,934	223,248	19,591	23,294	4,607	10,534	45,287	-	-	-
- Customers	22,755	357,862	9,271	27,519	80,941	31,730	21,522	84,734	122,814	481
B. **Cash liabilities**	**712,518**	**384,681**	**5,122**	**53,118**	**10,019**	**131**	**112**	**796**	**234**	**-**
B.1 Deposits and current accounts	712,518	384,624	5,122	53,118	10,019	78	5	163	-	-
- Banks	95,975	383,579	5,122	51,750	6,482	-	-	-	-	-
- Customers	616,543	1,045	-	1,368	3,537	78	5	163	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	57	-	-	-	53	107	633	234	-
C. **«Off-balance sheet» transactions**	**77,322**	**392,591**	**130,639**	**812,498**	**393,341**	**250,168**	**201,930**	**9,290**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	392,591	130,639	812,498	393,341	250,168	201,930	9,290	-	-
- Long positions	-	192,325	65,320	406,251	196,675	125,084	100,972	4,645	-	-
- Short positions	-	200,266	65,319	406,247	196,666	125,084	100,958	4,645	-	-
C.2 Financial derivatives without exchange of capital	5,974	-	-	-	-	-	-	-	-	-
- Long positions	3,068	-	-	-	-	-	-	-	-	-
- Short positions	2,906	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	1,766	-	-	-	-	-	-	-	-	-
- Long positions	883	-	-	-	-	-	-	-	-	-
- Short positions	883	-	-	-	-	-	-	-	-	-
C.4 Commitments to grant loans	69,582	-	-	-	-	-	-	-	-	-
- Long positions	34,791	-	-	-	-	-	-	-	-	-
- Short positions	34,791	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 5 *Operational risk*

QUALITATIVE INFORMATION

A. General aspects, operational risk measurement and management

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risk and IT risk, but excludes strategic and reputational risks.

To ensure that the Bank has a system of risk management that reflects the changing structure of the business as much as possible, it has adopted a system of operational risk governance and management that is in continuous refinement, with a view to adopting the most suitable technical-organisational solutions to prevent and/or mitigate critical issues involved in its operations.

With reference to the governance of operational risks, the Risk Control Department is responsible for defining methodologies and coordinating execution of the management and control processes at Group level, as well as for preparing dedicated information flows for the competent business functions and bodies, in order to ensure full knowledge of the actual and potential risks faced by the Bank and, therefore, their governability.

The qualitative and quantitative system adopted for managing operational risk is made up of the following components:

- a process of Loss Data Collection (LDC), designed for the accurate detection of risk events that generate losses (and associated recoveries) and the registration not only of monetary values, but also of qualitative information which, put briefly, specify when, how, where and why the event has occurred;
- an Operational Risk Self-Assessment process (RSA), aimed at investigating the perception of business experts regarding the potential risks in which the Bank could incur in corporate operations, as well as to gather indications on the subject of interventions, proposed or implemented, for the prevention and/or mitigation of risk situations;
- a process for measuring operational risk for regulatory purposes that is focused on adoption of the Traditional Standardised Approach (TSA), which envisages the application of different coefficients for each of the business lines making up the most recent three annual observations of the Significant Indicator, calculated in compliance with EU regulations;
- a process for measuring Operational risk exposure through the implementation of an internal statistical model aimed at calculating quantitative risk metrics (Operational VaR – OpVaR).

Overall, consistent with the best practices promoted at regulatory level, these processes assist monitoring of the historical and prospective exposure to operational risk and related trends, as well as the identification, guidance and control of coordinated action to prevent, mitigate and, if necessary, transfer risk.

Legal and conduct risks

Among the situations falling within the category of operational risks, particular attention is paid to the analysis of the economic manifestations attributable to violation of laws and regulations and legal disputes, not directly attributable to the area of credit recovery in which the Bank has carried out its operations or activated by it in order to have its own rights recognised. Given the peculiarity of these situations, the process of identifying, assessing and monitoring the risks in question is carried out in close and constant collaboration with the corporate structures responsible for overseeing specific regulatory areas or in charge of managing legal disputes.

Monitoring these types of risk consists of recording and assessing in prospective terms disbursements deriving from legal disputes, sanctioning procedures or out-of-court proceedings, including costs for external legal services and any accounting provisions of a prudential nature allocated to the provision for risks and charges, adjusted from time to time on the basis of the progress of the proceedings and the pronouncement of jurisprudential decisions of particular relevance.

This category includes risks associated with intentionally inadequate or negligent conduct, especially with reference to the provision of investment services, and/or failure to comply with professional obligations, codes and internal rules of conduct to protect customers (conduct risk).

IT Risk

The information sources coming from the operational risk management system are integrated with the evidence derived from the risk management model associated with the use of information and communication technology, subject to specialist supervision by a dedicated Committee, composed of a number of transversal technical skills for integrated management purposes.

Specifically, this model is based on dynamic processes of:

- identification of the perimeter of IT resources that can be qualified as critical for the performance of company operations, taking into account the extent and number of historical incidents and the intrinsic vulnerabilities potentially compromising the achievement of strategic objectives, the fulfilment of business needs, operational continuity and/or compliance with sector regulatory requirements;
- identification of risk scenarios (and related threats) – collected in a dedicated Register – potentially involving ICT resources previously identified as critical;
- expert assessment of risk scenarios, in terms of both probability of occurrence of the related threat, and of impact on different dimensions of analysis, in order to arrive at an estimate of residual exposure to risk, taking into account the effectiveness of the associated control measures.

The management of the risks in question also benefits from structured governance of the information system, with the task of directing a coordinated development of the corporate technology systems, through the definition of effective and efficient architectural and organisational models, guiding project initiatives and proposing suitable policies for outsourcing ICT services, in constant alignment with corporate strategies and in compliance with applicable regulations.

Impacts resulting from the Covid-19 pandemic

Also in 2021, in light of the continuing pandemic emergency, the Bank - and the companies of the Group as a whole - paid particular attention to the monitoring of operational and IT risks arising from the adaptation of management practices and application and technological measures, in order to ensure business continuity and preserve the health and safety of customers and employees.

The main objective was to maintain the enabling conditions to ensure suitable standards of security and functionality of corporate information systems in order to cope with a more intensive use of telematic banking services and agile working methods (smart working), with the aim of encouraging social distancing and thus minimising the risks of contagion.

By making use of the methods and analytical tools described above, the Bank has proceeded, for management purposes and in line with the guidelines expressed by the ECB, to monitor the exposure – both actual and prospective – of the entire Group to risky situations, attributable to the introduction of operational innovations and the provision of massive credit support measures because of the pandemic emergency.

As part of the Loss Data Collection process, the recording and classification of operational losses directly or indirectly linked to the pandemic context also continued.

QUANTITATIVE INFORMATION

The most significant impacts in absolute terms are also represented by manifestations of loss connected with the violation of information obligations provided for by the regulations and the adoption of improper commercial and market practices and by errors/shortcomings recorded within the framework of relations established with counterparties other than customers. These types of losses are mainly prudential provisions to the Provision for Risks and Charges for legal proceedings/compensation claims against the Bank.

The total amount of losses also includes disbursements deriving from phenomena of an exogenous nature, such as ATM robberies/crashing, the execution of fraudulent transfers and the theft/loss/cloning of payment cards, which are normally mitigated by means of dedicated insurance policies, as well as losses attributable to errors/delays in the performance of operations, in particular in the execution and completion of transactions and in the management of relations with third parties.

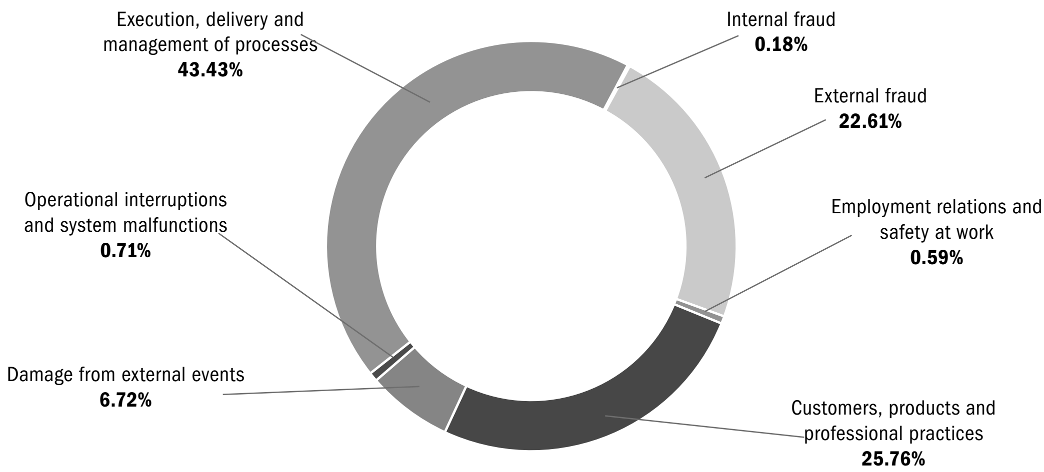
The following chart shows the operational losses recognised over the past five years (2017-2021) as part of the Loss Data Collection process, using the regulatory classification for operational risk events (Event Type):

- *Internal fraud* - Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- *External fraud* - Events of fraud, embezzlement or circumvention of the law by external/third parties to obtain personal benefits that involve damage to the Bank.
- *Employment and safety at work* - Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- *Customers, products and professional practices* - Events due to non-compliance/negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- *Damage from external events* - Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.
- *Operational interruptions and system malfunctions* - Events attributable to interruption of business continuity and unavailability / malfunctioning of the information systems used to support company operations.
- *Execution, delivery and management of processes* - Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services).

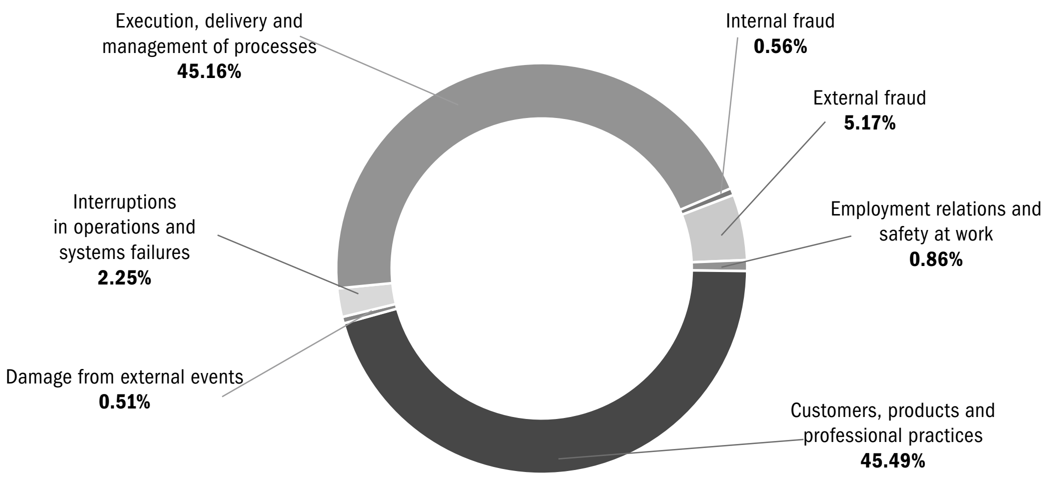
It should be noted that the total losses incurred by the Bank in 2021 in the face of the Covid-19 pandemic emergency can be qualified as one-off costs attributable to one type of operational risk event: Operational interruptions and system malfunctions.

Banca Popolare di Sondrio – Sources of operational losses (accounting period: 01/01/2017 – 31/12/2021)

Number of operational loss events – breakdown by Event Type



Impact of the events of operational losses – Breakdown by Event Type



Section 6 *Sovereign risk*

Information on exposure to sovereign debt

Consob, with communication no. DEM/11070007 of 05/08/2011, invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard, the overall exposure of the bank at 31/12/2021 amounted to 12,325 million euro and was structured as follows:

a) Italian government securities: 8,188 million euro;

b) Securities of other issuers: 3,004 million euro;

c) Loans to government departments: 81 million euro;

d) Loans to state-owned or local government-owned enterprises: 1,004 million euro;

e) Loans to other public administrations and miscellaneous entities: 48 million euro.

PART F *Information on equity*

Section 1 *Company equity*

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that losses also affect the bank's reputation.

The need for adequate capital was made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery. Recent events that have affected the banking system are evidence of this. Supervisory Bodies are focusing more and more on the capital adequacy of banks.

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by management.

By resolution of the shareholders' meeting of 29 December 2021, the Bank, in accordance with the provisions of Law no. 33 of 24 March 2015, converted from a cooperative company limited by shares to a joint-stock company. The transformation into a joint-stock company will not undermine the founding principles that underpin the Bank's activities.

This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the bank to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity. It should be pointed out that the explosion of the crisis and the negative repercussions on bank financial statements have had a negative impact on self-financing, which in the past has always made a substantial contribution to the capitalisation of credit institutions. The ongoing tensions experienced in recent years that have affected various banks have not, in the last analysis, facilitated the projects to strengthen the capital adequacy of the bank, despite the growth in operations designed to add specialist instruments in support of the real economy. In this context, we have acquired Factorit Spa, Banca della Nuova Terra spa and Prestinuova spa in recent years, while also increasing the equity interests held in companies with complementary activities. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of 343 million euro.

With the transformation, the partners and shareholders who did not take part in the related resolution have the right of withdrawal pursuant to art. 2437 of the Italian Civil Code. The Unit Liquidation Value, in accordance with the provisions of art. 2437-ter, paragraph 3, was determined to be 3.7548 euro per share. This right was exercised by 17 shareholders for a total of 12,676 shares, which were offered under option pursuant to art. 2437-quater of the Italian Civil Code.

Capital adequacy is constantly checked and periodically brought to the attention of the Administrative and Control Bodies. Furthermore, in accordance with the CCRR and CRD regulations, it is also assessed in relation to the Bank's ability to resist in situations of hypothetical stress events in particularly adverse conditions.

The shareholders' meeting of 11 May 2021, taking into account the recommendation of the European Central Bank regarding the need for banks to strengthen their capital, resolved to pay a total dividend of 27.203 million.

B. QUANTITATIVE INFORMATION

The component parts and size of the Bank's capital and equity are described in Part B, Liabilities, Section 12 of these notes to the financial statements.

B.1 Equity: breakdown

Items/Amounts	31/12/2021	31/12/2020
1. **Share capital**	**1,360,157**	**1,360,157**
2. **Share premium reserve**	**79,005**	**79,005**
3. **Reserves**	**1,153,960**	**1,102,257**
– of profits	1,153,960	1,102,257
a) legal	451,807	426,779
b) statutory	590,411	567,678
c) treasury shares	30,000	30,000
d) other	81,742	77,800
– other	–	–
4. **Equity instruments**	**–**	**–**
5. **(Treasury shares)**	**(25,322)**	**(25,322)**
6. **Valuation reserves**:	**52,088**	**49,906**
– Equity securities measured at fair value through other comprehensive income	74,598	74,330
– Hedges of equity securities measured at fair value through other comprehensive income	–	–
– Financial assets (other than equity securities) measured at fair value through other comprehensive income	13,467	25,700
– Property, equipment and investment property	9,817	–
– Intangible assets	–	–
– Hedges of foreign investments	–	–
– Cash-flow hedges	–	–
– Hedging instruments (non-designated elements]	–	–
– Exchange differences	–	–
– Non-current assets and disposal groups held for sale	–	–
– Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)	–	–
– Actuarial profits (losses) related to defined-benefit pension plans	(45,794)	(50,124)
– Portions of valuation reserves related to subsidiaries carried at equity	–	–
– Special revaluation regulations	–	–
7. **Profit (loss) for the year**	**212,099**	**75,045**
Total	**2,831,987**	**2,641,048**

B.2 Valuation reserve of financial assets measured at fair value through other comprehensive income: breakdown

	Total 31/12/2021		Total 31/12/2020	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	17,461	3,994	25,844	(144)
2. Equity securities	77,675	3,077	77,670	(3,340)
3. Loans	–	–	–	–
Total	**95,136**	**7,071**	**103,514**	**(3,484)**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes in the year

	Fixed-yield securities	Equity securities	Loans
1. **Opening balance**	**25,700**	**74,330**	**–**
2. **Positive changes**	**7,623**	**13,245**	**–**
2.1 Increases in fair value	7,621	12,807	–
2.2 Adjustments for credit risk	–	–	–
2.3 Transfer to income statement of negative reserves from disposals	2	–	–
2.4 Transfer to other components of equity (equity securities)	–	438	–
2.5 Other changes	–	–	–
3. **Negative changes**	**(19,856)**	**(12,977)**	**–**
3.1 Reductions in fair value	(9,902)	(9,586)	–
3.2 Writebacks for credit	–	–	–
3.3 Transfer to income statement of negative reserves from disposals: realisation	(9,954)	–	–
3.4 Transfer to other components of equity (equity securities)	–	(3,391)	–
3.5 Other changes	–	–	–
4. **Closing balance**	**13,467**	**74,598**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes in the year

The valuation reserve relating to the defined-benefit plans is negative by 45.794 million euro.

This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 Capital and capital adequacy ratios

The disclosure on own funds and capital adequacy is represented in the document «Disclosure to the Public - Pillar 3 at 31 December 2021» prepared on the basis of the regulatory provisions established by Circular no. 285 of 17 December 2013 and subsequent updates, issued by the Bank of Italy, and by Regulation (EU) no. 575/2013 of the European Parliament and Council of 26 June 2013 (CRR). The document contains consolidated information and is published together with the financial statements on the Parent Company's website.

PART H *Related-party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and Surname	Office	Period in office	Expiry of the office	Emoluments for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other remuneration
FRANCESCO VENOSTA	Chair	01/01/2021-31/12/2021	31/12/2021	254	-	-	49
LINO STOPPANI	Deputy Chair	01/01/2021-31/12/2021	31/12/2022	167	-	-	15
MARIO ALBERTO PEDRANZINI	Director	01/01/2021-31/12/2021	31/12/2022	205	-	-	135
PAOLO BIGLIOLI	Director	01/01/2021-31/12/2021	31/12/2022	49	-	-	-
ALESSANDRO CARRETTA	Director	01/01/2021-31/12/2021	31/12/2023	49	-	-	-
CECILIA CORRADINI	Director	01/01/2021-31/12/2021	31/12/2022	48	-	-	-
LORETTA CREDARO	Director	01/01/2021-31/12/2021	31/12/2023	53	-	-	-
DONATELLA DEPPERU	Director	01/01/2021-31/12/2021	31/12/2023	53	-	-	-
FEDERICO FALCK	Director	01/01/2021-31/12/2021	31/12/2021	47	-	-	-
ATTILIO PIERO FERRARI	Director	01/01/2021-11/05/2021	11/05/2021	19	-	-	-
LUCA FRIGERIO	Director	11/05/2021-05/10/2021	05/10/2021	20	-	-	-
CRISTINA GALBUSERA	Director	01/01/2021-31/12/2021	31/12/2021	50	-	-	-
PIERLUIGI MOLLA	Director	09/11/2021-31/12/2021	31/12/2023	12	-	-	-
ADRIANO PROPERSI	Director	01/01/2021-31/12/2021	31/12/2023	51	-	-	70
ANNALISA RAINOLDI	Director	01/01/2021-31/12/2021	31/12/2022	55	-	-	-
SERENELLA ROSSI	Director	01/01/2021-31/12/2021	31/12/2021	51	-	-	-
DOMENICO TRIACCA	Director	01/01/2021-31/12/2021	31/12/2021	79	-	-	2
PIERGIUSEPPE FORNI	Chair of the outgoing Board of Statutory Auditors	01/01/2021-11/05/2021	11/05/2021	39	-	-	11
LAURA VITALI	Statutory Auditor	01/01/2021-31/12/2021	31/12/2023	88	-	-	-
LUCA ZOANI	Statutory Auditor	01/01/2021-11/05/2021	11/05/2021	33	-	-	29
SERENELLA ROSSANO	Chair of the incoming Board of Statutory Auditors	11/05/2021-31/12/2021	31/12/2023	71	-	-	-
MASSIMO DE BUGLIO	Statutory Auditor	11/05/2021-31/12/2021	31/12/2023	56	-	-	-
MARIO ALBERTO PEDRANZINI (*)	General Manager	01/01/2021-31/12/2021		-	90	100	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		01/01/2021-31/12/2021		-	107	292	1,531

(*) also Managing Director

In accordance with the changes introduced by Consob resolution no. 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the «Remuneration Report» available both at its head office and on its website. This report provides details on the data summarised above. The «Remuneration Report» also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the reporting date, emoluments for 2.873 million euro have been paid. The column «Emoluments for the office» includes 0.108 million euro for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 22 and 38 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution no. 17221 of 12/3/2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

(thousands of euro)	Assets	Liabilities	Income	Charges	Guarantees given and commitments	Guarantees received
Directors	644	9,876	15	27	135	1,537
Statutory auditors	801	507	8	–	363	2,165
Management	–	817	–	10	620	–
Family members	1,825	15,375	35	59	889	12,610
Subsidiaries	4,553,898	146,111	6,639	249	1,884,722	13,637
Associated companies	1,015,025	183,602	2,594	24	262,746	1,202
Other	2,247	1,095	41	–	1,292	1,275

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit spa and Banca della Nuova Terra spa, while loans to associated companies relate for 434 million euro to Alba Leasing.

PART M *Information on Leasing*

Section 1 *Lessee*

QUALITATIVE INFORMATION

Contracts that fall within the application of IFRS 16 can be grouped into three distinct categories:

a) buildings, which are the most significant group;

b) cars;

c) other types, including the rental of IT equipment.

In accordance with IFRS 16, the rights held under licence agreements have been excluded from the scope of application of the standard. They continue to be recognised under IAS 38 – Intangible assets.

The lease contracts mainly relate to buildings used as bank branches and generally have a duration of more than 48 months, typically 72 or 108 months, with automatic renewal options. The policy for contracts with an indefinite useful life is to align their useful life with the history of the contract at the FTA date. If the contract has no history, the useful life is aligned with that of the contract to which it is mostly functionally related or, failing that, with that of other contracts with similar characteristics. Lease instalments are revised annually from the second year of the contract to reflect 75% or 100% of the change in the consumer price index for the families of blue- and white-collar workers.

Lease contracts for cars and IT equipment usually have a duration of four years, without any renewal and/or purchase options and with monthly payments.

As indicated in para. 33 of IFRS 16 and considering that the contracts were arranged on market terms, no impairment has been identified with reference to the qualitative criteria applied by the bank e.g. branch disposal or negotiation plans, out-of-use branches etc., that would require a reduction in the value of the related right-of-use assets.

In line with the disclosures required by paras. 51, 53 and 59 of IFRS 16, the following supplementary information is provided:

- variable lease payments: situations involving variable lease payments are marginal for disclosure purposes, as this practice is rare in contracts signed by the bank;
- extension and termination options: contracts signed by the bank generally envisage giving 6 months' notice of termination. The bank is required to pay 35% of the outstanding instalments if car leases are terminated early, while the lease instalments on contracts for IT equipment must be paid in full, regardless of any early termination. Most contracts for the lease of branch premises require payment of the cost of restoring them to their original condition if the lease is terminated. This amount is negligible for disclosure purposes;
- guarantees on the residual value: the bank does not provide guarantees on the residual value;
- leases not yet signed: the bank has not made any lease commitments that might be considered material for disclosure purposes;
- sale and lease back transactions: the bank is not party to transactions of this type;

Part B of the Notes to the financial statements provides information about leased right-to-use assets (Tables 8.1 - 8.6 Part B, Assets) and lease liabilities (Tables 1.1 - 1.2 - 1.6 Part B, Liabilities and equity). In particular, leased right-to-use assets total 184 million euro, while lease liabilities total 186 million euro.

Part C of the Notes to the financial statements contains the information required by para. 53 of IFRS 16 about the interest charged on lease liabilities and the income earned from subleasing transactions. See those sections for further details.

As indicated in part A of the financial statements, the Bank applies the exemptions allowed by IFRS 16 for short-term leases and low-value leases, the costs of which amounted to 101,966 euro in 2021.

With Regulation (EU) 2021/1421 of 31 August 2021, the EU endorsed the IASB document

«Concessions on royalties related to COVID-19 as of 30 June 2021 (Amendment to IFRS 16)». The amendment to the International Financial Reporting Standard (IFRS) 16 Leasing introduces, as a practical expedient, the possibility for the lessee not to treat the unpaid fees, as a direct consequence of Covid-19, as changes to the original contract and therefore do not imply a change of the amortisation plan of the lease, with consequent recalculation of the liability.

Taking the above into account, Banca Popolare di Sondrio did not request any suspension of payment of the lease instalments to deal with the emergency; furthermore, no branch closure was carried out that could have revealed signs of impairment of the rights of use.

QUANTITATIVE INFORMATION

As required by para. 53 of IFRS 16, the following information is provided:

Carrying amount of right-to-use assets at the reporting date and the depreciation charge on right-to-use assets by category of underlying asset.

	2021				2020
Asset/Amount	Buildings*	Cars	Other	Total	Total
Initial right-of-use	191,616	50	173	191,839	215,147
Depreciation	(19,592)	(22)	(89)	(19,703)	(20,220)
Other changes	11,673	32	73	11,778	(3,088)
Closing carrying amount	**183,697**	**60**	**157**	**183,914**	**191,839**

* Including finance leases under IAS 17

As regards the «Other changes», the impact is mainly linked to restatement of the right-of-use assets due to the ISTAT adjustments and to the opening and closing of contracts.

Section 2 ***Lessor***

QUALITATIVE INFORMATION

The bank is party to operational leases on buildings. These operational lease contracts do not transfer to the lessee substantially all the risks and benefits deriving from ownership of the assets, which remain with the lessor. In the case of operational lease contracts, the lessor recognises the lease instalments in the income statement on an accruals basis.

QUANTITATIVE INFORMATION

1. Balance sheet and income statement information

Reference should be made to the contents of Part C - Income Statement, Table 14.2 (Other operating income: breakdown) for information on other income deriving from operating leases.

3. Operational leases

The maturities of the payments to be received are summarised below.

3.1 Maturities of payments to be received

	2021	2020
Time band	Lease payments to be received	Lease payments to be received
Within 12 months	572	596
From over 1 year to 2 years	562	583
From over 2 years to 3 years	554	571
From over 3 years to 4 years	453	559
From over 4 years to 5 years	382	456
Over 5 years	666	986
Total	**3,189**	**3,751**

3.2 Other information

No other information to be reported.

APPENDICES

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

– list of revalued assets still owned by the Bank (article 10, Law no. 72 of 19/3/1983);

– schedule of the Independent Auditors' fees for the year as per art. 149 duodecies of the Issuers' Regulations;

– financial statements of the subsidiaries Banca Popolare di Sondrio (SUISSE) SA., Factorit spa, Banca della Nuova Terra Spa, Sinergia Seconda srl, Pirovano Stelvio spa.

LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law no. 72 dated 19/3/1983)

(in euro)

DESCRIPTION	Revaluation net book value	Revaluation Law 2/12/75, n. 576	Revaluation Law 19/3/83, n. 72	Revaluation Law 30/12/91, n. 413	Total at 31/12/2021	Fund amortisation at 31/12/2021	Financial statements at 31/12/2021
ABBADIA LARIANA - VIA NAZIONALE 140/A	813,504	-	-	-	813,504	500,305	313,199
ABBIATEGRASSO-VIA S,MARIA-ANG P,GARIBALDI	2,261,103	-	-	-	2,261,103	544,732	1,716,371
ALBIATE - VIA TRENTO 35	661,052	-	-	-	661,052	442,134	218,918
ALBIOLO - VIA INDIPENDENZA 10	211,151				211,151	3,167	207,984
APRICA - CORSO ROMA 140	450,765	-	356,355	146,929	954,049	685,740	268,309
ARDENNO - VIA LIBERTA' 24	561,355	-	-	-	561,355	429,437	131,918
BERBENNO DI VALTELLINA - VIA RANEE' 542	22,858,065	-	-	99,417	22,957,482	8,104,163	14,853,319
BERGAMO - VIA BROSETA 64/B	3,794,327	-	-	-	3,794,327	1,641,359	2,152,968
BERGAMO - VIA G, D'ALZANO 5	2,324,744	-	-	-	2,324,744	689,505	1,635,239
BERGAMO - VIA GHISLANDI VITTORE 4	1,288,525	-	-	-	1,288,525	289,918	998,607
BERZO DEMO - VIA NAZIONALE 14	149,932	-	-	-	149,932	6,747	143,185
BONATE SOTTO - VIA VITTORIO VENETO 37/A	765,114	-	-	-	765,114	399,159	365,956
BORMIO - VIA ROMA 64	439,238	46,481	573,267	136,524	1,195,510	361,205	834,305
BORMIO - VIA ROMA ANGOLO VIA DON PECCEDI	3,803,773	-	361,520	301,774	4,467,067	1,682,002	2,785,065
BRENO - PIAZZA RONCHI 4	1,529,470	-	-	87,467	1,616,937	1,042,961	573,976
BRESCIA - VIA CROCIFISSA DI ROSA 1	1,645,851	-	-	-	1,645,851	112,141	1,533,710
BRESCIA - VIA GRAMSCI 15	3,195,554				3,195,554	29,933	3,165,621
BRESCIA AG,4 - VIA FRATELLI UGONI 2	1,031,619	-	-	-	1,031,619	108,320	923,299
CAMOGLI - VIA CUNEO 9	220,960	-	-	-	220,960	36,458	184,502
CANTU' - VIA MILANO 47	551,416				551,416	8,271	543,145
CHIAVENNA - VIA DOLZINO 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,405,793	1,056,496
CHIESA VALMALENCO - VIA ROMA 138	1,613,025	17,560	664,795	133,250	2,428,630	578,014	1,850,616
COLICO - PIAZZA CAVOUR 11	177,749	-	-	96,488	274,237	274,237	-
COLICO - VIA NAZIONALE 27	6,996,045	-	-	-	6,996,045	1,761,001	5,235,044
COMO - VIA GIULINI 12	1,370,193	-	-	-	1,370,193	715,111	655,082
COMO - VIALE INNOCENZO XI 71	4,403,823	-	-	-	4,403,823	1,344,427	3,059,396
DARFO BOARIO TERME - CORSO ITALIA 10/12	1,086,632	-	-	-	1,086,632	824,227	262,405
DARFO BOARIO TERME - CORSO ITALIA 77	559,000	-	-	-	559,000	-	559,000
DELEBIO - PIAZZA S, CARPOFORO 7/9	1,133,580	23,241	645,773	688,773	2,491,367	1,360,486	1,130,881
DERVIO - VIA DON INVERNIZZI 2	1,270,219	-	-	329,276	1,599,495	1,101,979	497,516
DOMASO - VIA STATALE REGINA 71	584,106	-	-	53,817	637,923	247,361	390,562
DONGO - PIAZZA V, MATTERI 14	3,770,381	-	-	415,551	4,185,932	1,372,278	2,813,654
EDOLO - PIAZZA MARTIRI DELLA LIBERTA' 16	1,058,736	-	-	509,161	1,567,897	1,567,897	-
GENOVA - VIA XXV APRILE 7	10,239,131	-	-	-	10,239,131	3,791,924	6,447,207
GERA LARIO - VIA STATALE REGINA 14	292,667	-	131,677	227,733	652,077	408,852	243,225
GRAVEDONA - PIAZZA GARIBALDI 10/12	3,494,971	-	-	-	3,494,971	954,428	2,540,543
GRAVEDONA - VIA TAGLIAFERRI 5	85,943	-	-	223,957	309,900	88,322	221,579
GRAVELLONA TOCE - CORSO MARCONI 95	1,533,857	-	-	-	1,533,857	543,918	989,939
GROSIO - VIA ROMA 67	95,936	7,230	229,791	51,484	384,441	260,231	124,211
GROSOTTO - VIA STATALE 73	521,148	12,911	147,146	42,099	723,304	164,028	559,277
GRUMELLO DEL MONTE - VIA ROMA 133	1,809,670	-	-	-	1,809,670	722,280	1,087,390
ISOLACCIA VALDIDENTRO - VIA NAZIONALE 31	933,532	-	290,229	272,602	1,496,363	526,257	970,106
LECCO - CORSO MARTIRI DELLA LIBERAZIONE 63/65	9,408,936	-	351,191	2,124,557	11,884,684	5,729,498	6,155,186
LECCO - VIA GALANDRA 28	168,623	-	-	41,959	210,582	189,524	21,058
LECCO - VIALE MONTE GRAPPA 18	999,369	-	-	-	999,369	549,896	449,473
LIVIGNO - VIA S,ANTONI 135 - VIA PRESTEFAN	5,946,629	-	345,487	358,828	6,650,944	2,597,254	4,053,690
LODI - VIA GARIBALDI 23/25 - ANGOLO VIA MARSALA	3,685,221	-	-	-	3,685,221	533,109	3,152,112
MADESIMO - VIA CARDUCCI 3	493,542	-	-	203,733	697,275	697,275	0
MANDELLO DEL LARIO - VIA STATALE 87	1,783,698				1,783,698	26,755	1,756,943
MANTOVA - CORSO VITTORIO EMANUELE 26	7,822,343	-	-	-	7,822,343	945,125	6,877,218
MANTOVA - PIAZZA BROLETTO 7	1,265,944	-	-	-	1,265,944	170,902	1,095,042
MARCHIROLO - VIA CAV, EMILIO BUSETTI 7/A	1,089,018	-	-	-	1,089,018	548,906	540,112
MAZZO VALTELLINA - VIA S, STEFANO 18	641,634	16,010	163,550	48,833	870,027	348,442	521,584
MELEGNANO - PIAZZA GARIBALDI 1	2,952,750	-	-	-	2,952,750	559,416	2,393,334
MILANO - PIAZZA BORROMEO 1	38,217	-	-	213,722	251,939	227,892	24,047
MILANO - PIAZZALE CIMITERO MONUMENTALE 23	1,392,686	-	-	-	1,392,686	187,688	1,204,998
MILANO - VIA CANOVA 39 ANG, CORSO SEMPIONE	1,738,854	-	-	-	1,738,854	1,112,965	625,889
MILANO - VIA COMPAGNONI 9	51,141	-	-	6,842	57,983	57,983	-
MILANO - VIA LIPPI 25	53,970	-	-	1,635	55,605	55,605	-
MILANO - VIA MORIGI 2/A	73,590	-	-	123,930	197,520	197,520	-
MILANO - VIA PORPORA 104	5,318,961	-	-	165,381	5,484,342	2,311,627	3,172,716
MILANO - VIA S,MARIA FULCORINA 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	6,934,254	9,615,595
MILANO - VIA S,MARIA FULCORINA 11	493,165	-	-	-	493,165	493,165	-
MILANO - VIA SANGALLO 16	4,752	-	-	11,915	16,667	16,667	-
MILANO - VIA SFORZA 48	3,197,671	-	-	-	3,197,671	594,630	2,603,041
MILANO - VIA SOLARI 15	422,156	-	-	-	422,156	240,629	181,527
MILANO -VIALE FAENZA 22	864,004	-	-	-	864,004	116,641	747,363

DESCRIPTION	Revaluation net book value	Revaluation Law 2/12/75, n. 576	Revaluation Law 19/3/83, n. 72	Revaluation Law 30/12/91, n. 413	Total at 31/12/2021	Fund amortisation at 31/12/2021	Financial statements at 31/12/2021
MONTAGNA IN VALTELLINA - VIA STELVIO 30	472,050	-	328,458	398,008	1,198,516	731,095	467,421
MONZA - VIA CAVALLOTTI 5	9,115,304	-	-	-	9,115,304	528,489	8,586,815
MORBEGNO - PIAZZA CADUTI DELLA LIBERTA' 6	2,202,881	-	1,088,606	704,283	3,995,770	2,138,525	1,857,245
MORBEGNO - VIA GARIBALDI 81	972,127	25,823	-	56,050	1,054,000	-	1,054,000
MORBEGNO - VIA NANI 13	181,261	-	-	17,739	199,000	-	199,000
MORBEGNO - VIA V ALPINI 172	764,418	-	-	-	764,418	534,733	229,685
MOZZO - VIA G, D'ANNUNZIO 4	65,741	-	-	14,259	80,000	-	80,000
NOVATE MEZZOLA - VIA ROMA 13	1,079,527	-	251,282	89,219	1,420,028	475,826	944,202
PASSO DELLO STELVIO	630,416	-	-	296,176	926,592	909,793	16,799
PESCATE	1,336	-	-	-	1,336	180	1,156
PESCATE - VIA ROMA 98/E	494,059	-	-	-	494,059	388,843	105,215
PONTE DI LEGNO - PIAZZALE EUROPA 8	3,670,347	-	-	-	3,670,347	1,802,458	1,867,889
PONTE VALTELLINA - PIAZZA DELLA VITTORIA 1	833,767	12,911	258,098	86,540	1,191,317	371,916	819,401
REGOLEDO DI COSIO VALTELLINO - PIAZZA S,MARTINO 14	132,135	-	-	-	132,135	21,802	110,333
REGOLEDO DI COSIO VALTELLINO - VIA ROMA 7	511,300	-	-	78,405	589,705	109,705	480,000
ROMA - AG, 10 - VIA LAURENTINA	2,360,894	-	-	-	2,360,894	106,240	2,254,654
ROMA - AG, 2- VIA GHERARDI 45	2,136,068	-	-	-	2,136,068	160,205	1,975,863
ROMA - PIAZZA FILIPPO IL MACEDONE 75	2,400,000	-	-	-	2,400,000	1,260,000	1,140,000
ROMA - VIA DELLA FARNESINA 154	1,011,345	-	-	-	1,011,345	382,147	629,199
ROMA - VIA DI PROPAGANDA FIDE 27	155,625	-	350,503	88,926	595,054	595,054	0
ROMA AG, 37 - VIA TAGLIAMENTO 37	1,752,535	-	-	-	1,752,535	184,016	1,568,519
ROMA VIA DEL TRITONE 27	7,451,913	-	-	-	7,451,913	1,006,008	6,445,905
S, CASSIANO VALCHIAVENNA - VIA SPLUGA 108	397,672	-	-	103,093	500,765	360,895	139,870
S, PIETRO BERBENNO - VIA NAZIONALE OVEST 110	1,288,307	22,208	328,181	122,795	1,761,491	778,651	982,840
S, SIRO - VIA STATALE REGINA 223	467,692	-	-	-	467,692	282,673	185,019
SALO' -VIALE DE GASPERI 13	1,672,029	-	-	-	1,672,029	722,526	949,503
SEGRATE - VIA ROMA 96	1,070,468	-	-	-	1,070,468	77,763	992,705
SEREGNO - VIA WAGNER 137/A	123,950	-	-	13,282	137,232	137,232	-
SESTO CALENDE - PIAZZA MAZZINI 10	443,111	-	-	-	443,111	112,993	330,118
SONDALO - VIA ZUBIANI 2/4/6/8/10	263,671	25,823	312,456	158,005	759,955	220,146	539,809
SONDRIO - CORSO V,VENETO 7	2,406,658	-	-	1,190,813	3,597,471	808,208	2,789,264
SONDRIO - LARGO PEDRINI 8	363,862	-	-	22,527	386,389	264,771	121,618
SONDRIO - LUNGO MALLERO CADORNA 24	3,441,300	-	196,254	451,249	4,088,803	1,816,321	2,272,483
SONDRIO - PIAZZA GARIBALDI 1 - PALAZZO LAMBERTENGHI	16,056,897	-	-	-	16,056,897	4,186,305	11,870,592
SONDRIO - PIAZZA GARIBALDI 16	1,563,598	351,191	7,810,125	3,142,651	12,867,565	8,221,086	4,646,479
SONDRIO - PIAZZALE BERTACCHI 57	2,613,732	-	-	-	2,613,732	1,829,780	783,953
SONDRIO - PIAZZALE TOCALLI - VIA DELLE PRESE	348,608	-	-	-	348,608	329,435	19,174
SONDRIO - VIA BERNINA 1	181,930	-	82,385	45,795	310,110	214,051	96,059
SONDRIO - VIA CAIMI 29	357,915	-	-	46,342	404,257	404,257	0
SONDRIO - VIA CESURA 4	388,303	-	-	64,149	452,452	210,310	242,142
SONDRIO - VIA CESURA 3-7-9-13-15	9,816,181				9,816,181	87,535	9,728,646
SONDRIO - VIA LUSARDI 53	247,506	-	-	-	247,506	222,755	24,751
SONDRIO - VIA PIO RAJNA 1	16,195	-	-	40,221	56,416	55,851	564
SONDRIO - VIA SERTORELLI 2	2,193,892	-	-	-	2,193,892	995,045	1,198,847
SONDRIO - VIA TONALE 6	200,035	-	243,248	54,643	497,926	360,626	137,301
TALAMONA - VIA CUSINI 29	223,475	-	313,640	203,691	740,806	586,576	154,230
TEGLIO - PIAZZA S, EUFEMIA 2	40,150	13,944	546,700	148,165	748,959	506,172	242,787
TIRANO - LOCALITA' VALCHIOSA	200,000	-	-	-	200,000	-	200,000
TIRANO - PIAZZA CAVOUR 20	392,572	-	1,736,322	718,576	2,847,470	1,973,760	873,710
TORINO - VIA XX SETTEMBRE 37	6,473,623	-	-	-	6,473,623	1,844,810	4,628,813
TRESCORE BALNEARIO - PIAZZA CAVOUR 6	1,292,789	-	-	-	1,292,789	329,661	963,128
TRESENDA DI TEGLIO - VIA NAZIONALE 57	192,524	-	193,671	67,596	453,791	453,791	0
TREVISO - CORSO DEL POPOLO 50	4,883,629	-	-	-	4,883,629	725,766	4,157,863
VALMADRERA - VIA S,ROCCO 31/33	1,440,570	-	-	-	1,440,570	304,880	1,135,689
VARESE - VIALE BELFORTE 151	4,711,611	-	-	-	4,711,611	1,721,486	2,990,125
VERCELLI - PIAZZA MAZZUCCHELLI 12	1,648,346	-	-	-	1,648,346	344,328	1,304,018
VERDELLINO - LARGO LUIGI EINAUDI 1/B	336,182	-	-	-	336,182	237,009	99,174
VERONA - CORSO CAVOUR 45/47	2,172,112	-	-	-	2,172,112	262,041	1,910,071
VEZZA D'OGLIO - VIA NAZIONALE 116	715,844	-	-	-	715,844	32,213	683,631
VILLA DI CHIAVENNA - VIA ROMA 39	197,712	-	-	7,639	205,351	205,351	-
VILLA DI TIRANO - TRAVERSA FOPPA 25	440,816	-	-	7,651	448,467	314,400	134,067
VILLASANTA - VIA SCIESA 7/9	952,439	-	-	-	952,439	637,056	315,383
VOGHERA - VIA EMILIA 49	2,121,892	-	-	-	2,121,892	454,521	1,667,370
OVERALL TOTAL	**266,331,274**	**781,632**	**22,496,863**	**19,084,124**	**308,693,895**	**108,914,146**	**199,779,749**

Properties are shown at their total value regardless of their intended use.

SCHEDULE OF THE INDEPENDENT AUDITORS' FEES FOR THE YEAR (AS PER ART. 149 DUODECIES OF THE ISSUERS' REGULATIONS)

Amounts in euro	Banca Popolare di Sondrio		Group companies		Total		Overall
Type of services	EY S.p.A.	Network EY	EY S.p.A.	Network EY	EY S.p.A.	Network EY	
Audit services	241,000	–	152,500	447,716	393,500	447,716	**841,216**
Certification services	263,000	–	1,500	–	264,500	–	**264,500**
Other services	170,000	170,000	–	60,000	170,000	230,000	**400,000**
Total	**674,000**	**170,000**	**154,000**	**507,716**	**828,000**	**677,716**	**1,505,716**

FINANCIAL STATEMENTS:

BANCA POPOLARE DI SONDRIO (SUISSE) SA
FACTORIT SPA
BANCA DELLA NUOVA TERRA SPA
SINERGIA SECONDA SRL
PIROVANO STELVIO SPA

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AT 31 DECEMBER 2021

(in Swiss francs)

ASSETS	2021	2020
Cash	867,780,327	867,648,993
Loans and receivables with banks	210,159,440	100,728,170
Loans and receivables with customers	556,248,476	521,394,939
Mortgage loans	4,527,108,524	4,287,733,483
Positive replacement value of derivative products	5,107,497	30,203,409
Financial assets	48,213,398	48,183,268
Accruals and deferrals	9,002,028	8,387,410
Equity investments	2,790,135	2,790,135
Property, equipment and investment property	17,649,614	17,280,021
Other assets	7,147,110	10,259,336
Total assets	**6,251,206,549**	**5,894,609,164**
Total subordinated receivables	–	–

ASSETS	2021	2020
Due to banks	1,584,227,652	1,659,145,097
Customer deposits	3,508,124,936	3,230,651,829
Negative replacement value of derivative products	89,708,337	15,955,958
Cash bonds	27,397,000	24,230,000
Due to issuers of construction bonds and loans	579,100,000	519,100,000
Accruals and deferrals	21,462,296	22,002,891
Other liabilities	5,937,571	5,556,560
Provisions	4,565,301	8,634,258
Reserve for general banking risks	18,000,000	15,000,000
Share capital	180,000,000	180,000,000
Legal reserve from share capital	–	–
Legal reserve from profits	210,282,571	194,154,889
Optional retained earnings	–	–
Profit for the year	22,400,885	20,177,682
Total liabilities	**6,251,206,549**	**5,894,609,164**
Total subordinated commitments	–	–

OFF-BALANCE SHEET TRANSACTIONS AT 31 DECEMBER 2021	2021	2020
Contingent liabilities	313,466,075	177,366,637
Irrevocable commitments	16,146,986	24,322,517
Derivative financial instruments	2,683,559,525	2,780,671,350
- Gross positive replacement value	5,107,497	30,203,409
- Gross negative replacement value	89,708,337	15,955,958
Fiduciary transactions	2,053,034	11,886,404

INCOME STATEMENT

(in Swiss francs)

	2021	2020
Interest income:		
- Interest and discounts	70,986,930	70,828,259
- Interest income and dividends from equity investments	381,678	573,412
- Interest and dividends from trading activity	–	–
Interest expense	-6,993,736	-11,435,606
Gross interest income	**64,374,872**	**59,966,065**
Change in adjustments for loss risks and losses from interest-earning operations	-3,640,195	-989,688
Net interest income	**60,734,677**	**58,976,377**
Fee and commission income:		
- on trading in securities and investments	22,106,753	17,316,554
- on credit transactions	3,168,339	2,696,522
- on services	6,502,014	6,139,811
Commission expenses	-2,995,358	-2,600,044
Net fee and commission income and income from services	**28,781,748**	**23,552,843**
Result from financial transactions and fair value option	**14,346,143**	**20,531,764**
Result from disposal of financial assets	**1,205,863**	**913,612**
Income from equity investments	39,028	11,374
Income from real estate	50,702	116,277
Other ordinary income	2,541,147	1,147,104
Other ordinary expenses	-872,652	-3,154,627
Other ordinary results	**2,964,088**	**-966,260**
Operating expenses		
Personnel expenses	-51,537,160	-49,316,473
Other operating costs	-22,728,074	-21,388,479
Operating expenses	**-74,265,234**	**-70,704,952**

	2021	2020
Adjustments to equity investments and depreciation of property, equipment and investment property and amortisation of intangible assets	-3,462,266	-3,544,803
Changes in provisions and other adjustments and losses	-899,969	-405,643
Operating income	**28,199,187**	**27,439,326**
Extraordinary income	1,698	88,356
Extraordinary charges	–	–
Change in reserve for general banking risks	-1,750,000	–
Taxes	-4,050,000	-7,350,000
Profit for the year	**22,400,885**	**20,177,682**
PROPOSED ALLOCATION OF PROFIT FOR THE YEAR (with 2020 comparison)		
Profit for the year	22,400,885	20,177,682
Retained earnings	–	–
Available profit	**22,400,885**	**20,177,682**
The Board of Directors recommends the distribution of a dividend of 4,050,000 CHF and the allocation of 18,350,885 CHF to the legal reserve from profits.		
Retained residual earnings	**–**	**–**

FACTORIT SPA

FINANCIAL STATEMENTS AT 31 DECEMBER 2021

(in euro)

	ASSET ITEMS		31/12/2021		31/12/2020
10.	Cash and cash equivalents		2,037,431		4,618,300
30.	Financial assets measured at fair value through other comprehensive income		1,166,554		835,935
40.	Financial assets measured at amortised cost		2,925,740,147		2,607,263,157
	a) due from banks	5,174,883		63,877,394	
	b) due from customers	2,920,565,264		2,543,385,763	
80.	Property, equipment and investment property		17,474,069		6,233,630
90.	Intangible assets		411,388		560,045
100.	Tax assets		18,245,516		21,826,006
	a) current	1,049,153		1,108,934	
	b) deferred	17,196,363		20,717,072	
120.	Other assets		1,661,959		4,600,937
	TOTAL ASSETS		**2,966,737,064**		**2,645,938,010**

EQUITY AND LIABILITY ITEMS			31/12/2021		31/12/2020
10.	Financial liabilities measured at amortised cost		2,676,529,160		2,378,212,343
	a) due to banks	2,632,055,060		2,368,029,528	
	b) due to customers	44,474,100		10,182,815	
60.	Tax liabilities		3,589,562		2,583,632
	a) current	1,550,373		544,209	
	b) deferred	2,039,189		2,039,423	
80.	Other liabilities		18,705,395		13,093,955
90.	Post-employment benefits		2,014,551		2,161,392
100.	Provisions for risks and charges		1,143,008		1,538,822
	a) commitments and guarantees given	291,388		536,243	
	c) other provisions for risks and charges	851,620		1,002,579	
110.	Valuation reserves		(310,385)		(550,766)
140.	Reserves		152,868,266		144,902,640
150.	Share premium reserve		11,030,364		11,030,364
160.	Capital		85,000,002		85,000,002
180.	Profit (loss) for the year (+/-)		16,167,141		7,965,626
	TOTAL EQUITY AND LIABILITIES		**2,966,737,064**		**2,645,938,010**

	INCOME STATEMENT ITEMS		31/12/2021		31/12/2020
10.	Interest and similar income		16,931,520		19,247,464
	of which: interest income calculated using the effective interest method		16,931,520		19,247,464
20.	Interest and similar expense		(643,373)		(1,692,979)
30.	**INTEREST INCOME**		**16,288,147**		**17,554,485**
40.	Commission income		25,344,300		21,842,350
50.	Commission expense		(3,450,566)		(3,143,908)
60.	**NET COMMISSION**		**21,893,734**		**18,698,442**
80.	Net trading result		24,280		(58,240)
120.	**TOTAL INCOME**		**38,206,161**		**36,194,687**
130.	Net adjustments/writebacks for credit risk of:		4,260,434		(5,032,460)
	a) financial assets measured at amortised cost	4,260,434		(5,032,460)	
150.	**NET FINANCIAL INCOME**		**42,466,595**		**31,162,227**
160.	Administrative expenses:		(18,098,662)		(18,956,764)
	a) personnel expenses	(13,074,732)		(13,503,865)	
	b) other administrative expenses	(5,023,930)		(5,452,899)	
170.	Net accruals to provisions for risks and charges		130,498		(99,712)
	a) commitments and guarantees given	244,855		106,266	
	b) other net provisions	(114,357)		(205,978)	
180.	Depreciation and net impairment losses on property, equipment and investment property		(1,515,905)		(1,657,392)
190.	Amortisation and net impairment losses on intangible assets		(140,268)		(121,835)
200.	Other operating income/expense		629,588		1,250,565
210.	**OPERATING COSTS**		**(18,994,749)**		**(19,585,138)**
250.	Gains (losses) on sale of investments		21,526		6,528
260.	**PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**		**23,493,372**		**11,583,617**
270.	Income taxes on continuing operations		(7,326,231)		(3,617,991)
280.	**PROFIT (LOSS) FROM CONTINUING OPERATIONS NET OF TAXES**		**16,167,141**		**7,965,626**
300.	**PROFIT (LOSS) FOR THE YEAR**		**16,167,141**		**7,965,626**

BANCA DELLA NUOVA TERRA SPA

FINANCIAL STATEMENTS AT 31 DECEMBER 2021

(in euro)

	ASSET ITEMS		31/12/2021		31/12/2020
10.	Cash and cash equivalents		7,651,105		17,328,851
40.	Financial assets measured at amortised cost		238,560,984		235,372,257
	a) due from banks	1,773		1,493	
	b) due from customers	238,559,211		235,370,764	
70.	Equity investments		100,000		-
80.	Property, equipment and investment property		1,289,228		1,478,736
90.	Intangible assets		29,662		51,202
	of which:				
	- goodwill	-		-	
100.	Tax assets		11,393,728		13,562,615
	a) current	1,518,886		2,743,406	
	b) deferred	9,874,842		10,819,209	
120.	Other assets		829,187		1,159,038
	Total assets		**259,853,894**		**268,952,699**

EQUITY AND LIABILITY ITEMS			31/12/2021		31/12/2020
10.	Financial liabilities measured at amortised cost		178,237,565		186,637,413
	a) due to banks	170,978,154		186,301,586	
	b) due to customers	7,259,411		335,827	
60.	Tax liabilities		4,017		1,794
	a) current	–		–	
	b) deferred	4,017		1,794	
80.	Other liabilities		3,713,682		6,188,700
90.	Post-employment benefits		86,678		76,603
100.	Provisions for risks and charges:		542,756		1,045,719
	a) commitments and guarantees given	75		533	
	c) other provisions for risks and charges	542,681		1,045,186	
110.	Valuation reserves		(10,591)		(16,993)
140.	Reserves		43,704,142		41,946,497
160.	Capital		31,315,321		31,315,321
180.	Profit (loss) for the period (+/-)		2,260,324		1,757,645
	Total equity and liabilities		**259,853,894**		**268,952,699**

	INCOME STATEMENT ITEMS		31/12/2021		31/12/2020
10.	Interest and similar income		10,254,141		11,712,058
	of which: interest income calculated using the effective interest method	10,254,141		11,712,058	
20.	Interest and similar expense		(230,981)		(289,475)
30.	**Interest income**		**10,023,160**		**11,422,583**
40.	Commission income		519		6,422
50.	Commission expense		(13,473)		(31,583)
60.	**Net commission**		**(12,954)**		**(25,161)**
120.	**Total income**		**10,010,206**		**11,397,422**
130.	Net adjustments/writebacks for credit risk of:		(472,167)		(1,548,160)
	a) financial assets measured at amortised cost	(472,167)		(1,548,160)	
150.	**Net financial income**		**9,538,039**		**9,849,262**
160.	Administrative expenses:		(6,016,399)		(6,059,627)
	a) personnel expenses	(2,753,015)		(2,391,305)	
	b) other administrative expenses	(3,263,384)		(3,668,322)	
170.	Net accruals to provisions for risks and charges		502,963		(464,160)
	a) commitments and guarantees given	458		14,388	
	b) other net provisions	502,505		(478,548)	
180.	Depreciation and net impairment losses on property, equipment and investment property		(234,925)		(229,846)
190.	Amortisation and net impairment losses on intangible assets		(21,541)		(21,541)
200.	Other operating income/expense		(333,774)		(400,669)
210.	**Operating costs**		**(6,103,676)**		**(7,175,843)**
260.	**Pre-tax profit (loss) from continuing operations**		**3,434,363**		**2,673,419**
270.	Income taxes on continuing operations		(1,174,039)		(915,774)
280.	**Profit (loss) from continuing operations net of taxes**		**2,260,324**		**1,757,645**
300.	**Profit (loss) for the period**		**2,260,324**		**1,757,645**

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AT 31 DECEMBER 2021

(in euro)

ASSETS	31/12/2021	31/12/2020
A) **AMOUNTS RECEIVABLE FROM SHAREHOLDERS**	**-**	**-**
Of which already called €		
B) **FIXED ASSETS**		
I - Intangible assets	-	-
II - Property, equipment and investment property		
1) Land and buildings		
1 - owned	55,381,847	57,140,420
2) Equipment and machinery		
1 - owned	-	3,496
Total property, equipment and investment property	***55,381,847***	***57,143,916***
III - Financial assets		
1) investments in		
a) subsidiaries	47,104,650	42,874,650
Total financial assets	***47,104,650***	***42,874,650***
TOTAL FIXED ASSETS	**102,486,497**	**100,018,567**
C) **CURRENT ASSETS**		
I - Inventories	-	-
II - Receivables		
1) due from customers		
a) due within one year	154,752	122,316
2) due from subsidiary companies		
a) due within one year	37,222	37,222
5 bis) due from tax authorities		
a) due within one year	318,270	583,877
5 ter) deferred tax assets		
a) due within one year	1,430,829	-
5 quater) due from others		
a) due within one year	7,002	10,818
Total receivables	***1,948,075***	***754,233***
III - Financial assets not held as fixed assets	-	-
IV - Cash and cash equivalents		
3) cash and equivalents on hand	-	-
Total cash and cash equivalents	***-***	***-***
TOTAL CURRENT ASSETS	**1,948,075**	**754,233**
D) **PREPAYMENTS AND ACCRUED INCOME**		
TOTAL PREPAYMENTS AND ACCRUED INCOME	**-**	**-**
TOTAL ASSETS	**104,434,572**	**100,772,799**

LIABILITIES	31/12/2021	31/12/2020
A) **SHAREHOLDERS' EQUITY**		
I - Capital	60,000,000	60,000,000
II - Share premium reserve	–	–
III - Revaluation reserves	–	–
IV - Legal reserve	2,196,494	2,196,494
V - Statutory reserves	–	–
VI - Other reserves		
d) rounding differences on conversion to euro	-1	1
VII - Reserve for cash flow hedges	–	–
VI - Reserve for treasury shares	–	–
VIII - Retained earnings	1,057,342	6,645,621
IX - Profit for the year	323,573	-5,588,219
X - Negative reserve for treasury shares in portfolio	–	–
TOTAL SHAREHOLDERS' EQUITY	**63,577,468**	**63,253,896**
B) **PROVISIONS FOR RISKS AND CHARGES**		
TOTAL PROVISIONS FOR RISKS AND CHARGES	**–**	**–**
C) **POST-EMPLOYMENT BENEFITS**	**–**	**–**
D) **PAYABLES**		
6) advance payments		
a) due within one year	–	–
7) due to suppliers		
a) due within one year	127,950	108,159
9) due to subsidiary companies		
a) due within one year	1,917,899	335,587
11) due to parent companies		
a) due within one year	38,692,975	36,846,303
12) taxes payable		
a) due within one year	111,089	201,930
14) other payables		
a) due within one year	3,691	3,691
TOTAL PAYABLES	**40,853,604**	**37,495,670**
E) **ACCRUED LIABILITIES AND DEFERRED INCOME**		
1) accrued liabilities and deferred income	3,500	23,233
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME	**3,500**	**23,233**
TOTAL LIABILITIES	**104,434,572**	**100,772,799**

INCOME STATEMENT	31/12/2021	31/12/2020
A) **PRODUCTION VALUE**		
1) revenues from sales and services		
d) rental of residential units	35,661	35,659
e) rental of capital goods	3,596,035	3,682,500
f) reimbursement of housing unit expenses	362	357
g) reimbursement of expenses for instrumental units	91,559	18,157
5) other revenues and income		
c) other revenues	28,849	274
TOTAL PRODUCTION VALUE	**3,752,466**	**3,736,947**
B) **PRODUCTION COSTS**		
7) for services		
c) housing unit management expenses	724	713
d) capital goods management expenses	458,662	488,689
10) depreciation, amortisation and write-downs		
b) depreciation of property, equipment and investment property	1,762,069	1,776,914
14) other operating expenses		
a) other operating costs and charges	120,019	2,309
b) non-deductible expenses	320,505	375,125
TOTAL PRODUCTION COSTS	**2,661,979**	**2,643,750**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**1,090,487**	**1,093,197**
C) **FINANCIAL INCOME AND CHARGES**		
17) interest and other financial charges		
c) from parent companies	561,306	471,242
d) other	-	-
TOTAL FINANCIAL INCOME AND CHARGES	**-561,306**	**-471,242**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	**-**	**-5,958,207**
19) write-downs		
a) equity investments	-	-5,958,207
INCOME BEFORE TAXES	**529,181**	**-5,336,253**
22) Current income taxes and deferred tax assets and liabilities		
a) IRES	151,459	194,280
b) IRAP	54,149	57,687
c) Deferred taxes	-	-
23) **PROFIT FOR THE YEAR**	**323,573**	**-5,588,219**

PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AT 31 DECEMBER 2021

(in euro)

ASSETS	31/12/2021	31/12/2020
B) **FIXED ASSETS**		
I Intangible assets		
3) Industrial patent rights and intellectual property rights	25	843
6) Assets under construction and advances	-	-
Total intangible assets	***25***	***843***
II Property, equipment and investment property		
1) Land and buildings	2,342,257	2,412,913
2) Equipment and machinery	78,673	95,248
3) Industrial and commercial equipment	13,579	13,954
4) Other assets	1,960	3,169
5) Assets under construction and advances	-	-
Total property, equipment and investment property	***2,436,469***	***2,525,284***
III Financial assets		
1) Investments		
b) Associated companies	646,149	585,909
d-bis) Other companies	1,992	1,992
Total 1) Equity investments	*648,141*	*587,901*
Total financial assets	***648,141***	***587,901***
TOTAL FIXED ASSETS (B)	**3,084,635**	**3,114,028**
C) **CURRENT ASSETS**		
I Inventories		
4) Finished products and goods for resale	25,385	21,204
Total inventories	***25,385***	***21,204***
II Receivables		
1) Customers		
Due within one year	43,170	13,722
Total 1) Due from customers	*43,170*	*13,722*
4) Parent companies		
Due within one year	219,819	126,177
Total 4) Due from parent companies	*219,819*	*126,177*
5-bis) Due from tax authorities		
Due within one year	4,810	15,115
Total 5-bis) Tax authorities	*4,810*	*15,115*
5-quater) Due from others		
Due within one year	2,265	2,421
Total 5-quater) From others	*2,265*	*2,421*
Total receivables	***270,064***	***157,436***
IV Cash and cash equivalents		
1) Bank and post office deposits	105	507
3) Cash and equivalents on hand	106	33
Total cash and cash equivalents	***211***	***540***
TOTAL CURRENT ASSETS (C)	**295,660**	**179,180**
D) **PREPAYMENTS AND ACCRUED INCOME**		
TOTAL PREPAYMENTS AND ACCRUED INCOME (D)	**8,073**	**10,106**
TOTAL ASSETS	**3,388,368**	**3,303,314**

LIABILITIES	31/12/2021	31/12/2020
A) **SHAREHOLDERS' EQUITY**		
I Capital	2,064,000	2,064,000
III Revaluation reserves	192,104	192,104
IV Legal reserve	5,959	5,959
VII Other reserves, indicated separately:		
Payments to cover losses	232,397	232,397
Miscellaneous other reserves	(1)	–
Total other reserves	***232,397***	***232,397***
IX Profit (loss) for the year	(77,514)	(288,088)
TOTAL SHAREHOLDERS' EQUITY	**2,416,946**	**2,206,372**
C) **POST-EMPLOYMENT BENEFITS**		
POST-EMPLOYMENT BENEFITS	**233,166**	**215,744**
D) **PAYABLES**		
6) Advance payments		
Due within one year	15,317	1,894
Total 6) Advance payments	*15,317*	*1,894*
7) Due to suppliers		
Due within one year	48,784	53,341
Total 7) Due to suppliers	*48,784*	*53,341*
10) Due to associated companies		
Due within one year	9,633	–
Total 10) Due to associated companies	*9,633*	–
11) Due to parent companies		
Due within one year	595,639	764,198
Total 11) Due to parent companies	*595,639*	*764,198*
12) Taxes payable		
Due within one year	9,613	9,697
Total 12) Taxes payable	*9,613*	*9,697*
13) Due to social security institutions		
Due within one year	10,873	9,291
Total 13) Due to social security institutions	*10,873*	*9,291*
14) Other payables		
Due within one year	45,328	40,076
Total 14) Other payables	*45,328*	*40,076*
TOTAL PAYABLES	**735,187**	**878,498**
E) **ACCRUED LIABILITIES AND DEFERRED INCOME**		
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME	**3,069**	**2,700**
TOTAL LIABILITIES	**3,388,368**	**3,303,314**

INCOME STATEMENT	31/12/2021	31/12/2020
A) **PRODUCTION VALUE**		
1) Revenues from sales and services	1,018,616	535,964
5) Other revenues and income		
Other	166,560	49,732
Total 5) Other revenues and income	*166,560*	*49,732*
TOTAL PRODUCTION VALUE	**1,185,216**	**585,696**
B) **PRODUCTION COSTS**		
6) Raw and ancillary materials, consumables and goods	-233,662	-120,748
7) Services	-451,384	-385,541
8) Use of third-party assets	-74,113	-61,146
9) Personnel		
a) Wages and salaries	-396,993	-274,184
b) Social security charges	-125,554	-87,582
c) Post-employment benefits	-30,320	-18,522
e) Other costs	-130	-
Total 9) For personnel	*-552,997*	*-380,289*
10) Depreciation, amortisation and write-downs		
a) Amortisation of intangible assets	-819	-2,688
b) Depreciation of property, equipment and investment property	-95,074	-96,488
Total 10) Depreciation, amortisation and write-downs	*-95,892*	*-99,176*
11) Changes in inventories of raw and ancillary materials, consumables and goods	4,181	-5,599
14) Other operating expenses	-42,123	-39,640
TOTAL PRODUCTION COSTS	**-1,445,990**	**-1,092,139**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A - B)	**-260,774**	**-506,443**
C) **FINANCIAL INCOME AND CHARGES**		
15) Income from investments		
Associated companies	36,474	-
Total 15) Income from equity investments	*36,474*	-
17) Interest and other financial charges		
From parent companies	-6,219	-6,341
Other	-876	-865
Total 17) interest and other financial charges	*-7,095*	*-7,206*
TOTAL FINANCIAL INCOME AND CHARGES (15 + 16 - 17 + - 17-BIS)	**29,379**	**-7,206**
D) **ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES**		
18) Revaluations		
a) Of equity investments	60,240	99,383
Total 18) Revaluations	*60,240*	*99,383*
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES (18 - 19)	**60,240**	**99,383**
PRE-TAX PROFIT (LOSS) (A - B + - C + - D)	**-171,156**	**-414,265**
20) Current income taxes and deferred tax assets and liabilities		
Income (expense) from participation in tax consolidation / tax transparency	93,642	126,177
Total 20) Current income taxes and deferred tax assets and liabilities	*93,642*	*126,177*
21) **PROFIT (LOSS) FOR THE YEAR**	**-77,514**	**-288,088**

Attestation pursuant to art. 154-bis, para. 5, of Legislative Decree 58/98 on the annual financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.p.a., confirm:

– the adequacy in relation to the characteristics of the company and the effective application of the administrative and accounting procedures for the formation of the annual financial statements for the period 1 January 2021 to 31 December 2021.
– the performance of analytical work with reference to the objectives identified for Company Level Controls.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società per azioni, which makes reference to the principles of the «Internal Control - Integrated Framework (CoSO)», issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the separate financial statements at 31 December 2021:
– have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
– agree with the balances on the books of account and the accounting entries;
– are able to provide a true and fair view of the issuer's assets and liabilities, results and financial position.

The report on operations contains a reliable analysis of the trend and results of operations, together with a description of the main risks and uncertainties to which the Bank is exposed.

Sondrio, 18 March 2022

The Managing Director	The Manager responsible for preparing company's accounting documents
Mario Alberto Pedranzini	Maurizio Bertoletti

Banca Popolare di Sondrio S.p.A.

Financial statements as at December 31, 2021

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Independent auditor's report In accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Sondrio S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Popolare di Sondrio S.p.A. (the "Company" or the "Bank"), which comprise the balance sheet at December 31, 2021, the income statement, the statement of comprehensive income, the statement of changes in equity, and the cash flow statement for the year then ended and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at December 31, 2021, and of the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree no. 38 dated February 28, 2005 and article 43 of Legislative Decree no. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Building a better working world

We identified the following key audit matter:

Key audit matter	Audit response
Classification and measurement of loans to customers ("Loans") Loans measured at amortised cost, presented in item 40 b) of the balance sheet, amount to approximately Euro 23,886 million and represent about 48% of total assets. The classification and valuation of Loans is relevant for the audit both as the value of Loans is significant for the financial statements as a whole and as the value of the related impairment losses is determined by the Directors through the use of estimates that have a high degree of complexity and subjectivity. In addition, these estimation processes have been updated to reflect the current context of uncertainty about the evolution of the macroeconomic framework due to the spread of the Covid-19 pandemic, as well as government measures to support the economy. Among these, the following matters are particularly relevant: • the identification and calibration of parameters for determining the significant increase in credit risk compared to the initial detection date, for the purpose of allocating exposures in Stage 1 and Stage 2 (performing loans); • the definition of probability of default (PD), loss given default (LGD) and exposure at default (EAD) models and parameters applied for the calculation of expected credit losses (ECL) to one year for stage 1 classified exposures and lifetime for stage 2 classified exposures based on historical observation of data for each risk class and forward looking factors, including those macroeconomic related; • the identification of evidences that may suggest that the loan book value (impairment evidence) cannot be fully recoverable, with subsequent classification of exposures in Stage 3 (non-performing loans);	In relation to these aspects, our audit procedures included, among others: • updating the understanding of the policies, processes and controls implemented by the Bank in relation to the classification and measurement of Loans and performing compliance procedures on the key controls, including those relating to IT safeguards, in order to verify its operational effectiveness; • performing substantive procedures, on sample basis, aimed at verifying the proper classification and measurement of Loans; • understanding the methodology used for statistical assessments and the reasonableness of the assumptions adopted, including the new macroeconomic scenarios and their weighting; • performing compliance and substantive procedures, aimed at verifying the accurate determination of PD, LGD and EAD parameters relevant for the determination of expected credit loss adjustments; • performing of benchmarking procedures for the portfolio and its related coverage levels, with reference to the most significant deviations from the balances of the previous year; • the verification, through analysis of the supporting documentation, of the accounting of the disposal of non-performing loans carried out during the year, resulting from the fulfilment of the plan aimed at reducing the portfolio of non performing loans.

- for Loans classified in Stage 3, the determination of the criteria used for estimating the expected cash flows according to the recovery strategy.

Information on the evolution of the quality, classification and measurement of Loans is provided within Part A - Accounting Policies, in Part B - Information on the balance sheet, in Part C - Information on the Income Statement and in Part E - Information on risks and related hedging policy of the notes to the financial statements.

The procedures described above have also been carried out with the support of experts from the EY network on models for the evaluation of financial instruments and IT systems.

Finally, we have analysed the adequacy of the disclosure provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38 dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of statutory auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of the Bank (at the time Banca Popolare di Sondrio S.C.p.A.), in the general meeting held on April 29, 2017 appointed us to perform the audits of the financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the Board of statutory auditors ("Collegio Sindacale") in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion on the compliance with the provisions of Delegated Regulation (EU) no. 815/2019

The Directors of Banca Popolare di Sondrio S.p.A. are responsible for applying the provisions of the European Commission Delegated Regulation (EU) n. 815/2019 for the regulatory technical standards on the specification of a single electronic reporting format (ESEF – European Single Electronic Format) to the financial statement, to be included in the annual financial report.

We have performed the procedures under the auditing standard SA Italia no. 700B, in order to express an opinion on the compliance of the financial statement with the provisions of the Delegated Regulation.

In our opinion, the financial statements have been prepared in the XHTML-format, in compliance with the provisions of Delegated Regulation.

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The Directors of Banca Popolare di Sondrio S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Banca Popolare di Sondrio S.p.A. at December 31, 2021, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the financial statements of Banca Popolare di Sondrio S.p.A. at December 31, 2021 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Banca Popolare di Sondrio S.p.A. at December 31, 2021 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, April 8, 2022

EY S.p.A.
Signed by: Davide Lisi, Auditor

This report has been translated into the English language solely for the convenience of international readers.

Banca Popolare di Sondrio

CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP BANCA POPOLARE DI SONDRIO

REPORT ON OPERATIONS

Dear Shareholders,

As Parent Company of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

Banca Popolare di Sondrio s.p.a. - Sondrio

Group Companies:

Banca Popolare di Sondrio (SUISSE) SA - Lugano CH.

The Parent Company holds all the capital of Banca Popolare di Sondrio (SUISSE) SA, CHF 180,000,000, which is fully paid-up.

Factorit spa - Milano.

The Parent Company holds 60.5% of the capital of Factorit spa, 85,000,002 euro.

Sinergia Seconda Srl - Milano.

The Parent Company holds all the capital of Sinergia Seconda Srl, 60,000,000 euro.

Banca della Nuova Terra spa - Sondrio

The Parent Company holds all the capital of Banca della Nuova Terra spa, 31,315,321 euro.

PrestiNuova srl - Agenzia in Attività Finanziaria - Rome.

Banca della Nuova Terra spa holds all the capital of PrestiNuova srl, 100,000 euro.

Popso Covered Bond srl - Conegliano

The Parent Company holds 60% of the capital of Popso Covered Bond srl, 10,000 euro.

Equity investments are consolidated as follows:

CONSOLIDATED EQUITY INVESTMENTS:

Company Name	Head office	Share capital (in thousands)	Held %
Banca Popolare di Sondrio (Suisse) SA	Lugano	(CHF) 180,000	100
Factorit spa	Milan	85,000	60.5
Sinergia Seconda srl	Milan	60,000	100
Banca della Nuova Terra spa	Sondrio	31,315	100
Pirovano Stelvio spa*	Sondrio	2,064	100
Servizi Internazionali e Strutture Integrate 2000 srl*	Milan	75	100
Immobiliare San Paolo srl*	Tirano	10 **	100
Immobiliare Borgo Palazzo srl*	Tirano	10 **	100
PrestiNuova srl Agenzia in Attività Finanziaria	Rome	100 ***	100
Popso Covered Bond srl	Conegliano V.	10	60

* equity investments not included in the banking group
** held by Sinergia Seconda srl
*** held by Banca della Nuova Terra spa

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

Company Name	Head office	Share capital (in thousands)	Held %
Alba Leasing spa	Milano	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Arca Holding spa	Milano	50,000	34.715
Cossi Costruzioni spa	Sondrio	12,598	18.250
Unione Fiduciaria spa	Milano	5,940	24.000
Polis Fondi Srgpa	Milano	5,200	19.600
Sofipo SA*	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare srl	Sondrio	20	50.000
Rent2Go srl	Bolzano	12,050	33.333

* held by Banca Popolare di Sondrio (Suisse) SA

GENERAL ECONOMIC CONTEXT

The report on operations accompanying the Parent Company's 2021 financial statements contains information on the international, Swiss and Italian economic situation in which the Group operated during the year.

TERRITORIAL EXPANSION

Branches are the main tool through which the relationship between the Banca Popolare di Sondrio Banking Group and its customers is developed.

This explains the attention that is constantly paid to the addiction network, which has always been the object of strengthening and rationalisation initiatives. Also in the year under review, Banca Popolare di Sondrio, despite the continuing Covid-19 outbreak, expanded its network with the opening of the new agency no. 40 in Milan.

At the end of 2021, the Group had a total of 370 branches.

FUNDING

Also in 2021, the European Central Bank has maintained a very accommodating monetary policy in order to support the economic recovery underway in the euro area. This has helped to maintain a high money supply in the system and keep the cost of funding at minimal levels. On the other hand, customers confirmed their strong preference for liquidity. In this context, our Group recorded a positive trend in funding, with a significant expansion of assets.

Direct funding, comprising balance sheet liability items 10b "customer deposits" and 10c "securities issued", stood at 39,304 million, +10.53%.

Indirect funding from customers, at market values, totalled 40,982 million, +17.77%, thanks in particular to the positive performance of financial markets.

Direct funding from insurance premiums reached 1,909 million, +11.19%.

Total funding from customers therefore amounted to 82,195 million, +14.04%.

Deposits from banks amounted to 10,875 million, compared with 9,827 million. This exposure is largely linked to longer-term refinancing operations with the European Central Bank for a total of 8,874 million, which are described in the chapter on securities and treasury activities.

Securities under administration lodged by banks have increased from 6,541 to 8,885 million, +35.83%.

Total funding from customers and banks therefore amounts to 101,954 million, +15.28%.

The table of «Direct funding from customers» shows the various elements using different criteria and in greater detail than tables 1.2 and 1.3 in Section 1 Part B – Liabilities of the notes to the financial statements.

Considering the individual components, current accounts in euro and foreign currency rose to 34,526 million, +9.77%, and make up 87.84% of all direct funding. Bonds have increased by 33.29%, to 3,573 million. This increase is largely related to the issuance of the Parent Company's first Senior Green Bond of 500 million on 7 July and the issue of a Tier 2 bond of 300 million issued on 18 November. Time deposit accounts have fallen to 352 million, -28.39%. Savings deposits have increased slightly by +2.87% to 542 million. Bank drafts amounted to 127 million, -15.21%. The item represented by liabilities for leasing, deriving from the accounting method provided for by IFRS 16, amounted to 183 million, -8.59%, while the items repurchase agreements and certificates of deposit were not valued. As regards asset management, please see the chapter on treasury and trading activities.

DIRECT FUNDING FROM CUSTOMERS

(thousands of euro)	31/12/2021	Compos. %	31/12/2020	Compos. %	Change %
Savings deposits	542,024	1.38	526,899	1.48	2.87
Certificates of deposit	–	0.00	471	0.00	-100.00
Bonds	3,573,400	9.09	2,680,983	7.54	33.29
Repo transactions	–	–	55,422	0.16	-100.00
Bank drafts and similar	126,901	0.32	149,657	0.42	-15.21
Current accounts	31,553,224	80.28	28,839,649	81.11	9.41
Time deposit accounts	352,260	0.90	491,941	1.38	-28.39
Current accounts in foreign currency	2,972,806	7.56	2,614,046	7.35	13.72
Lease liabilities	183,170	0.47	200,392	0.56	-8.59
Total	**39,303,785**	**100.00**	**35,559,460**	**100.00**	**10.53**

TOTAL FUNDING

(thousands of euro)	31/12/2021	Compos. %	31/12/2020	Compos. %	Change %
Total direct funding from customers	39,303,786	38.55	35,559,460	40.21	10.53
Total indirect funding from customers	40,981,667	40.20	34,797,277	39.34	17.77
Total direct funding from insurance premiums	1,909,353	1.87	1,717,184	1.94	11.19
Total	**82,194,806**	**80.62**	**72,073,921**	**81.49**	**14.04**
Due to banks	10,874,856	10.67	9,826,687	11.11	10.67
Indirect funding from banks	8,884,756	8.71	6,541,248	7.40	35.83
Grand total	**101,954,418**	**100.00**	**88,441,856**	**100.00**	**15.28**

LOANS TO CUSTOMERS

In the year under review, world economic trends were again affected by the ongoing epidemic crisis. However, the health measures adopted and the progress registered in the vaccination campaigns have allowed both in Italy, to a greater extent, and in the Swiss Confederation, to revive the economic cycle.

Loans to customers, as shown in the table below, constitute a restatement of the balances reported in the balance sheet and consist solely of loans, with the exclusion of securities, except for those that do not constitute a financial investment because of their nature. They are equal to the sum of the loans included in line item «40. financial assets measured at amortised cost – b) loans and receivables with customers» and line item «20. financial assets measured at fair value through profit or loss – c) other financial assets mandatorily measured at fair value».

LOANS TO CUSTOMERS

(thousands of euro)	31/12/2021	Compos. %	31/12/2020	Compos. %	Change %
Current accounts	3,042,574	9.80	3,086,892	10.51	-1.44
Foreign currency loans	1,187,859	3.82	888,554	3.02	33.68
Advances	451,802	1.45	433,043	1.47	4.33
Advances subject to collection	227,339	0.73	190,531	0.65	19.32
Discounted portfolio	2,225	0.01	2,906	0.01	-23.43
Agricultural loans	11,239	0.04	10,561	0.04	6.42
Personal loans	455,266	1.47	456,956	1.56	-0.37
Other unsecured loans	9,954,436	32.05	9,612,043	32.72	3.56
Mortgage loans	12,047,330	38.79	11,198,224	38.12	7.58
Bad loans	192,290	0.62	345,812	1.18	-44.39
Repo transactions	–	–	67,273	0.23	-100.00
Factoring	2,737,778	8.81	2,378,958	8.08	15.08
Fixed-yield securities	749,180	2.41	707,971	2.41	5.82
Total	**31,059,318**	**100.00**	**29,379,724**	**100.00**	**5.72**

Overall, loans to customers total 31,059 million, +5.72%. The ratio of loans to direct funding from customers has fallen to 79.02%, from 82.62%.

The various types have contributed to total customer loans to a different extent.

The principal item consists of mortgage loans that, following an increase of 7.58% to 12,047 million, now represent 38.79% of total lending. They also include assets sold but not derecognised in connection with the issue of covered bonds, which were not derecognised as they did not meet the requirements of IAS 39 for derecognition. As already happened in the year of comparison, the increase in residential mortgage loans by the subsidiary Banca Popolare di Sondrio (SUISSE) SA was particularly significant. This is followed by other transactions and unsecured loans which stood at 9,954 million, +3.56%, corresponding to 32.05% of loans. Factoring operations performed well, + 15.08% to 2,738 million. Loans in foreign currency rose sharply to 1,188 million, +33.68%. Advances with recourse also increase to 227 million, +19.32%, as did advances, +4.33% to 452 million. Current accounts decreased slightly, -1.44% to 3,043 million, and personal loans, -0.37% to 455 million. There are no repurchase agreements, which represent the use of temporary excess liquidity with institutional counterparties, which amounted to 67 million in the comparative year. Fixed-yield securities amount to 749 million, +5.82%, and relate to customer loan securitisations carried out by the investee companies Banca della Nuova Terra spa and Alba Leasing spa, also including the securities issued, as part of the sale of NPLs, by SPV Diana, POP NPLS 2020 and POP NPLS 2021.

Total net non-performing loans have fallen by 23.38% to 837 million, compared with 1,092 million; in the comparative period there was a decrease of 30.61%. This aggregate comes to 2.69% (3.72%) of loans to customers; its contraction is due to the sales of NPLs, as well as to the policy to strengthen the corporate structures responsible for granting, managing and monitoring credit.

The adjustments recorded for non-performing loans total 1,039 million, -13,42%, representing 55.39% of the gross amount compared with 52.36% last year. The effect of the sales of NPLs carried out also played a role here. Adjustments for the period were slightly lower compared with those of the previous year. Gross non-performing loans fell from 2,292 million to 1,876 million, down -18.16%.

The table gives an overview of performing and non-performing loans.

NON-PERFORMING AND PERFORMING LOANS TO CUSTOMERS

(thousands of euro)		31/12/2021	31/12/2020*	Absolute changes	Changes %
Non-performing loans	Gross exposure	1,875,969	2,292,319	-416,350	-18.16
	Loan loss adjustments	1,039,163	1,200,209	-161,046	-13.42
	Net exposure	**836,806**	**1,092,110**	**-255,304**	**-23.38**
– Bad loans	Gross exposure	736,657	1,078,268	-341,611	-31.68
	Loan loss adjustments	544,367	732,456	-188,089	-25.68
	Net exposure	**192,290**	**345,812**	**-153,522**	**-44.39**
– Unlikely-to-pay loans	Gross exposure	1,074,758	1,154,066	-79,308	-6.87
	Loan loss adjustments	485,596	459,409	26,187	5.70
	Net exposure	**589,162**	**694,657**	**-105,495**	**-15.19**
Past due and/or impaired overdrawn exposures	Gross exposure	64,554	59,984	4,570	7.62
	Loan loss adjustments	9,200	8,343	857	10.27
	Net exposure	**55,354**	**51,641**	**3,713**	**7.19**
Performing loans	Gross exposure	30,340,809	28,462,763	1,878,046	6.60
	Loan loss adjustments	118,297	175,148	-56,851	-32.46
	Net exposure	**30,222,512**	**28,287,615**	**1,934,897**	**6.84**
Total loans and receivables with customers	Gross exposure	32,216,778	30,755,082	1,461,696	4.75
	Loan loss adjustments	1,157,460	1,375,358	-217,898	-15.84
	Net exposure	**31,059,318**	**29,379,724**	**1,679,594**	**5.72**

* The figures at 31/12/2020 have been restated for comparison purposes.

Net non-performing loans, adjusted for write-downs, amounted to 192 million euro, -44.39% (-48.24% in the comparison period), and correspond to 0.62% of total loans to customers, compared to 1.18% at 31 December 2020. The adjustments to cover estimated losses on bad loans went from 732 million to 544 million (-25.68%), representing 73.90% of the gross amount of such loans compared with 67.93% in the previous year. It is one of the highest coverage percentages at national level. Considering the amounts written off in prior years against bad loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 90.29%.

Probable defaults fell, net of write-downs, to 589 million, (-15.19%), corresponding to 1.90% of total loans to customers, compared to 2.36% in the previous year. The related adjustments, with the current coverage ratio of 45.18%, amounted to 486 million, +5.70% on the comparative period, when they amounted to 459 million; the coverage ratio was 39.81% last year.

The decrease in unlikely-to-pay loans and the related provisions is due to the transfer to non-performing loans of the positions at greatest risk, the reduction of incoming flows with respect to those outgoing and to the closing of sale operations.

Net non-performing past due loans, determined in accordance with supervisory regulations, amounted to 55 million (+7.19%), and represent 0.18% of total loans with customers, a figure that has remained unchanged.

Provisions, for performing loans, added up to 118 million and amounted to 0.39% of the same compared to 0.62%. This decrease reflects more favourable scenarios, also thanks to the identification of possible criticalities – which concern in particular the stage 2 positions, which are the most exposed to the winds of crisis – carried out by the Credit Department and the NPE Unit on the most important positions in moratorium that are expiring.

Adjustments totalled 1,157 million overall, -15.84%.

TREASURY AND TRADING OPERATIONS

The performance of the financial markets is discussed in the report on operations presented by the Parent Company.

The net interbank position was 7,598 million negative at 31 December 2021, compared with 6,477 million negative at the end of 2020. Cash and cash equivalents amounted to 5,653 million, compared with 5,338 million.

At 31 December 2021, there were three T-LTRO III outstanding with the ECB for a total of 8,874 million. The first transaction was entered into for 4,368 million on 24 June 2020, with a maturity date of 28 June 2023 and an early repayment option from 29 September 2021. The second, for the amount of 806 million, is effective from 24 March 2021, with maturity on 27 March 2024 and early repayment option from 30 March 2022. The third was granted on 29 September 2021 (at the same time as the early repayment of two tranches of, respectively, 1,600 million, maturing in December 2022, and 2,100 million, maturing in March 2023) for 3,700 million, maturing on 25 September 2024 and with the option of early repayment from 29 June 2022. If the targets assigned by the ECB on net loans disbursed are met, all transactions provide for a funding rate of -0.50% (for the period from 24/06/2020 to 23/06/2022, the rate is -1%). Net of the above-mentioned T-LTRO III operations, the net interbank position would have been positive by 1,276 million.

Liquidity remained particularly abundant throughout the year. The exposure to this risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. The stock of high quality financial assets eligible for refinancing with the ECB, net of haircuts, amounted to 16,361 million, of which 6,706 million free and 9,655 million as guarantee or pledge.

Treasury operations favoured recourse to the Deposit Facility at the ECB, remunerated at -0.50%, to deposit excess liquidity; conversely, the volume of repo activity with institutional counterparties in the screen-traded market (MMF - Money Market Facility), organised via Cassa di Compensazione e Garanzia (the clearing house), has declined steadily.

At 31 December 2021, the portfolios of financial assets comprising financial instruments, other than securitisations, total 13,704 million, +29.85% compared to 31 December 2020. The increase in the securities portfolio is mainly due to the use of part of the excess liquidity held in the treasury. The increases concerned government and corporate securities, mainly senior preferred financials, green and social, mainly in the HTC segment. The table summarises the various amounts involved and the percentage changes.

FINANCIAL ASSETS (FIXED-YIELD SECURITIES, EQUITY SECURITIES, MUTUAL FUNDS AND DERIVATIVES) BY PORTFOLIO

(thousands of euro)	31/12/2021	31/12/2020	Change %
Financial assets held for trading	204,294	190,545	7.22
of which, derivatives	29,280	59,742	-50.99
Other financial assets mandatorily measured at fair value	794,286	656,257	21.03
Financial assets measured at fair value through other comprehensive income	3,102,150	2,619,939	18.41
Financial assets measured at amortised cost	9,602,860	7,086,361	35.51
Total	**13,703,590**	**10,553,102**	**29.85**

The overall portfolio recorded a significant increase compared with the end of 2020 (+29.85%), mainly attributable to financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, in line with the recent past.

Operations focused on the purchase of floating-rate Italian government securities and, to a lesser extent, on foreign government securities and corporate bonds, mainly ESG (Environmental, Social, Governance).

Floating-rate and inflation-indexed government securities total about 5.7 billion.

The duration of the bond portfolio slightly increased compared to last year, positioning itself just over 4 years, while the modified duration, which decreased, stood at 2.30%.

Financial assets held for trading

The trading portfolio, which represents an insignificant part of the total securities portfolio (1.49%), amounted to 204 million, up 7.22% from 191 million at the end of 2020.

(thousands of euro)	31/12/2021	31/12/2020	Change %
Fixed-rate Italian government securities	24,255	25,440	-4.66
Equity securities	65,378	66,970	-2.38
Mutual funds	85,381	38,393	122.39
Net book value of derivative contracts	29,280	59,742	-50.99
Total	**204,294**	**190,545**	**7.22**

Operations focused on Italian and European equities, mutual funds (Etf) increased sharply with a view to increasing the diversification of investments. The exposure to fixed-rate Italian government bonds did not change much.

Other financial assets mandatorily measured at fair value

The financial assets mandatorily measured at fair value amounted to 794 million, +21.03% from 656 million at the end of 2020.

(thousands of euro)	31/12/2021	31/12/2020	Change %
Bank bonds	6,433	16,009	-59.82
Other bonds	34,681	24,720	40.30
Equity securities	–	1	-100.00
Mutual funds in euro	719,286	585,996	22.75
Mutual funds in foreign currency (USD)	33,886	29,531	14.75
Total	**794,286**	**656,257**	**21.03**

The portfolio remained mainly concentrated on mutual funds in euro and, to a lesser extent, in foreign currencies. The share in bond mutual funds, further increased compared to last year, is prevalent. There are also units in real estate, balanced and flexible mutual funds.

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (Held To Collect and Sell) has increased significantly overall since the end of 2020, rising to 3,102 million (+18.41%).

Exposure to floating-rate Italian government bonds was increased during the period, amounting to 1,792 million, +72.40% compared to the end of 2020, representing 57.77% of the segment. On the other hand, the fixed-rate component, in both Italian and foreign government securities, fell sharply. The overall weight of Italian government bonds on the segment stands at 68.77%.

Bank and other bonds declined, while equity securities showed little change.

(thousands of euro)	31/12/2021	31/12/2020	Change %
Floating-rate Italian government securities	1,792,012	1,039,429	72.40
Fixed-rate Italian government securities	341,230	431,999	-21.01
Foreign government securities	372,902	479,828	-22.28
Bank bonds	334,020	372,950	-10.44
Other bonds	161,284	191,925	-15.97
Equity securities	100,702	103,808	-2.99
Total	**3,102,150**	**2,619,939**	**18.41**

Financial assets measured at amortised cost

The securities measured at amortised cost that are classified among the financial assets measured at amortised cost (Held To Collect) amounted to 9,603 million, following a rise of 35.51% from 7,086 million at the end of 2020.

Analysis of the portfolio reveals increases of 1,944 million in floating-rate Italian government securities (+184.40%), 180 million in foreign government securities (+10.67%), of 251 million in bank bonds (+46.74%), 359 million in other bonds (+90.78%) and 37 million in other public administration bonds (+34.29%). Italian fixed-rate government bonds were down 254 million, -7.67%. Operations during the period focused mainly on the purchase of floating-rate government securities, in order to increase the overall holding and their weighting in the portfolio; in addition, preference has been given to investments in bonds that meet ESG (Environmental, Social e Governance) criteria: green bond, social bond and sustainability bond.

(thousands of euro)	31/12/2021	31/12/2020	Change %
LOANS AND RECEIVABLES WITH BANKS	**787,249**	**536,485**	**46.74**
Italian bank bonds	572,117	378,270	51.25
Foreign bank bonds	215,132	158,215	35.97
LOANS AND RECEIVABLES WITH CUSTOMERS	**8,815,611**	**6,549,876**	**34.59**
Floating-rate Italian government securities	2,997,900	1,054,114	184.40
Fixed-rate Italian government securities	3,052,782	3,306,303	-7.67
Foreign government securities	1,867,113	1,687,063	10.67
Other public administration bonds	144,227	107,397	34.29
Other bonds	753,589	394,999	90.78
Total	**9,602,860**	**7,086,361**	**35.51**

Asset management

The year under review was very favourable for the asset management industry, with steady growth over the twelve months thanks to the stable positive balance between subscriptions and redemptions and the brilliant dynamics of the financial markets. The positive performance of equity and balanced funds stands out, while the performance of monetary funds was negative, inevitably weighed down by the modest level of returns. It is also worth noting the strong interest in instruments characterised by an ESG footprint.

For our Group, the assets managed in various forms totalled 6,796 million at the end of 2021, up by 13.83% since 31 December 2020, of which 4,940 million, +13.30%, relates to mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; the Group's asset management schemes came to 1,856 million, +15.26%.

BPS stock

The Banca Popolare di Sondrio share, traded on the Euronext Milan market of Borsa Italiana, part of the FTSE Italia All-Share index, closed the year 2021 with a positive performance of 68.09%, marking a reference price on 30 December of 3.698 euro, compared to 2.20 euro at the end of 2020. The general FTSE Italia All-Share index recorded a rise in the period of 23.71% and the FTSE Italia All-Share Banks sector index progressed by 35.90%.

With regard to treasury shares, transactions of which are carried out in compliance with the specific shareholders' resolution, it should be noted that the Parent Company held no. 3,650,000 shares, without changes compared to the end of 2020, since no sale or purchase transaction was carried out, in addition to addition to the no. 36,372 shares by Banca Popolare di Sondrio (SUISSE) SA, as part of the remuneration plan based on financial instruments envisaged by the Group's remuneration policies, for a book value of 25.457 million.

EQUITY INVESTMENTS

Equity investments amount to 339 million. The increase of 34 million mainly reflects the measurement at equity of these investments, except for the least significant.

The reader is referred to the report accompanying the Parent Company's 2021 financial statements and to Part A, section 3 and Part B, section 10 of the explanatory notes.

Related-party transactions

Related party transactions, as identified in accordance with IAS 24 and with the «Regulation on related party transactions», issued by Consob with resolution no. 17221 and subsequent amendments, form part of the Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

In compliance with the disclosure requirements of article 5 of the above Consob Regulation, between 1 January and 31 December 2021 the competent bodies of the Parent Company approved the following transactions of greater importance with related parties (the other Group companies did not carry out any transactions of greater importance during 2021):

– Banca della Nuova Terra spa, subsidiary; renewal of lines of credit for a total of 6,000 euro repayable on demand and 320,000,000 euro with maturity 21/12/2022; resolution of 30/03/2021;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; revolving facility for guarantees in favour of residents of up to 850,000 euro repayable on demand; renewal of lines of credit totalling 2,220,072,000 euro repayable on demand; resolutions of 22/07/2021;
– Banca della Nuova Terra spa, subsidiary; revolving facility for the finance area of 320,000,000 euro maturing on 25/09/2024; renewal of lines of credit for 11,500 euro repayable on demand; resolutions of 15/10/2021;
– Factorit spa, subsidiary; revolving facility for guarantees in favour of residents

of up to 160,000,000 euro repayable on demand; renewal of lines of credit totalling 3,085,101,500 euro repayable on demand; resolution of 18/11/2021.

During 2021, no transactions of greater or lesser importance were carried out with related parties, which could have had a significant impact on the Group's balance sheet or results. Additionally, there have not been any developments and/or modifications of the transactions carried out with related parties during 2020 – in any case none of an atypical, unusual or non-market nature – with a significant effect on the Group's balance sheet or results for 2021.

In relation to In relation to Consob Communication no. DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Group's economic results and cash flows. In Part H of the notes to the financial statements, the section entitled «Related party transactions» includes a table that summarises these figures.

During 2021 and the current year, there have not been any positions or transactions deriving from atypical or unusual transactions. According to Consob According to Consob Circular no. DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are any that may raise doubts concerning the accuracy of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the subject of the transaction, the methods in which the transfer price is set or the time at which the transaction is carried out.

TRANSACTIONS WITH NON-CONSOLIDATED SUBSIDIARY AND ASSOCIATED COMPANIES

	Associated companies of the Parent Company		Associated companies of subsidiaries	
(thousands of euro)	31/12/2021	31/12/2020	31/12/2021	31/12/2020
ASSETS	**941,788**	**820,684**	**73,237**	**77,501**
LIABILITIES	**164,218**	**129,277**	**19,384**	**17,006**
GUARANTEES AND COMMITMENTS	**230,963**	**214,134**	**31,783**	**52,604**
Guarantees given	42,168	39,330	29,996	33,891
Commitments	188,795	174,804	1,787	18,713

GOODWILL

Intangible assets include goodwill for 12.632 million, of which 7.487 million relating to the acquisition of Factorit spa in 2010 and 4.785 million relating to the acquisition of PrestiNuova spa in 2018 and subsequently absorbed by Banca della Nuova Terra. In compliance with IAS 36, this goodwill has been subjected to impairment testing in order to check for any impairment in value. Information about this is provided in Part B, section 10 Intangible assets, of the notes to the financial statements. Together, the evaluation processes did not highlight any need to write down the balance of goodwill on the books.

HUMAN RESOURCES

The Group had 3,395 employees at the end of 2021, an increase of 67 persons from 3,328 at the end of the previous year.

The personnel departments have been heavily involved in selecting, training and managing staff, in order to ensure that the necessary professional resources are available for the Group's operational development and growth, having regard for the changes taking place in the reference markets.

A breakdown of personnel by individual category is contained in the notes

CAPITAL AND RESERVES

Shareholders' equity at 31 December 2021, inclusive of valuation reserves and the profit for the year, amounts to 3,270.494 million. Compared with the total at 31 December 2020 of 2,997.571 million, this represents an increase of 272.923 million (+9.10%). The change derives from booking the portion of profit for the year under review, as well as from the increase in reserves.

The Shareholders' Meeting of the Parent Company held on 11 May 2021, called to approve the financial statements for the year 2020 and the allocation of profit, resolved to distribute a dividend paid from 26 May 2021 of 0.06 euro for each of the 453,385,777 shares outstanding as of 31 December 2020, taking into account the recommendation made by the ECB.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares without par value, amounts to 1,360.157 million, unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million.

Equity reserves rose to 1,555,718 million, +7.34%; this increase of 106.358 million reflects allocation of a portion of the profit for 2020 and the recognition of capital gains/losses on the sale of variable-yield securities that were previously classified to the valuation reserves.

The valuation reserves, representing the net unrealised gains and losses recorded on financial assets measured at fair value through other comprehensive income (FVOCI) and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a positive net balance of 32.437 million, a further improvement on the end of 2020, when they were still positive for 27.840 million, due to the favourable trend in financial markets. Treasury shares in portfolio changed slightly to 25.457 million.

With regard to capital adequacy, the harmonised legislation for banks and investment firms – contained in Regulation (EU) no. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV) – defines the general limits on capital ratios, which are equal to 7% for the CET 1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. The European Central Bank, which within the scope of its powers, on the basis of the evidence gathered as part of the supervisory review and evaluation process, has the authority to set customised capital and/ or liquidity ratios for each intermediary subject to Community supervision, with a communication dated 13 December 2019 sent to the bank the decision of the Supervisory Board regarding the new minimum coefficients to be applied, with effect from 1 January, for 2020 and that at the conclusion of the annual SREP review and evaluation process conducted for 2020, they have been confirmed and must be respected also in 2021, as revised by the decision of the ECB with effect from 12 March 2020 on the additional Second Pillar «P2R» coverage.

The minimum capital levels required of our Banking Group are:

– a minimum requirement of Common Equity Tier 1 Ratio of 10%, calculated as the sum of the Pillar 1 regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%), and an additional Pillar 2 requirement (3%);
– Tier 1 Capital ratio of 11.50%, being the sum of the Pillar 1 regulatory minimum (6%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (3%);
– a minimum requirement of Total Capital Ratio of 13.50%, calculated as the sum of the Pillar 1 regulatory minimum requirement (8%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (3%).

While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank.

By means of a subsequent communication of 8 April 2020, the European Central Bank, in consideration of the Covid-19 emergency, provided with effect from 12 March 2020 that the additional Pillar 2 «P2R» requirement must be met for a minimum of 56.25% by CET 1 and 75% by Tier 1. As a result of the revised component distribution, the minimum Common Equity Tier 1 Ratio requirement is 8.69%, the minimum Tier 1 Capital Ratio requirement is 10.75%, and the minimum Total Capital Ratio requirement remains unchanged at 13.50%.

At the same time, the possibility of operating temporarily under the Capital Conservation Buffer has been foreseen as an additional measure of flexibility.

On 3 February 2022, at the conclusion of the annual SREP («Supervisory Review and Evaluation Process») conducted in 2021, notification was received from the European Central Bank of the new decision regarding the prudential requirements to be met on a consolidated basis, effective as of 1 March 2022. The additional Pillar 2 Requirement or «P2R» is 2.77%, down from the previous 3%. The new ratio, to be held in the form of primary Tier 1 capital (CET 1) for at least 56.25% and Tier 1 capital for at least 75%, includes a quota of 0.02% as an increase in the second pillar requirement for impaired exposures. Consequently, the minimum required Common Equity Tier 1 Ratio is 8.56%, the minimum required Tier 1 Capital Ratio is 10.58%, and the minimum required Total Capital Ratio is 13.27%.

In addition to the two ratios, from 2017, a «Pillar 2 Guidance», which is intended to represent a guide for the prospective evolution of the Group's capital. This parameter is confidential, by contrast with the two minimum requirements, and – based on guidelines issued by the ECB – is not deemed relevant for the determination of distributable dividends.

Consolidated own funds for supervisory reporting purposes, including part of the profit as at 31 December 2021, amounted to 3,785 million (phased-in) and 3,760 million (fully phased).

In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their Tier 1 capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of IFRS 9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided (i.e. percentages of computability decreasing over time, from 95% in 2018 to 25% in 2022, up to its total zeroing in 2023), while for those related to the Covid-19 emergency, they will be applied to the value of CET 1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025.

The following are the requirements referring to the Group as at 31 December 2021 (phased-in) and (fully phased):

Group's capital ratios	(phased-in)	(fully phased)
CET 1 Ratio	15.78%	15.67%
Tier 1 Capital Ratio	15.83%	15.72%
Total Capital Ratio	18.88%	18.77%

The Leverage Ratio was 5.84% applying the transitional arrangements (phased-in) and 5.25% according to the criteria to be applied at the end of the transition (fully phased).

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Parent Company carried out an impairment test on the entire structure. The results of this test showed that the economic value of the Group was 3,929 million, which was 659 million more than its consolidated equity of 3,270 million. Further details are provided in Part F «Information on equity» of the notes.

The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2020:

– *capital/direct funding from customers*
  8.32% v. 8.43%

– *capital/customer loans*
  10.53% v. 10.20%

– *capital/financial assets*
  23.87% v. 28.40%

– *capital/total assets*
  5.94% v. 6.02%

– *net bad loans/capital*
  5.88% v. 11.54%

RECONCILIATION BETWEEN THE PARENT COMPANY'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles profit for the period and equity as shown in the Parent Company's financial statements and the equivalent figures in the consolidated financial statements.

RECONCILIATION OF THE EQUITY AND PROFIT FOR THE YEAR REPORTED BY THE PARENT COMPANY WITH THE CONSOLIDATED FINANCIAL STATEMENTS

(thousands of euro)	Shareholders' equity	of which: Profit for the period
Equity of the Parent Company at 31/12/2021	2,831,988	212,099
Consolidation adjustments	-26,285	-26,285
Difference with respect to the carrying amounts of equity investments in:		
– companies consolidated on a line-by-line basis	348,268	46,978
– companies valued using the equity method	116,523	35,842
Balance at 31/12/2021, as reported in the consolidated financial statements	**3,270,494**	**268,634**

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group has been assessed by the rating agencies Fitch Ratings, DBRS Morningstar and Scope Ratings. For further information, see the directors' report accompanying the 2021 financial statements of the Parent Company.

INCOME STATEMENT

In 2021, overall economic trends showed a more consistent and buoyant recovery than expected, despite the uncertainties associated with the continued existence of the Covid-19 pandemic and its variants. In a general context which has undoubtedly improved considerably, but which is still critical, our Group has been able to achieve the best performance in its history. The year 2021 closed with a profit of 268.634 million, an increase of 152.01% compared with 106.597 million in 2020. The result derives, first of all, from the substantial contribution of the securities activity, but also from the positive trend of the «core» activity and from the reduction of the adjustments on receivables from customers, despite the fact that during the year, significant derisking activity was carried out.

KEY FIGURES OF THE CONSOLIDATED INCOME STATEMENT

(thousands of euro)	31/12/2021	31/12/2020	Absolute changes	Changes %
Dividends	528,924	490,010	38,914	7.94
Net fee and commission income	5,208	4,375	833	19.04
Result of financial activities [c]	357,654	316,416	41,238	13.03
Total income	139,937	58,270	81,667	140.15
Net impairment losses [a] [c] [d]	**1,031,723**	**869,071**	**162,652**	**18.72**
Net financial income	-134,372	-217,169	82,797	-38.13
Personnel expenses [b]	**897,351**	**651,902**	**245,449**	**37.65**
Other administrative expenses	-258,701	-247,019	-11,682	4.73
Other operating income/expense [b] [d]	-291,112	-278,943	-12,169	4.36
Net accruals to provisions for risks and charges [a]	61,610	63,283	-1,673	-2.64
Adjustments to property, equipment and investment property and intangible assets	-15,972	2,036	-18,008	-884.48
Operating costs	-54,034	-60,676	6,642	-10.95
Operating profit (loss)	**-558,209**	**-521,319**	**-36,890**	**7.08**
Net gains (losses) on equity investments and other investments	**339,142**	**130,583**	**208,559**	**159.71**
Profit (loss) before tax	35,403	26,344	9,059	34.39
Income taxes	**374,545**	**156,927**	**217,618**	**138.67**
Profit (loss)	-99,525	-47,184	-52,341	110.93
(Profit) loss attributable to non-controlling interests	**275,020**	**109,743**	**165,277**	**150.60**
Profit (loss) attributable to the Parent Company	-6,386	-3,146	-3,240	102.99
Profit (loss) attributable to the Parent Company	**268,634**	**106,597**	**162,037**	**152.01**

Note: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Net adjustments consist of the sum of items 130 and 140 of the income statement.
The results at 31/12/2021 have been subjected to the following reclassifications:
[a] reclassified net credit risk provisions for commitments and guarantees given for 15.124 million euro initially included in net provisions for risks and charges [a) commitments and guarantees given], showing them under net adjustments.
[b] personnel expenses and other operating income have been reclassified, stating them net of the income generated by the post-employment benefits fund of 11.199 million euro.
[c] reclassified losses on disposal for 2.702 million euro initially included in gains/losses on financial assets measured at amortised cost, showing them under net adjustments.
[d] reclassified charges connected with the sale transactions for 1.509 million euro initially included in other operating income/expense, showing them under net adjustments;

The comments below refer to the data shown in the «Summary income statement». Note that they have been reclassified with respect to those shown in the tables foreseen in Bank of Italy provision no. 262/2005. A table showing quarterly changes in the reclassified consolidated income statement is also provided, highlighting changes in the income statement during the year.

Net interest income, which improved significantly during the year, recorded an increase of 7.94%, ending up at 528.924 million. The persistence of the expansionary policy of the central banks aimed at guaranteeing abundant liquidity, the targeted long-term refinancing operations and the purchases of securities have kept bond rates low, as well as interbank indices; the latter had a significant impact on loans to customers at variable rates. The overall differential between lending and borrowing rates was still down from the comparison period.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT QUARTER BY QUARTER

	2021				2020			
(thousands of euro)	IV Quarter	III Quarter	II Quarter	I Quarter	IV Quarter	III Quarter	II Quarter	I Quarter
Net interest income	138,565	126,322	134,899	129,138	127,798	129,154	120,884	112,174
Dividends	550	452	3,412	794	267	1,158	2,218	732
Net fee and commission income	98,770	87,903	86,193	84,788	86,790	77,431	73,269	78,926
Result of financial activities	39,249	34,563	33,995	32,130	54,247	19,178	43,979	-59,134
Total income	**277,134**	**249,240**	**258,499**	**246,850**	**269,102**	**226,921**	**240,350**	**132,698**
Net impairment losses [a]	-43,136	-41,763	-20,582	-28,891	-76,612	-36,388	-38,870	-65,299
Net financial income	**233,998**	**207,477**	**237,917**	**217,959**	**192,490**	**190,533**	**201,480**	**67,399**
Personnel expenses [b]	-67,124	-66,535	-61,399	-63,643	-62,681	-62,595	-58,968	-62,775
Other administrative expenses	-75,519	-57,029	-79,104	-79,460	-68,447	-65,182	-67,084	-78,230
Other operating income/expense [b]	16,348	15,009	14,966	15,287	15,815	18,183	13,094	16,191
Net allocations to provisions	-14,469	-1,534	-687	718	-963	-81	3,640	-560
for risks and charges [a]	-14,714	-13,595	-13,194	-12,531	-20,664	-13,815	-13,447	-12,750
Adjustments to property, equipment and investment property and intangible assets	**-155,478**	**-123,684**	**-139,418**	**-139,629**	**-136,940**	**-123,490**	**-122,765**	**-138,124**
Operating costs	**78,520**	**83,793**	**98,499**	**78,330**	**55,550**	**67,043**	**78,715**	**-70,725**
Net gains (losses) on equity investments and other investments	9,821	9,504	7,596	8,482	7,930	4,872	7,342	6,200
Profit (loss) before tax	**88,341**	**93,297**	**106,095**	**86,812**	**63,480**	**71,915**	**86,057**	**-64,525**
Income taxes	-19,442	-26,556	-27,194	-26,333	-21,303	-20,597	-24,445	19,161
Profit (loss)	**68,899**	**66,741**	**78,901**	**60,479**	**42,177**	**51,318**	**61,612**	**-45,364**
(Profit) loss attributable to non-controlling interests	-1,737	-1,958	-1,471	-1,220	-30	-1,277	-691	-1,148
Profit (loss) attributable to the Parent Company	**67,162**	**64,783**	**77,430**	**59,259**	**42,147**	**50,041**	**60,921**	**-46,512**

Note: the result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Net adjustments consist of the sum of items 130 and 140 of the income statement.
[a], [b] The figures are shown in accordance with the reclassifications presented in the summary of the reclassified consolidated income statement.

The item interest income showed good growth, with an increase of 8.02% to 642.068 million, mainly due both to the recording of negative interest for approximately 83 million relating to the T-LTRO III refinancing operations in place with the ECB, carried out having practically reached the targets set by the Central Bank, and to the considerable increase in interest accrued on securities in the portfolio. Interest expense amounted to 113.144 million, +8.39%. The dynamics are due to the cost of bond issues and the substantial increase in the cost of negative interest rates on liquid assets at the ECB.

Net commissions amounted to 357.654 million, +13.03%; an almost general increase for the various components linked to the recovery of economic activity, but particularly significant for those deriving from the placement of financial and insurance products, from collections and payments, for the custodian bank service and for guarantees issued. Fees and commissions on orders and loans decreased.

Dividends totalling 5.208 million were collected, compared with 4.375 million.

The result of financial activities, relating to the securities portfolio and currency and derivative transactions, was a positive contribution of 139.937 million compared with 58.270. This sub-total represents the sum of income statement items 80-90-100-110, as already mentioned, and detailed below. Financial markets maintained a positive tone during the year due to both the ongoing economic recovery and the ECB's continued highly accommodating monetary policy.

The portfolio of assets held for trading (item 80) generated a positive result of 63.650 million, compared with 12.473 million. Against losses from trading in securities of 15.919 million euro in the previous year, profits of 11.485 million euro were recorded, while the foreign exchange business made a contribution of 37.957 million euro, compared to 42.810 million euro. The net imbalance between capital gains and losses on securities was a positive 8.515 million compared to a negative 11.489 million. The result of the derivatives business was also positive for 5.729 million euro compared to a negative figure of 2.637 million euro. Exchange differences remained negative, going from – 292 thousand euro to – 36 thousand euro.

The profit/loss on sale/repurchase (line item 100), reclassified, was positive for 49.318 million compared with 48.677 million. This amount of the year does not include 2.702 million of losses from the sale of NPL loans, which were reclassified to adjustments to loans and financial assets. In its breakdown, envisaged by IFRS 9, it is made up as follows: result from financial assets valued at amortised cost 35.580 million; financial assets measured at fair value with an impact on comprehensive income 13.756 million; financial liabilities -0.018 million.

The net gain on other assets measured at fair value through profit or loss (item 110) amounted to 26.726 million compared to a loss of 2.845 million, while the net result of hedging activities (item 90) was positive for 243 thousand euro.

Income from banking activities amounted to 1,031.723 million, +18.72%, reflecting the good performance of all components and in particular by the result of the securities business. Within this aggregate, the weighting of net interest income was 51.27% compared with 56.38%.

Despite the positive signals sent by the economic situation, the risks and uncertainties to which the Group was exposed due to the persistence of the pandemic from Covid-19 led to the need to take them into account in internal risk measurement and management processes, as well as in classifying exposures based on the appropriate risk stages provided for by IFRS 9, also taking into account the future termination of public support measures currently available. The adjustments/write-backs for credit risk on the exposures to customers, banks and securities totalled 134.372 million, compared with 217.169 million, -38.13%. Following the reclassification mentioned above, the amount of the comparison period included 49.394 million of the losses incurred in the two sales of NPLs during the year (Diana Project, POP NPLS 2020), 4.035 million of charges again linked to the sales and 15.078 million of provisions for guarantees given and commitments. During the year in question, a massive sale of NPLs called POP NPLS 2021 was finalised; the following amounts related to this sale were reclassified: losses on disposal for 2.702 million, related charges for 1.509 million and release of provisions, previously set aside, for risks against guarantees issued and commitments for 15.124 million.

The finalisation of the NPL loan assignment operations in the two-year period is in line with the Group's policy on the reduction of NPL loans and responds to the recommendations of the ECB which, with the "Guidelines on the management of NPLs" made public, invited banks that have accumulated high levels of (gross) NPLs to adopt clear and realistic strategies to reduce their stock of NPLs.

In its components, the sub-item «adjustments to financial assets measured at amortised cost», which come from exposures to customers and banks in the form of loans and securities, reclassified for the above losses from the sale, amounted to 142.897 million compared with 190.785 million, -25.10%, which, net of provisions and net writebacks on securities and banks for modest amounts refers to loans to customers.

The decrease in adjustments to receivables from customers was accompanied by a slowdown in the trend of non-performing loans and the default rate, which can be attributed to the improvement in the economic situation, but also, at least in part, to the various initiatives implemented both to improve credit quality and to refine the processes for evaluating the loans themselves, in particular those booked as non-performing, unlikely-to-pay, past due loans, as well as, naturally, the performing positions.

Sub-item 130b relating to financial assets measured at fair value through other comprehensive income is positive for 1.009 million compared with a negative figure of 0.856 million.

Line item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, shows losses for the period of 6.099 million compared with losses of 6.415 million.

There was a release of provisions previously set aside for commitments and guarantees issued of 15.124 million compared to provisions of 15.078 in the comparative period.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has fallen from 0.74% to 0.43%.

Financial income has therefore increased to 897.351 million, +37.65%.

Extreme attention has been paid to the efficiency of the structures and to the containment of costs, which have nevertheless increased. Operating costs in fact rose from 521.319 million euro to 558.209 million euro, +7.08%.

The ratio of operating costs to income from banking activities, otherwise known as the cost/income ratio, has fallen to 54.10%, from 59.99% in the prior year, while the ratio of operating costs to total assets eased to 1.01% from 1.05%. As for the individual components, the administrative expenses, normalised with the exclusion of the provision for the income from the pension fund, which have a counterpart for the same amount in the other operating expenses/income, amounted to 549.813 million euro, +4.53%; of these, personnel expenses went from 247.019 to 258.701 million, +4.73%, essentially due to the salary adjustments envisaged by the new Collective

Agreement for the sector and the increase in the workforce, while other administrative expenses rose from 278.943 to 291.112 million, +4.36%. Also of note are charges for contributions to the National Resolution Fund and the F.I.T.D., amounting to 43.066 million compared to 35.259 million, and costs for consulting and IT.

The item «Net provisions for risks and charges» reflect releases of 15.972 thousand compared with a release of 2.036 million.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 54.034 million compared with 60.676 million, -10.95%.

Other income, stated after the above mentioned two reclassifications and net of other operating expenses, amounted to 61.610 million, -2.64%.

The aggregate profits/losses on equity and other investments shows a positive balance of 35.403 million, compared with 26.344 million, +34.39%.

Profit before income taxes therefore totalled 374.545 million, +138.67%. Finally, after deducting income taxes for 99.525 million, up by 110.93% on the previous year, and the profit attributable to minority interests, equal to 6.386 million, a net profit for the year of 268.634 million was determined, +152.01%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 26.57% compared with 30.07% in the previous year.

RESULTS IN BRIEF AND ALTERNATIVE PERFORMANCE INDICATORS

The Group's main balance sheet and income statement figures and indicators at 31 December 2021 are shown below, compared with what they were the previous year.

RESULTS IN BRIEF

(millions of euro)	31/12/2021	31/12/2020	Change. %
Balance sheet figures			
Loans to customers	31,059	29,380	5.72
Loans and receivables with customers measured at amortised cost	30,625	28,998	5.61
Loans and receivables with customers measured at fair value through profit or loss	434	382	13.53
Loans and receivables with banks	3,276	3,349	-2.18
Financial assets that do not constitute loans	13,704	10,553	29.85
Equity investments	339	305	11.09
Total assets	55,016	49,808	10.46
Direct funding from customers	39,304	35,559	10.53
Indirect funding from customers	40,982	34,797	17.77
Direct funding from insurance premiums	1,909	1,717	11.19
Customer assets under administration	82,195	72,074	14.04
Other direct and indirect funding	19,760	16,368	20.72
Equity	3,270	2,998	9.10

(millions of euro)	31/12/2021	31/12/2020	Change %
Income statement figures (*)			
Net interest income	529	490	7.94
Total income	1,032	869	18.72
Profit from continuing operations	375	157	138.67
Profit (Loss) for the year	269	107	152.01
Capital ratios			
CET1 Capital ratio	15.78%	16.32%	
Total Capital ratio	18.88%	18.55%	
Free capital	2,181	1,919	
Other information on the banking group			
Number of employees	3,392	3,325	
Number of branches	370	369	

(*) The ratios indicated were calculated using the figures shown in the summary reclassified income statement.
Loans and receivables with customers: this includes the portion of loans to customers held for the purpose of financing included in financial assets measured at amortised cost and financial assets mandatorily measured at fair value.
Direct funding: this brings together the items relating to funding from customers included in amounts due to customers at amortised cost and securities in issue.
Indirect funding: this represents the custody, administration and management activity - of securities, mutual funds, asset management - carried out by the Group on behalf of third parties or in connection with the management of financial portfolios. The stocks are marked to market.
Financial assets that do not constitute loans: this includes the portion of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets at amortised cost (banks and customers) that are not held for financing purposes. They therefore consist of debt securities, bonds, mutual funds, derivatives and equity securities that do not constitute equity investments.

The Alternative Performance Indicators (APIs) reported in this section take into account the Guidelines issued by ESMA on 5 October 2015, which Consob incorporated into its supervisory practices (Communication no. 0092543 of 3 December 2015). These Guidelines became applicable as of 3 July 2016. It should be noted that, in line with the indications contained in the update of the document «ESMA32_51_370 – Question and answer – ESMA Guidelines on Alternative Performance Measures (APMS)», published on 17 April 2020, no changes have been made to the IAPs aimed at taking into account the effects of the Covid-19 crisis. It should be noted that the definition and methods of calculation of IAPs not directly attributable to financial statement items are provided; the amounts used therein can be traced through the information contained in the tables above or in the reclassified financial statements contained in this consolidated report on operations. These economic and financial indicators are based on accounting figures and are used in internal management and performance management systems, in line with the most common metrics used in the banking sector in order to ensure that published figures are comparable.

ALTERNATIVE PERFORMANCE INDICATORS

	31/12/2021	31/12/2020
Key ratios		
Equity/Direct funding from customers	8.32%	8.43%
Equity/Loans to customers	10.53%	10.20%
Equity/Financial assets	23.87%	28.40%
Equity/Total assets	5.94%	6.02%
Profitability indicators		
Cost/Income ratio	54.10%	59.99%
Net interest income/Total income	51.27%	56.38%
Administrative expenses/Total income	53.29%	60.52%
Net interest income/Total assets	0.96%	0.98%
Net financial income/Total assets	1.63%	1.31%
Net profit for the year of the Parent Company/ Total assets	0.49%	0.21%
Asset quality indicators		
Texas ratio	25.83%	36.78%
Net bad loans/Equity	5.88%	11.54%
Net bad loans/Loans to customers	0.62%	1.18%
Loans to customers/Direct funding from customers	79.02%	82.62%
Cost of credit	0.43%	0.74%

The ratios indicated were calculated using the figures shown in the summary reclassified income statement.
Cost/Income ratio: the ratio between operating costs and total income
Texas ratio: the ratio between non-performing loans and the difference between equity and intangible assets, as the denominator.
Cost of credit: ratio of net adjustments to loans and financial assets to total loans to customers.

The health emergency caused by the pandemic as of February 2020 affected both the performance of the financial markets and the commercial operations of the Group. In consideration of the economic consequences of the pandemic, in all the main countries the authorities have implemented strong expansionary measures to support households and businesses and to provide credit to the economy and liquidity to the markets. The various European institutions, each within their own sphere of competence, have also adopted a series of measures aimed at supporting banks in mitigating the economic impact of the Covid-19 pandemic. The actions taken by the Group since last year, aimed at monitoring credit risk, have been to provide timely support to households and businesses, to set up a system for monitoring the relevant credit aggregates, to adopt specific indicators for assessing the solvency of counterparties and to integrate the methods used in management and accounting processes. With regard to the Group's main income statement and balance sheet aggregates at 31 December 2021, it should be noted that the results for the current year benefited from the improvement in the general health and economic situation, enabling the negative effects of the Covid-19 health crisis to be largely recovered. In some ways, therefore, there was a general recovery during 2021, also evidenced by the recovery and improvement of several economic and financial indicators or aggregates. In particular:

– net commissions were positively affected by the resumption of branch operations following the easing of restrictive measures relating to social distancing and the results achieved in the vaccination campaigns; commissions from the collection and payment system segment and those linked to the placement and distribution of financial instruments and products benefited significantly;
– the result of financial activities was positively impacted by the easing of tensions on financial markets, which were in turn influenced by the general recovery of economic activities. This had significant positive effects on net interest and other banking income;
– the cost of credit, which was heavily penalised last year by the effects of the macroeconomic scenario created by the pandemic, benefited from the recovery of economic activities. There were therefore releases relating to provisions on positions previously covered by moratoria. This effect was evident on the performing portfolio component. In addition, the positive impacts deriving from the lower defaults, thanks to the moratoria granted as part of government support measures and the positive effects generated by the acquisition of government guarantees on the loans disbursed, were positively reflected on the balance sheet indicators relating to non-performing loans, which also showed a significant improvement following the transfer transactions completed during the year. On the other hand, the cost of non-performing loans remained at high levels, both following the adoption of calendar provisioning in compliance with the regulatory framework, and as a result of provisions in anticipation of the disposal operations that took place towards the end of the year. For details on the quantification of losses due to the impairment of loans, please refer to the paragraph relating to the relevant accounting policies and uncertainties on the use of estimates in the consolidated Explanatory Notes - Part A;
– loans to customers increased further at 31 December 2021, also thanks to the effect of the disbursements and the moratoria granted as part of the government decrees issued following the Covid-19 emergency, despite the decline in non-performing loans following new sale transactions. At 31 December 2021, the incidence of non-performing and impaired loans, as well as the Texas ratio, therefore dropped significantly, in continuity with what was experienced last year. The coverage ratio has further increased and also incorporates the effects of the increase in adjustments deriving from the above-mentioned adoption of calendar provisioning;
– with reference to the other balance sheet aggregates, on the other hand, there has been an increase in direct deposits and, in particular, current accounts, following the prudent attitude of customers to face the uncertainty about the economic situation because of the spread of the Covid-19, an increase that has involved the entire banking system. The volumes of loans issued and indirect deposits and other forms of funding also increased. Therefore, by comparing the shareholders' equity, which also recorded a significant increase

by virtue of the profits made, with the main balance sheet figures, the balance sheet indicators show a general alignment with respect to the previous year.

In summary, therefore, the economic and credit quality indicators showed significant improvements compared to last year. All the indices relating to profitability were positively impacted, therefore both the net result of financial management/total assets and the parent company's profit for the year/total assets improved significantly. The activation of the new loans from the ECB still made it possible to maintain a good level of margin on lending and funding activities (net interest income), financial activities generated significant results, while the negative impact of the overall cost of credit was reduced. All this had a positive impact on overall net profitability ratios.

SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the Parent Company's financial statements for information on events that took place after 31 December 2021.

With regard to the subsidiaries, there are no items to report, except that on 1 March 2022, a binding agreement was signed with Banco BPM for the acquisition of 39.5% of the capital of Factorit spa, in which the Parent Company already held the remaining 60.5% interest. The value of the transaction was set at 75 million euro. On 15 March, the above-mentioned share purchase agreement was executed. Factorit spa is now 100% controlled by Banca Popolare di Sondrio.

Recent events that have brought war back to Europe have, among other things, led to a downward revision of economic growth estimates, including in the areas where our Group is present. It is expected to face a period of serious instability at a general level, with an increase in volatility on financial markets and on those of raw materials, especially energy. The Group's activities will only be affected by these factors.

The comparison year was characterised by a marked rebound of the real economy after the severe recession caused by the Covid-19 pandemic and a very positive performance of the financial markets. On the other hand, concern and uncertainty prevail for the current year, making any forecast of the Group's earnings difficult, although the budget structure shows resilience. It is therefore believed that the commitment to improving operating efficiency and containing costs, together with the dynamics of the core business, will enable the company to achieve results that will confirm its ability to generate value and strengthen its financial solidity.

Sondrio, 21 March 2022

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2021

Name of the entity that prepares the Financial Statements
Banca Popolare di Sondrio S.p.A

Registered Office
Sondrio (SO)

Legal form
Joint-stock company

Country
Italy

Address of the Registered Office
Piazza Garibaldi 16 - Sondrio (SO)

Main place of business
Sondrio

Nature of business carried out
Monetary intermediation by monetary institutions other than central banks

Name of the controlling entity
Banca Popolare di Sondrio S.p.A

Name of the Parent Company
Banca Popolare di Sondrio S.p.A

CONSOLIDATED BALANCE SHEET

(thousands of euro)

	ASSET ITEMS	31/12/2021	31/12/2020
10.	**Cash and cash equivalents**	**5,652,733**	**5,337,880**
20.	**Financial assets measured at fair value through profit or loss**	**1,432,185**	**1,228,733**
	a) financial assets held for trading	204,294	190,545
	c) other financial assets mandatorily measured at fair value	1,227,891	1,038,188
30.	**Financial assets measured at fair value through other comprehensive income**	**3,102,150**	**2,619,939**
40.	**Financial assets measured at amortised cost**	**42,717,673**	**38,896,990**
	a) loans and receivables with banks	3,276,349	3,349,321
	b) loans and receivables with customers	39,441,324	35,547,669
70.	**Equity investments**	**339,333**	**305,444**
90.	**Property, equipment and investment property**	**579,446**	**567,799**
100.	**Intangible assets**	**31,013**	**28,328**
	of which:		
	– goodwill	12,632	12,632
110.	**Tax assets**	**330,343**	**423,785**
	a) current	8,658	46,596
	b) deferred	321,685	377,189
130.	**Other assets**	**831,273**	**398,699**
	TOTAL ASSETS	**55,016,149**	**49,807,597**

Items 10 and 40 of the Balance Sheet assets as at 31/12/2020 have been restated following the 7th update of Bank of Italy Circular 262 of 22 December 2005.

EQUITY AND LIABILITY ITEMS		31/12/2021	31/12/2020
10.	**Financial liabilities measured at amortised cost**	**50,178,641**	**45,386,147**
	a) due to banks	10,874,856	9,826,687
	b) customer deposits	35,603,482	32,728,348
	c) securities in issue	3,700,303	2,831,112
20.	**Financial liabilities held for trading**	**104,339**	**33,816**
40.	**Hedging derivatives**	**2,446**	**6,271**
60.	**Tax liabilities**	**39,872**	**37,400**
	a) current	4,258	3,567
	b) deferred	35,614	33,833
80.	**Other liabilities**	**986,522**	**914,191**
90.	**Reserve for termination indemnities**	**40,190**	**42,341**
100.	**Provisions for risks and charges**	**289,062**	**291,757**
	a) commitments and guarantees given	43,225	58,520
	b) pension and similar obligations	191,565	189,873
	c) other provisions for risks and charges	54,272	43,364
120.	**Valuation reserves**	**32,437**	**27,840**
150.	**Reserves**	**1,555,718**	**1,449,360**
160.	**Share premium reserve**	**79,005**	**79,005**
170.	**Share capital**	**1,360,157**	**1,360,157**
180.	**Treasury shares (-)**	**(25,457)**	**(25,388)**
190.	**Non-controlling interests (+/-)**	**104,583**	**98,103**
200.	**Profit (Loss) for the year (+/-)**	**268,634**	**106,597**
	TOTAL EQUITY AND LIABILITIES	**55,016,149**	**49,807,597**

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

	INCOME STATEMENT ITEMS	31/12/2021	31/12/2020
10.	INTEREST AND SIMILAR INCOME	642,068	594,400
	of which: interest income calculated using the effective interest method	*633,565*	*586,396*
20.	INTEREST AND SIMILAR EXPENSE	(113,144)	(104,390)
30.	**NET INTEREST INCOME**	**528,924**	**490,010**
40.	FEE AND COMMISSION INCOME	374,802	333,497
50.	FEE AND COMMISSION EXPENSE	(17,148)	(17,081)
60.	**NET FEE AND COMMISSION INCOME**	**357,654**	**316,416**
70.	DIVIDENDS AND SIMILAR INCOME	5,208	4,375
80.	NET TRADING INCOME	63,650	12,473
90.	NET HEDGING RESULT	243	(35)
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:	46,616	(717)
	a) financial assets measured at amortised cost	*32,878*	*(25,591)*
	b) financial assets measured at fair value through other comprehensive income	*13,756*	*24,812*
	c) financial liabilities	*(18)*	*62*
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	26,726	(2,845)
	b) other financial assets mandatorily measured at fair value	*26,726*	*(2,845)*
120.	**TOTAL INCOME**	**1,029,021**	**819,677**
130.	NET ADJUSTMENTS/WRITEBACKS FOR CREDIT RISK RELATED TO:	(139,186)	(142,247)
	a) financial assets measured at amortised cost	*(140,195)*	*(141,391)*
	b) financial assets measured at fair value through other comprehensive income	*1,009*	*(856)*
140.	GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION	(6,099)	(6,415)
150.	**NET FINANCIAL INCOME**	**883,736**	**671,015**
180.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**	**883,736**	**671,015**
190.	ADMINISTRATIVE EXPENSES:	(561,012)	(529,826)
	a) personnel expenses	*(269,900)*	*(250,883)*
	b) other administrative expenses	*(291,112)*	*(278,943)*
200.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	(848)	(13,042)
	a) commitments and guarantees given	*15,124*	*(15,078)*
	b) other net provisions	*(15,972)*	*2,036*
210.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(37,359)	(44,015)
220.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(16,675)	(16,661)
230.	OTHER OPERATING INCOME/EXPENSE	71,300	63,112
240.	**OPERATING COSTS**	**(544,594)**	**(540,432)**
250.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS	35,901	26,997
260.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS	(882)	(707)
280.	NET (LOSSES) ON SALES OF INVESTMENTS	384	54
290.	**PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**374,545**	**156,927**
300.	INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS	(99,525)	(47,184)
310.	**POST-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**275,020**	**109,743**
330.	**PROFIT (LOSS) FOR THE YEAR**	**275,020**	**109,743**
340.	PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(6,386)	(3,146)
350.	**PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE PARENT COMPANY**	**268,634**	**106,597**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
(thousands of euro)

ITEMS		2021	2020
10.	**Profit (loss) for the year**	**275,020**	**109,743**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Equity securities measured at fair value through other comprehensive income	506	30,366
50.	Property, equipment and investment property	9,818	-
70.	Defined-benefit plans	2,495	(7,358)
90.	Share of valuation reserves of equity investments valued at net equity	1,170	(44)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
110.	Exchange differences	1,274	(584)
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(12,232)	12,856
160.	Share of valuation reserves of equity investments valued at net equity	1,661	(596)
170.	**Total other income items net of income taxes**	**4,692**	**34,640**
180.	**Other comprehensive income (Item 10+170)**	**279,712**	**144,383**
190.	**Consolidated other comprehensive income attributable to non-controlling interests**	**(6,481)**	**(3,062)**
200.	**Consolidated other comprehensive income attributable to the parent company**	**273,231**	**141,321**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of euro)

				Allocation of prior year result		Changes during the year										
							Equity transactions									
	Balance at 31/12/2020	Changes in opening balances	Balance at 1/1/2021	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in interests held	Other comprehensive income at 31/12/2020	**Equity attributable to the Group at 31/12/2021**	**Equity attributable to non-controlling interests at 31/12/2021**
Share capital																
a) ordinary shares	1,393,736	-	1,393,736	-	-	-	-	-	-	-	-	-	-	-	1,360,157	33,579
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**83,363**	**-**	**83,363**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**79,005**	**4,358**
Reserves																
a) from earnings	1,468,785	-	1,468,785	82,459	-	27,044	-	-	-	-	-	-	-	-	1,519,824	58,464
b) other	37,851	-	37,851	-	-	-	-	-	-	-	-	-	-	-	35,894	1,957
Valuation reserves	**27,584**	**-**	**27,584**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,692**	**32,437**	**(161)**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**(25,388)**	**-**	**(25,388)**	**-**	**-**	**-**	**-**	**(69)**	**-**	**-**	**-**	**-**	**-**	**-**	**(25,457)**	**-**
Profit for the year	**109,743**	**-**	**109,743**	**(82,459)**	**(27,284)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**275,020**	**268,634**	**6,386**
Equity attributable to the Group	**2,997,571**	**-**	**2,997,571**	**-**	**(27,284)**	**27,045**	**-**	**(69)**	**-**	**-**	**-**	**-**	**-**	**273,231**	**3,270,494**	**-**
Equity attributable to non-controlling interests	**98,103**	**-**	**98,103**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,481**	**-**	**104,583**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(thousands of euro)

				Allocation of prior year result		Changes during the year										
							Equity transactions									
	Balance at 31/12/2019	Changes in opening balances	Balance at 1/1/2020	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in interests held	Other comprehensive income at 31/12/2020	**Equity attributable to the Group at 31/12/2020**	**Equity attributable to non-controlling interests at 31/12/2020**
Share capital																
a) ordinary shares	1,393,736	-	1,393,736	-	-	-	-	-	-	-	-	-	-	-	1,360,157	33,579
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**83,363**	**-**	**83,363**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**79,005**	**4,358**
Reserves																
a) from earnings	1,314,827	-	1,314,827	139,474	-	14,484	-	-	-	-	-	-	-	-	1,413,466	55,319
b) other	37,851	-	37,851	-	-	-	-	-	-	-	-	-	-	-	35,894	1,957
Valuation reserves	**(7,056)**	**-**	**(7,056)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,640**	**27,840**	**(256)**
Equity instruments	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**(25,374)**	**-**	**(25,374)**	**-**	**-**	**-**	**-**	**(14)**	**-**	**-**	**-**	**-**	**-**	**-**	**(25,388)**	**-**
Profit for the year	**139,474**	**-**	**139,474**	**(139,474)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**109,743**	**106,597**	**3,146**
Equity attributable to the Group	**2,841,780**	**-**	**2,841,780**	**-**	**-**	**14,484**	**-**	**(14)**	**-**	**-**	**-**	**-**	**-**	**141,321**	**2,997,571**	**-**
Equity attributable to non-controlling interests	**95,041**	**-**	**95,041**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,062**	**-**	**98,103**

CONSOLIDATED CASH FLOW STATEMENT (indirect method)

	31/12/2021	31/12/2020
A . **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**584,945**	**381,706**
- profit for the year (+/-)	275,020	109,743
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+)	(49,289)	(315)
- gains/losses on hedging (-/+)	(243)	35
- net adjustments/writebacks for credit risk (+/-)	147,781	152,426
- net adjustments/writebacks for property, equipment and investment property and intangible assets (+/-)	54,915	61,383
- provisions for risks and charges and other costs/revenues (+/-)	26,655	35,860
- unpaid taxes, duties and tax credits (+)	99,525	47,183
- other adjustments (+/-)	30,581	(24,609)
2. **Cash generated/absorbed by financial assets**	**(4,921,865)**	**(5,275,207)**
- financial assets held for trading	(2,226)	63,854
- financial assets designated at fair value	–	–
- financial assets mandatorily measured at fair value	(142,256)	(377,673)
- financial assets measured at fair value through other comprehensive income	(490,485)	23,129
- financial assets measured at amortised cost	(3,797,532)	(4,837,591)
- other assets	(489,366)	(146,926)
3. **Cash generated/absorbed by financial liabilities**	**4,681,430**	**8,429,227**
- financial liabilities measured at amortised cost	4,569,993	8,416,528
- financial liabilities held for trading	62,166	(41,695)
- financial liabilities measured at fair value	–	–
- other liabilities	49,271	54,394
Net cash generated/absorbed by operating activities	**344,510**	**3,535,726**
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**15,071**	**19,772**
- sales of equity investments	–	7,279
- dividends collected from equity investments	10,949	10,581
- sales of property, equipment and investment property	4,122	1,912
- sales of intangible assets	–	–
- sales of subsidiaries and business units	–	–
2. **Cash absorbed by**	**(58,393)**	**(46,779)**
- purchases of equity investments	–	(667)
- purchases of property, equipment and investment property	(39,091)	(32,090)
- purchases of intangible assets	(19,302)	(14,022)
- purchase of subsidiaries and business units	–	–
Net cash generated/absorbed by investing activities	**(43,322)**	**(27,007)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	(69)	(14)
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(26,353)	–
- sale/purchase of third party control	–	–
Net cash generated/absorbed by financing activities	**(26,422)**	**(14)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**274,766**	**3,508,705**

Key:
(+) generated (-) absorbed

The figures at 31/12/2020 have been restated following the 7th update of Bank of Italy Circular 262 of 22 December 2005.

RECONCILIATION

Line items	31/12/2021	31/12/2020
Cash and cash equivalents at beginning of year	5,337,880	1,826,427
Total net cash generated/absorbed in the year	274,766	3,508,705
Cash and cash equivalents: effect of exchange rate fluctuations	40,087	2,748
Cash and cash equivalents at end of year	**5,652,733**	**5,337,880**

The figures at 31/12/2020 have been restated following the 7th update of Bank of Italy Circular 262 of 22 December 2005.

NOTES

PART A Accounting policies

A.1. General information

Section 1 Declaration of compliance with international accounting standards

Banca Popolare di Sondrio, a joint-stock company, declares that these consolidated financial statements have been prepared in accordance with the International Accounting Standards (IAS/IFRS) adopted by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2021 and endorsed by the European Commission according to the procedure established by EU Regulation no. 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4, paragraphs 1 and 2, of Legislative Decree 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation no. 1606/2002 concerning international accounting standards».

The format of the consolidated financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by Legislative Decree no. 38/2005 and subsequent updates and additions.

The consolidated financial statements at 31 December 2021 were approved by the Board of Directors on 21 March 2022.

Section 2 Basis of preparation

The consolidated financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and off-balance sheet transactions have therefore been valued according to their operating values. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and in the report on operations.

   Considering the structure of funding, based essentially on T-LTRO refinancing operations, customer current accounts, repurchase agreements and lending, mainly to retail customers and SMEs which the Group monitors constantly, as well as the prevalence of government securities and prime corporate bonds, management is of the opinion, even considering the difficulties encountered by sovereign debt securities in the recent past and the macroeconomic scenario created by the pandemic, that there are no critical areas that could adversely influence the Group's capital solidity and profitability, which are prerequisites for adopting the going concern basis. With reference to the information provided in Document no. 2 of 6 February 2009 and of Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP and subsequent updates, the Group has the reasonable expectation of continuing to operate as a going concern in the foreseeable future and has therefore prepared the financial statements as at 31 December 2021 on the assumption of business continuity. In this regard, management believes that, despite possible negative repercussions on certain types of revenues and the cost of credit and the elements of risk referred to in the section entitled «Risk Management», the

Group can continue to operate as a going concern in the foreseeable future, with capital ratios that are higher than the regulatory minimum requirements. This conclusion also takes into account the significant government interventions in support of companies and households, the incisive monetary policy measures of central banks and the temporary easing of regulatory requirements.

2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information.

   If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the reasons for it. The financial statements and the Notes have been prepared in compliance with the provisions of the Bank of Italy's Provision of 22 December 2005 and subsequent amendments.
4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or its interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the consolidated financial statements. In view of the 7th update of Bank of Italy's provision no. 262 of 22 December 2005 aimed at aligning financial reporting with the consolidated supervisory reporting harmonised at European level (FINREP) in order to avoid the management of «double lines» between supervisory reporting and financial reporting and to contain the reporting costs of intermediaries, the figures as of 31 December 2020 have been restated for consistency of comparison.

The financial statements are prepared in accordance with Italian regulations to the extent that they are compatible with IAS. Accordingly, the financial statements incorporate the requirements of Legislative Decree 136/2015, the Italian Civil Code (c.c.) and the corresponding provisions of the Consolidated Finance Act for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

All figures reported in the financial statements and notes are stated in thousands of euro.

Section 3 *Scope of consolidation and methodology*

The consolidated financial statements present the economic and financial position at 31/12/2021 of the Banca Popolare di Sondrio Banking Group, which comprises the Parent Company, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.a., Sinergia Seconda, Banca della Nuova Terra S.p.a., Popso Covered Bond S.r.l., PrestiNuova srl - Agenzia in Attività Finanziaria and the entities that are controlled by the Group pursuant to IFRS 10.

The following companies have been consolidated on a line-by-line basis:

Company Name	Head office	Type of relationship(1)	Share capital (in thousands)	Held %	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Banca della Nuova Terra S.p.a.	Sondrio	1	31,315	100	100
Pirovano Stelvio S.p.a.(4)	Sondrio	1	2,064	100	100
Servizi Internazionali e Strutture Integrate 2000 S.r.l.(4)	Milan	1	75	100	100
Immobiliare San Paolo S.r.l.(4)	Tirano	1	10(2)	100	100
Immobiliare Borgo Palazzo S.r.l.(4)	Tirano	1	10(2)	100	100
PrestiNuova S.r.l – AAF	Rome	1	100(3)	100	100
Popso Covered Bond S.r.l.	Conegliano V.	1	10	60	60

(1) 1 = majority of voting rights at ordinary shareholders' meeting.
(2) Held by Sinergia Seconda S.r.l.
(3) Held by Banca della Nuova Terra S.p.a.
(4) Equity investments not included in the Banking Group for supervisory purposes

The Parent Company holds 100% of Fondo Immobiliare Centro delle Alpi Real Estate and consolidates it line-by-line. The scope of consolidation of the companies consolidated on a line-by-line basis has expanded with respect to the previous year following the entry of the aforementioned PrestiNuova S.r.l. – Agenzia in Attività Finanziaria.

Control, as defined by IFRS 10, is the power over the investee entity (i.e. holding valid rights that give the current capacity to direct the activities of the investee entity) and exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control can therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies.

The assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the consolidated financial statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.

With line-by-line consolidation, the carrying amount of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries.

All of the assets and liabilities, equity, revenues, costs and intercompany financial flows relating to transactions between group entities are completely eliminated on consolidation, except for any income and charges of insignificant amount. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the Group.

Companies in which the bank does not have an investment, but for which it has received pledged voting shares, are not consolidated, because the pledge is designed to protect the loans granted and not to influence the company's operating policies to obtain economic benefits.

There are no restrictions concerning Group assets/liabilities referred to in paragraph 13 of IFRS 12.

Changes in interests held in a subsidiary that do not result in a loss of control are recognised in equity.

If the Group loses control of a subsidiary, it must derecognise the related assets (including goodwill), liabilities, minority interests and other components of equity, while any profit or loss is recognised in the Income Statement. If an interest is maintained, it has to be shown at fair value.

The reference standard for the accounting treatment of joint control arrangements in the Group's consolidated financial statements is IFRS 11 «Joint arrangements». The arrangement entered into constitutes a joint venture, whereby the parties that have joint control thereof have rights to the net assets of the arrangement. Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control. In accordance with this standard, the correct accounting treatment for such an arrangement requires the interest in the joint venture to be recognised as an investment and to be accounted for using the equity method in accordance with IAS 28 «Investments in associates and joint ventures».
The joint ventures shown below are valued at equity:

Company Name	Head office	Type of relationship (1)	Share capital (in thousands)	Held %	% of votes
Rajna Immobiliare srl	Sondrio	7	20	50	50
Rent2Go S.r.l.	Bolzano	7	12,050	33.33	33.33

(1) 7 = joint control.

The scope of consolidation also includes the equity investments where the Parent Company exercises a significant influence in that the shareholding is between 20% and 50%; or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;
b) the Bank takes part in the decision-making process, including decisions regarding dividends;
c) there are significant transactions between the parent company and the affiliate;
d) there is an exchange of managers;
e) essential technical information is being provided.

These holdings are valued using the equity method, except for insignificant interests which are valued at cost.

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the company's net result for the year attributable to the bank is shown in a specific item in the income statement.

Any change in the other components of comprehensive income relating to these subsidiaries is presented as part of the Group's comprehensive income. Furthermore, in the event that an associate or joint venture recognises a change with direct allocation to equity, the Group recognises its share, where applicable, in the statement of changes in equity. Unrealised profits and losses deriving from transactions between the Group and associates or joint ventures are eliminated in proportion to the shareholding in the associates or joint ventures.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not subject to a separate impairment test. After applying the equity method, the Group assesses whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group assesses whether there is objective evidence that the investments in associates or joint ventures have suffered impairment. In this case, the Group calculates the amount of the impairment as the difference between the recoverable value of the associate or joint venture and its carrying amount in its financial statements, recognising this difference in the profit or loss for the year under the heading «portion pertaining to the result of associates and joint ventures». Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Upon the loss of significant influence over an associate or joint control over a joint venture, the Group assesses and recognises the residual investment at fair value.

The difference between the carrying amount of the investment at the date of loss of significant influence or joint control and the fair value of the residual investment and the amounts received is recognised in the income statement.

The ownership percentages are specified in the following table:

Company Name	Head office	Share capital (in thousands)	Held %
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Arca Holding S.p.a.	Milan	50,000	34.715
Cossi Costruzioni S.p.a.	Sondrio	12,598	18.250
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi S.g.r.p.a.	Milan	5,200	19.600
Bormio Golf S.p.a.	Bormio	317	25.237
Lago di Como GAL S.c.r.l.	Canzo	22	28.953
Sofipo S.A.	Lugano	(CHF) 2,000*	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27.000
Sifas S.p.a.	Bolzano	1,209**	21.614

* held by Banca Popolare di Sondrio (Suisse) SA
** held by Pirovano Stelvio S.p.a.

Special purpose vehicle for the securitisation of impaired loans

Based on the provisions of IFRS 10, the Vehicle Companies Diana S.P.V. S.r.l., Pop Npls 2020 S.r.l and Pop Npls 2021 s.r.l., specifically established pursuant to Law 130/1999, do not fall within the scope of consolidation of Banca Popolare di Sondrio, as:

- Banca Popolare di Sondrio and the other Group companies have no shareholding relationship with the SPVs nor do they have the de facto or de iure to appoint the directors of the company.
- the SPVs are not a related party of Banca Popolare di Sondrio or of the other Group companies pursuant to IAS 24;
- Banca Popolare di Sondrio and the other Group companies have no power, whether de facto or de iure, to manage the key activities of the SPVs (credit recovery);
- the servicing contracts provide that investors (and therefore also Banca Popolare di Sondrio as the Transferring Bank) are not entitled to revoke the Master Servicer and/or the Special Servicers; with reference to the Master Servicer, the SPVs are the entity that will have the right or the obligation to revoke the assignment of the Master Servicer and to appoint another one;
- the structures of the securitisation allowed the derecognition from the financial statements of Banca Popolare di Sondrio of the loans sold as the rights to receive the financial flows were transferred to the SPVs (para. 3.2.4 (a) of IFRS 9) and the «substantially all of the risks and benefits» associated with them (para. 3.2.6 (a) of IFRS 9).

Please refer to Part E, Section 2, C. Securitisations of these notes for more details regarding the securitisation completed during the period.

Business combinations

Business combinations are accounted for using the purchase method. The total cost of an acquisition is the sum of the consideration paid, measured at fair value at the acquisition date, and the non-controlling interest in the company acquired. For each business combination, the Group defines whether to measure the non-controlling interest at fair value or in proportion to the non-controlling interest in the identifiable net assets of the company acquired. Acquisition costs are written off during the year and classified under administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets acquired or the liabilities assumed in accordance with the contractual terms, the economic conditions and other pertinent conditions that exist at the acquisition date.

Any contingent consideration is recognised by the purchaser at fair value at the acquisition date. The contingent consideration classified as equity is not subject to re-measurement and its subsequent payment is accounted for with a contra-entry to equity. The change in the fair value of the contingent amount classified as an asset or liability, as a financial instrument covered by IFRS 9 Financial instruments must be recognised in the income statement in accordance with IFRS 9. The contingent amount that does not fall within the scope of IFRS9 is measured at fair value at the reporting date and changes in fair value are recognised in the income statement.

Goodwill is initially recognised at cost represented by the excess of the sum paid and the amount recorded for non-controlling interests with respect to the identifiable net assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the sum paid, the Group checks again whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to determine the amount to be recognised at the acquisition date. If the new valuation still shows a fair value of the net assets acquired that is higher than the consideration, the difference (a gain) is recognised in the income statement. After initial recognition, goodwill is valued at cost net of accumulated impairment losses. For the purpose of the impairment test, the goodwill acquired in a business combination is allocated, from the acquisition date, to each cash generating unit (CGU) of the Group which is expected to benefit from the synergies of the combination, regardless of the fact that other assets or liabilities of the acquired entity may be assigned to these units.

If goodwill has been allocated to a CGU and the company disposes of part of its assets, the goodwill associated with the asset disposed of is included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the asset disposed of is determined on the basis of the relative values of the asset disposed of and the part maintained by the CGU.

Translation of financial statements in currencies other than the

The financial statements of Banca Popolare di Sondrio (Suisse) SA are translated into euro at the official year-end exchange rate for balance sheet items, while costs and revenues are translated into euro at average exchange rate. Differences arising on translation are booked in the statement of comprehensive income.

Section 4 ***Subsequent events***

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 21 March 2022 that would require the adjustment of such approved information, and nothing of significance has occurred that would require changes in the figures of the financial statements.

On 29 December 2021, the extraordinary shareholders' meeting approved the transformation of the bank into a joint-stock company. The transformation shall be effective from 5 January 2022 following the registration of the shareholders' resolution in the Sondrio Companies Register.

On 3 February 2022, the bank received from the European Central Bank, at the conclusion of the annual SREP («Supervisory Review and Evaluation Process») conducted in 2021, notification of the new decision regarding prudential requirements to be met on a consolidated basis, effective 1 March 2022. Based on the latest data, the Banca Popolare di Sondrio Group has capital ratios that are well above the new thresholds.

On 1 March 2022, the purchase of the minority shares of the subsidiary Factorit S.p.a. by the Bank was finalised, thus reaching 100% of the share capital of the company.

On 14 March 2022, the independent agency Standard Ethics, at the end of the annual review process, improved the long-term sustainability rating of the Bank from «EE» stable to «EE+» and confirmed the corporate rating at «EE», positioning Banca Popolare di Sondrio among the banking institutions with the best assessment on the Italian scene.

A military conflict between Russia and Ukraine broke out after the reporting date in February, and this is considered a subsequent event that does not entail any adjustment to the Financial Statements; reference should be made to the section entitled «Business outlook» in the Report on Operations.

Section 5 *Other aspects*

The following are the new documents issued by the IASB and endorsed by the EU, which have to be adopted from the financial statements for the years beginning on 1 January 2021:

- EU Regulation 2021/25 of 13 January 2021. On 27 August 2020, the International Accounting Standards Board published its «Interest Rate Benchmark Reform — phase 2 — Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16» to take into account the consequences of the effective replacement of benchmark indices for the determination of existing interest rates with alternative benchmark rates. See paragraph 16 for more information in this regard. Other information in these notes.
- Regulation (EU) no. 2021/1421 of 30 August 2021, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to International Financial Reporting Standard 16.

  The new accounting standards, amendments and interpretations, whose application will become mandatory as of 31 December 2021, are listed below:
- Regulation (EU) 2021/1080 of 28 June 2021 correcting Regulation 1126/2008. This regulation introduces a number of formal amendments to International Accounting Standards (IAS) 16, 37 and 41 and International Financial Reporting Standards (IFRS) 1, 3 and 9.

  In detail, the IASB published the following amendments to the IFRS:
  - amendments to IFRS 3 Business Combinations: they update the reference in IFRS 3 to the Conceptual Framework in the revised version, without this involving any changes to the standard;
  - amendments to IAS 16 Property, Plant and Equipment: they do not allow the amount received from the sale of goods produced before the asset was ready for use to be deducted from the cost of the fixed asset. Such sales revenues and costs will be recognised in the income statement;
  - amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: they clarify which cost items have to be considered to assess whether a contract will make a loss;
  - annual Improvements 2018-2020: amendments are made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples accompanying IFRS 16 Leases.

The amendments shall be applied at the latest from the starting date of the first financial year commencing on or after 1 January 2022.

The new accounting standards, amendments and interpretations, whose application will become mandatory after 31 December 2022, are listed below:

- Regulation (EU) no. 2021/2036 of 19 November 2021, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to International Financial Reporting Standard 17. IFRS 17 – Insurance contracts published on 18 May 2017 and the amendments to IFRS 17 published on 25 June 2020. This applies from 1 January 2023.
- Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current. On 23 January 2020, the IASB published an amendment to IAS

1 which seeks to clarify one of the IAS 1 criteria for the classification of a liability as non-current, namely the requirement that the entity must have the right to defer settlement of the liability for at least 12 months after the end of the reporting period. The amendment includes:
- clarification that the right to defer settlement must exist at the end of the reporting period;
- clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;
- clarification about how loan conditions influence classification;
- clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments.

– Amendments to IFRS 4 Insurance contracts (Regulation (EU) 2020/2097 of 15 December 2020). The amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 until 2023 in order to align the date of entry into force of IFRS 9 with the new IFRS 17 Insurance Contracts.

The consolidated financial statements, accompanied by the directors' report on operations, consist of the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the financial statements.

Preparing consolidated financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, the use of valuation models for identifying the fair value of instruments that are not listed on active markets, equity investments and goodwill and for estimating the recoverability of deferred tax assets. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Parent Company and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2021, as required by prevailing accounting standards and relevant regulation.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale.

The outcome of this work supports the carrying amount of these items at 31 December 2021. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, characterised by high levels of uncertainty about the prospects, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment during a pandemic which could experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2021.

The consolidated financial statements are subject to audit by EY S.p.A. in accordance with the shareholders' resolution of 29 April 2017 which appointed them as auditors for the nine-year period from 2017 to 2025.

A.2 Part relating to the main line items in the financial statements

Classification of financial assets

Financial assets are classified with reference, on the one hand, to the contractual characteristics of the related cash flows i.e. whether or not they depend solely on the payment of principal and related interest (SPPI) and, on the other, the reason (business model) for which the instrument is held. The business model determines whether the cash flows derive from the collection of contractual cash flows, the sale of financial assets or both.

Held to Collect (HTC)

The objective of this business model is to hold financial assets to collect the contractual cash flows during the instrument's life.

Sales are only deemed to be eligible if they are frequent but not significant, or significant but not frequent, or if due to an increase in credit risk, or if close to the maturity date of the financial asset. Frequency is measured based on the number of sales made in the period, while significance is measured based on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Group in specific internal regulations.

Banca Popolare di Sondrio Group holds the following within an HTC business model:

- Almost the entire portfolio of loans to customers and Banks, given that the Group mainly undertakes traditional banking activities and holds a loan portfolio that originates from finance granted to households, individuals and businesses;
- Fixed-yield securities that may be subjected to this business model's management logic.

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets. The Group has decided not to use the HTC&S business model for loans, but for securities (most of the securities already held as financial assets available for sale have been included here).

Others (FVTPL)

This business model is adopted when the Group takes decisions based on the fair value of financial assets and it manages them in order to realise the latter or when the objective of the business model does not fall within that of the previous two (HTC and HTC&S). Banca Popolare di Sondrio Group holds the following within an «Others» business model:

- Financial instruments held within a trading business model
- Financial instruments held within a fair value business model (that mostly include funds and SICAVs).

The Group does not require ex post monitoring for credit and loans to verify the consistency of the loan portfolio with the HTC business model within which they are held, while it is required for securities to verify the consistency of securities portfolio management with the HTC and HTC&S business models.

Solely Payment Principal Interest Test (SPPI test)

By means of an SPPI test, it is possible to check whether a financial asset may be considered to be a «basic lending arrangement», whereby the contractual cash flows consist solely of payments of principal and interest accrued on the principal amount outstanding. If the test of the characteristics of the contractual cash flows shows compliance with the requirements of IFRS 9 (SPPI test has been passed), the asset may be measured at amortised cost, provided that it is held within a business model the objective of which is to collect the contractual cash flows during the instrument's life (HTC business model), or at fair value through other comprehensive income (FVOCI), provided that the asset is held within a business model the objective of which is to collect contractual cash flows over the entire life of the asset and to sell the asset (HTC&S business model). If the test of the characteristics of the contractual cash flows from a financial asset does not show compliance with the requirements of IFRS 9 (SPPI test has not been passed), the asset is measured at fair value through profit or loss (FVTPL). In accordance with Group guidelines, the test is performed before a loan is granted or a security purchased (origination) in order to gain awareness of the accounting implications in terms of the classification of assets in accordance with IFRS 9. Test procedures make use of the so-called SPPI tool.

For credit and loans, the approach for the execution of the SPPI test differs based on whether they consist of:

- Standard products (e.g. current accounts or loans), for which the test is performed at product level. Upon granting a loan, account is taken of the outcome of the SPPI test at product level, updated following verification of the remuneration of credit risk and a benchmark test, where required.
- Non-standard contracts, for which the test is performed individually for each amount.

For the securities portfolio, the results of the SPPI test and benchmark test are acquired for each ISIN from an external info provider. For amounts for which the results of the SPPI test and/or benchmark test obtained from an external info provider are not available and/or complete, the tests are performed within the Group, using the aforementioned tool.

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

Classification

Financial assets held for trading (fixed-yield securities, equity securities, loans, mutual funds) have been allocated to this line item. It also includes the derivative contracts with a positive fair value, except those offset pursuant to IAS 32. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, the applicable line item is «hedging derivatives». If a financial asset contains an embedded derivative, it is measured by measuring the entire asset at fair value. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This line item also includes financial assets designated at fair value (fixed-yield securities and loans) as the result of the exercise of the fair value option. For the time being, the Group has decided not to apply the fair value option, but does not exclude the exercise thereof in the future.

Lastly, it includes other financial assets mandatorily measured at fair value (fixed-yield securities, equity securities, mutual funds and loans) or that do not meet the requirements for classification at amortised cost or at fair value through other comprehensive income, since they did not pass the contractual cash flow characteristics test (SPPI test), as well as equity securities and mutual funds (that are not held for trading) and debt instruments held within a fair value business model.

Recognition

Assets measured at fair value through profit or loss are recognised at the settlement date at fair value, which normally corresponds to the consideration paid, with the exception of transaction costs and revenues that are recognised directly in profit or loss. Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value at the reporting date.

With regard to instruments listed on official markets, fair value is calculated with reference to their official bid price at the close of trading, while the fair value of instruments not listed on official markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity; cost, in the event that this is the best approximation of fair value).

As regards loans and receivables (due from banks and customers), the models used differ based on the nature and the characteristics of the instruments being measured. Currently, three main base models are applied:

- Discounted Cash Flow Model (DCF)
- Reverse Mortgage Model (RMM);
- ABS model

The above models are used to measure performing exposures.

In the event of non-performing loans or loans repayable on demand, the fair value equates to the gross balance adjusted for impairment.

Recognition of components affecting the income statement

Income statement components generated by changes in fair value of financial assets measured at fair value through profit or loss are recognised in the income statement in the period they arise under «Net trading income» and «Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss» split between the sub-items: «financial assets and liabilities designated at fair value» and «other financial assets mandatorily measured at fair value».

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

Financial assets measured at fair value through profit or loss are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

2. Financial assets measured at fair value through other comprehensive income

Classification

This line item includes all financial assets (fixed-yield securities, equity securities and loans) classified in the portfolio measured at fair value through other comprehensive income, distinguishing between those that will subsequently be reclassified to the income statement (fixed-yield securities and loans) and that will not (equity securities). The following are classified in the portfolio measured at fair value through other comprehensive income:

- fixed-yield securities and loans held within an HTC&S business model and that pass the SPPI test;

– equity securities for which the FVOCI option has been irrevocably exercised upon recognition.

Recognition

The assets classified in this caption are recorded on the settlement date. Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, which normally corresponds to the fair value of the consideration paid to acquire them.

With regard to fixed-yield securities and loans, the Group requires any changes in the business model due to inconsistency between the way that the portfolio is managed and the business model that was chosen, or to significant changes in the strategic decisions made, to be decided by the Boards of Directors of each Group member, which will determine if, in rare circumstances, reclassification is needed.

No possibility exists for the reclassification of equity securities. The exercise of the FVOCI option, being the option envisaged by the standard that permits equity instruments to be designated at fair value through other comprehensive income upon initial recognition, is in fact irrevocable.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value in the same manner as financial assets measured at fair value through profit or loss.

The line item «Financial assets measured at fair value through other comprehensive income» comprises equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Group operates. These instruments represent the majority in this portfolio. For these investments and in consideration of the fact that the application of valuation techniques would use significant discretionary factors, valuation at cost is considered the best expression of their fair value.

At each year end or interim reporting date, fixed-yield securities classified at «fair value through other comprehensive income» are subject to impairment testing based on a calculation framework similar to the one used for financial instruments measured at «amortised cost». Any subsequent writebacks cannot exceed the impairment losses recorded previously.

As regards equity securities classified in the line item «Financial assets measured at fair value through other comprehensive income» no impairment testing is required, since changes in fair value due to a deterioration in credit status are recognised in an equity reserve named «Valuation reserves».

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the difference between cost and redemption value, is recorded in the income statement. Income and charges deriving from a change in fair value are, net of deferred tax effect, classified in separate line items within shareholders' equity, the «Valuation reserve», consisting of «Valuation reserves: equity securities measured at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than equity securities) measured at fair value through other comprehensive income». As an exception for fixed-yield securities, changes in fair value triggered by changes in risk are recognised in profit or loss in the line item 130 b) «Net adjustments/writebacks for credit risk» in relation to financial assets measured at fair value through other comprehensive income. Upon derecognition of fixed-yield securities, accumulated gains or losses pertaining thereto are recognised in profit or loss.

Upon derecognition of equity securities, accumulated gains or losses pertaining thereto are recognised in an equity reserve (line item 150).

Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to equity securities are recorded in a specific «Valuation reserve» within equity.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

3. Financial assets measured at amortised cost

Classification

This line item includes fixed-yield securities and loans allocated to the portfolio measured at amortised cost. To qualify for inclusion in the portfolio measured at amortised cost, a financial asset must be held within an HTC business model and have passed the SPPI test.
The following are recognised in this line item:

a) amounts due from banks (current accounts, guarantee deposits, fixed yield securities, etc.), other than those «on demand» included under «Cash and cash equivalents». These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, the distribution of financial products). Receivables due from Central Banks (e.g. compulsory reserve), other than current accounts and «on demand» deposits included under «Cash and cash equivalents», are also included;
b) loans and receivables with customers (mortgage loans, finance leases, factoring, fixed-yield securities, etc.). These also include deposits with post offices and Cassa Depositi e Prestiti, variation margins with clearing houses arising from derivative transactions and operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, servicing activities).

Also included are:

- finance leases relating to assets under construction and assets about to be leased under «transfer of risks» contracts, whereby the risks are transferred to the lessee prior to delivery of the asset and the start of lease instalments;
- loans granted through government or other public entity funding in connection with particular lending transactions provided for and governed by specific laws («loans through third-party funds under administration»), provided that the loans and funds bear interest due and payable to the lender;
- trade notes and documents that the banks receive subject to collection or subsequent to collection and for which the banks handle the collection service on behalf of assignors (recognised only upon settlement of the related amounts).

Recognition

Financial assets measured at amortised cost are recognised on the settlement date at fair value, which normally coincides with the amount paid, including transaction costs.

Financial assets measured at amortised cost include advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables acquired by the bank, and booked in the name of the assigned debtor, for which the related risks and benefits have all been substantially transferred to the bank.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method.

The Group requires any changes in the business model due to inconsistency between the way that the portfolio is managed and the business model that was chosen, or to significant changes in the strategic decisions made, to be decided by the Boards of Directors of each Group member, which will determine if, in rare circumstances, reclassification is needed.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by adjustments or writebacks and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans (less than 12 months) without a specific repayment date and loans repayable on demand are recognised at historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this amount. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount expected cash flows, even if there has been a credit change associated with the loan triggered by loan forbearance that has led to a change in the contractual rate.

For measurement purposes, financial assets measured at amortised cost are classified in one of the different stages as follows:

- Stage 1: performing positions for which there has been no significant increase in credit risk since the date of initial recognition
- Stage 2: performing positions for which there has been no significant increase in credit risk since the date of initial recognition
- Stage 3: positions classified in one of the credit-impaired categories (overdrawn for more than 90 days, unlikely-to-pay, non-performing)

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts». At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, POCI and use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric («Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard. In this case, there will be a transfer between stages: this model is symmetric, and activities can move between stages. In particular, consistent with the prudent principles of forbearance, an observation period of at least two years is applied before returning the position to a better stage.

The measurement of financial assets carried at amortised cost is based on a computation of expected credit loss, which is defined as an estimate of the weighted probability of credit losses over the expected life of the financial instrument weighted for the probability of occurrence and is calculated based on the classification in stages as indicated above.

In particular:

- 12-month expected credit losses, for assets classified in stage 1. 12-month expected credit losses are those that result from default events that are possible within 12 months (or within a shorter period if the expected life is less than 12 months), weighted for the probability of occurrence of the default event.
- Lifetime expected credit losses, for assets classified in stage 2 and 3. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instrument, weighted for the probability of occurrence of the default event. For stage 2 positions, the provisions relating to each counterparty may be amended manually to a level considered appropriate by the competent business functions, based on the results of applying the statistical methodology defined by the Group and specific operational information, if the theoretical expected loss does not accurately reflect the level of risk identified.
  As regards performing positions, measurement is performed on an overall basis, taking account of the risk parameters consisting of probability of default (PD) and loss given default (LGD), as well as exposure at default (EAD).
  As regards credit-impaired positions, measurement may be performed on an overall or detailed basis. More specifically:
- Bad loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.
- Exposures classified as unlikely-to-pay loans are exposures, other than non-performing, for which the bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.
- Impaired past due and/or overdrawn exposures: exposures other than non-performing or unlikely to pay loans, which, at the reference date, are unpaid and/or overdrawn continuously for more than 90 days and which exceed set absolute materiality thresholds (100 euro for retail exposures or 500 euro for non-retail exposures) and relative materiality (set at one percent (1%) for both retail and non-retail exposures). Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

Impairment of individual assets measured at amortised cost is the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;
- expected timing of recoveries, considering the progress made by recovery procedures;
- internal rate of return.

Bad loans are assessed on either a detailed or an overall basis. The specific analysis of non-performing financial assets measured at amortised cost takes the following parameters into account:

– recoveries forecast by the account managers;
– expected timing of recoveries based on historical-statistical data;
– original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

Overall assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

– recoveries forecast by the offices concerned;
– expected timing of recoveries based on historical-statistical data;
– original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of bad loans for which no specific estimate has been made of the loss attributable to each individual relationship.

These financial assets are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due and/or impaired overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters established by regulations in force from time to time.

For the positions in question, it is not possible to quantify expected losses on a detailed basis at the level of individual position. The measurement of the level of impairment thereof – and, thus, of the impairment adjustments to be applied on an overall basis – is performed by taking account of the possibility of return to performing of the positions or of a further deterioration of default and, accordingly, of the amount of the estimated expected loss arising from the established recovery process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

It should be noted that the impairment model relating to impaired loans (Stage 3) envisaged by IFRS 9 is based on an estimate of the difference between the original contractual flows and expected cash flows. So, in determining the expected flows, it is necessary to include estimates at the reporting date of the various expected scenarios, including any loan disposal programmes and/or settlement agreements. If the entity expects to recover a portion of the cash flow of the exposures through sales procedures or settlement agreements, these can be included in the calculation of the Expected Credit Losses verified under certain conditions.

The Group incorporates the various recovery strategies considering the different probabilities that they will take place according to the IFRS 9 impairment model.

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of impaired loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification of the scenarios.

In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

Currently, the following possible scenarios have been identified, each with different models and estimated outcomes:
- internal management of credit recovery activities;
- adoption of settlement agreements for a selected number of impaired positions;
- disposal to third parties of impaired exposures.

The next phase consists in identifying the portfolio to be sold, based on knowledge of its characteristics, the existence of any internal and/or external constraints, the monitoring of market conditions and any more complex strategic and operational objectives. The aggregate is defined with reference to the specific factors attributed to each position, such as their contractual characteristics (e.g. type of guarantee, ageing, size of the exposure etc.) and relevant operational information, including the type of recovery procedures already in progress, the geographical location of the counterparty, any impediments or obstacles to disposal, the strategic orientation of the group, the conditions existing from time to time in the market for the disposal of loans, the strategies adopted by competitors, and any other internal and/or external factors that can be explained appropriately.

Each operational scenario identified is assigned a specific probability of occurrence.

This probability is determined on both qualitative and quantitative bases, the latter taking into account the correlation between the target and extended portfolios selected for each scenario.

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified. Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the restructuring of unlikely-to-pay exposures, any secured and unsecured guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

The estimate of cash flow from loan disposal scenarios takes account of similar transactions carried out in the past by the group, as well as specific information available about the «underlying» (situation faced by the borrower and any loan guarantees obtained) and the market for the disposal of non-performing loans (e.g. prices of similar transactions carried out by other intermediaries and historical and forecast market curves).

The expected loss on each impaired position is therefore determined using the following formula:

Expected Loss - Individual position	=	Expected Loss - Disposal Scenario * Probability of occurrence of Disposal	+	Expected Loss - Internal Management Scenario * Probability of occurrence of Internal Management

The process of determining the expected loss in the case of scenarios of proactive management of loans through settlement agreements follows the same steps as those envisaged for the transfer scenarios illustrated above and the expected loss in this specific scenario, through the relative probability of occurrence, is included in the final quantification of the expected loss of the individual position.

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the line item «interest and similar income».

Reductions or recoveries of partial or entire amounts previously written down are booked to the income statement.

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

IFRS 9 confirms the rules for the derecognition of financial assets already provided for in IAS 39. Thus, financial assets measured at amortised cost are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

However, the standard includes new guidance on:

- Write-off of financial assets: when an entity does not reasonably expect to fully or partly recover contractual cash flows from a financial asset, it must directly reduce the gross carrying amount of the financial asset. This writedown constitutes partial or total derecognition of the asset.
- Modification of contractual cash flows: when a modification of contractual cash flows occurs, an entity must assess whether the modification would lead to derecognition, that is, whether the modification is substantial.

When the modification of contractual cash flows from a financial asset leads to the derecognition of a financial asset in compliance with the present standard, an entity should derecognise the existing financial asset and subsequently recognise the modified financial asset: the modified financial asset is deemed to be a «new» financial asset for the purpose of this standard. (IFRS 9 B5.5.25).

When the modification of contractual cash flows from a financial asset does not lead to the derecognition thereof, an entity should redetermine whether there has been a significant increase in credit risk and/or whether the financial asset should be reclassified to stage 3.

At the time of a modification that does not lead to derecognition, the Group adjusts their carrying amount to the present value of the modified cash flows determined using the original effective interest rate, with a matching entry to the income statement.

3.1 Commitments and guarantees given

Classification

These comprise all the secured and unsecured guarantees given for third-party obligations and commitments to grant loans.

Recognition and measurement

Endorsement loans are valued on the basis of the riskiness of this particular form of loan, taking into account the creditworthiness of the borrower. The impairment model envisaged for this category of financial assets is the same as that for financial assets measured at amortised cost (see paragraph 3 above).

Recognition of components affecting the income statement

The commissions accrued are shown in the income statement under «fee and commission income». Impairment losses, and subsequent writebacks, are booked to the income statement under «net provisions for risks and charges» with a contra-entry to «Provisions for risks and charges - a) Commitments and guarantees given».

4. Hedging transactions

Classification and recognition

Financial and credit derivatives held for hedging purposes with a positive or negative fair value are recognised in the corresponding balance sheet line item. The IASB is still developing new macro hedging requirements to complete the hedge accounting requirements already included in IFRS 9, which will replace the rules set out in IAS 39 and, accordingly, until the completion and publication of the new standard, the Group has decided to continue to apply the hedge accounting requirements set out in IAS 39, as this option is allowed under IFRS 9.

The portfolio of hedging derivatives comprises the derivative instruments used by the Group to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading portfolio. Hedging instruments are recorded using the «contract date» method.

For a transaction to be accounted for as a «hedging transaction», the following conditions must be met: a) the hedging must be formally documented, b) the hedge must be effective at the time it starts and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement;
- hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement to match the change in the carrying value of the hedged item.

With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

Cash flow hedges are measured and recorded on the following basis:

- derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;
- the hedged item continues to be valued on the basis applicable to the category concerned;

– the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

If the hedging instrument expires or is sold, cancelled or exercised without replacement (as part of the hedging strategy), or if it ceases to be designated as a hedging instrument, or if the hedge no longer satisfies hedge accounting criteria, any gains or losses previously recognised as components of other comprehensive income remain classified separately within equity until the expected transaction takes place or the commitment made in relation to foreign currency is called upon.

Derecognition

Risk hedges cease to generate accounting effects when they expire, when they are closed out or terminated early, or when they cease to satisfy the recognition criteria.

5. Equity investments

Classification

The portfolio of equity investments comprises holdings in subsidiary companies, associated companies and companies under joint control, other than those included in the line item «financial assets measured at fair value through profit or loss» in accordance with IAS 28 and IFRS 11.

Recognition

Reference should be made to Section «Scope and methods of consolidation».

Accounting policies

Reference should be made to Section «Scope and methods of consolidation».

Measurement and recognition of components affecting the income statement

Reference should be made to Section «Scope and methods of consolidation».

Derecognition

Reference should be made to Section «Scope and methods of consolidation».

6. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. The rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation and follow the rules laid down by IAS 40.

This item also includes tangible assets classified according to IAS 2 Inventories, mainly relating to assets acquired with a view to enhancing the value of the investment, including through renovation or redevelopment, with the explicit intention of selling them, including assets deriving from the enforcement of guarantees received.

Recognition

Property, equipment and investment property are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Investment properties, at the time of purchase, are recorded under assets in the balance sheet at cost. In the presence of a change of use of the property from owner-occupied property to investment property, the initial book value is equal to the fair value (market value), deduced from a specific appraisal. The difference between the fair value and the carrying amount of the property at the date of change in use is treated on the basis of the provisions of IAS 16.

According to IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset for the duration of the lease.

When the asset is made available to the lessee for its use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

The start of the lease term is the date from which the lessee is authorised to exercise his right to use the leased asset, it corresponds to the date of initial recognition of the lease and also includes the so-called rent-free period, or those contractual periods in which the lessee makes use of the asset free of charge. At the time the contract begins, the lessee recognises:

– an asset consisting of the right to use the asset underlying the lease contract.

The asset is recognised at cost, determined by the sum of:

- the financial liability for the lease;
- payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);
- initial direct costs;
- any (estimated) costs for the dismantling or restoration of the underlying leased asset;

– a financial liability deriving from the lease agreement corresponding to the present value of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lessee's incremental borrowing rate is used. If a lease contract contains «non-lease components» (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for «lease components» and «non-lease components» separately and split the contract consideration between the various components based on their relative prices.

The lease term is determined by taking into account:

– periods covered by a lease extension option, if it is reasonably certain to be exercised;
– periods covered by a lease termination option, if it is reasonably certain to be exercised.

Accounting policies

Subsequent to initial recognition, the financial statements are carried at cost less depreciation and any impairment losses. Property, equipment and investment property to which IAS 2 applies are valued in the same way as inventories, i.e. at the lower of cost and net realisable value. This case is not subject to periodic depreciation.

Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, equipment and investment property are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying amount with respect to their recoverable amount is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

Property, equipment and investment property to which IAS 2 applies are valued in the same way as inventories, i.e. at the lower of cost and net realisable value. This case is not subject to periodic depreciation.

For investment properties, falling within the scope of IAS 40, the Group adopts the fair value measurement method, whereby, following initial recognition, all investment properties are measured at fair value. Consequently, these properties are not subject to depreciation, nor are they subject to impairment testing.

With regard to lease contracts, the lessee must:

- assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 «Impairment of assets», adjusted to take into account any restatements of the lease liability;
- increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and writebacks are recorded in the «depreciation and net impairment losses on property, equipment and investment property» caption of the income statement.

The fair value method for investment property requires that: increases in fair value must be recognised in the income statement as income («Net result of fair value measurement of property, equipment and investment property and intangible assets»); decreases in fair value must be must be recognised in the income statement as expenses («Net result of fair value measurement of property, equipment and investment property and intangible assets»). For the methods used to determine the fair value and the periodicity of restatement, reference should be made to the criteria illustrated in «Part A.4 - Information on fair value» below.

In the lessee's income statement, the payment of the fee, previously shown under «Other administrative expenses», is now accounted for:

- under «Net interest» for the portion of interest expense relating to the financial liability in relation to the lease contract;
- under «Adjustments to property, equipment and investment property and intangible assets» for the depreciation charge relating to the right of use of the asset.

Derecognition

Property, equipment and investment property are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

On disposal of an investment property, the difference between the sale consideration and the carrying amount must be recognised in the income statement, as «Gain (loss) on sale of investments».

The right of use deriving from lease contracts is eliminated from the financial statements at the end of the lease term.

7. Intangible assets

Classification

This caption comprises identifiable, intangible, non-monetary assets that will benefit future years. Intangible assets comprise software and goodwill.

Recognition

Intangible assets are recorded at purchase cost plus any related charges, only if it is probable that the future economic benefits attributable to such assets will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned. Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units.

Accounting policies

Subsequent to initial recognition, intangible assets except for goodwill are stated at cost, net of accumulated amortisation and any impairment in value. Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned. At the end of each annual or interim reporting period, if there is evidence of impairment, the recoverable value of the asset is estimated: the amount of the loss is equal to the difference between the book value and the recoverable value and is posted to the income statement.

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable amount is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «amortisation and net impairment losses on intangible assets» caption of the income statement. It is not permitted to book any subsequent writebacks.

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

8. Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally from sale rather than from continuous use. Non-current assets are only classified in this item when disposal is considered very probable, and the asset or disposal group is available for immediate sale in its current condition, given that management is committed to making the sale, which should be scheduled for completion within one year of the classification date. They are measured at the lower of book value and fair value, net of selling costs. Differences arising on valuation are booked to the income statement.

9. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year, if these amounts are likely to be recovered from or paid to the tax authorities. Tax liabilities are determined by applying the current tax rates and regulations.

The estimate of tax assets and liabilities takes into account any charges deriving from disputes notified by the Tax Authorities and not yet settled or whose outcome is uncertain, as well as any doubts about the tax treatment adopted by the Company and other Group companies, given the complexity of tax legislation.

If there are deductible or taxable temporary differences at the reporting date between the value of assets and liabilities for tax purposes and the related carrying amounts, the corresponding deferred tax assets and liabilities are recognised using the liability method. Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions:

- they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future.

Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions:

- the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them.

No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply. Deferred tax assets are only recognised when their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recorded in the financial statements to the extent that their recovery is probable; this probability is assessed by carrying out a probability test, based on the Group's ability to continue generating positive taxable income or, as a result of the Tax Consolidation option, based on that generated by the tax group member companies. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal.

Deferred tax assets/liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to comprehensive income or equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This caption comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to grant loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
- Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed. These include:
  - Parent Company's pension plan. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank is responsible for any unfunded liabilities.
  - Actuarial liabilities pertaining to BPS (Suisse) SA arising from supplementary pension costs for the employees thereof. For further details, see the specific accounting method explained below.
- The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
  - the company has a present obligation (legal or constructive) as a result of a past event at the reporting date;
  - it is likely that settlement of the obligation will involve the use of economic resources;
  - a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

11. Financial liabilities measured at amortised cost

Classification

This line item includes amounts due to banks and due to customers, regardless of their technical form (deposits, current accounts, loans, securities), other than those recognised in line items 20 «Financial liabilities held for trading» and 30 «Financial liabilities designated at fair value». It also includes operating payables linked to the financial services and activities defined in the Consolidated Banking Act and the Consolidated Finance Act, variation margins with clearing houses arising from derivative transactions and other operating payables associated with the provision of financial services. Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. They also include payables recorded by the company as a lessee in the context of lease transactions.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected. This amount does not include the charges made to creditors in order to recover administrative costs. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Amortised cost is calculated after identifying the acquisition discount or premium and the fees or costs that are an integral part of the effective interest rate. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are measured in accordance with the regulations applying to such transactions.

Lease payables are revalued when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest and similar expense». The amortisation charged using the effective interest rate is recognised among the financial charges in the income statement. Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses from sale or repurchase of financial liabilities».

Interest expense on the financial liability under the lease contract is recorded in «Interest and similar expense».

Derecognition

Financial liabilities are derecognised when the underlying obligations expire or are settled, cancelled or satisfied. Funding liabilities that are subsequently repurchased are eliminated from the financial statements.

12. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

13. Financial liabilities measured at fair value

The financial statements do not include any financial liabilities measured at fair value.

14. Currency transactions

They include all assets and liabilities denominated in currencies other than the Euro.

Recognition

Assets and liabilities denominated in currencies other than the Euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise. Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

15. Termination indemnities

Post-employment benefits (i.e. termination indemnities) are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by «projected unit credit method», which extrapolate the current liability, using actuarial assumptions, for the portion of the amount accrued. Under the projected unit credit method, each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out every six months by an independent actuary.

As a result of the reform of supplementary pensions by Decree no. 252 of 5 December 2005, the termination indemnities accrued up to 31/12/2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee. This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

The termination indemnities earned after 31 December 2006 are part of defined contributions plans. The contributions payable to these plans are recognised as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

16. Other information

16.1 Share-based payments – Transactions settled using equity instruments

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives. The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement.

This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year.

The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

16.2 Interest Rate Benchmark Reform

The so-called «IBOR reform» follows the recommendations of the Financial Stability Board (FSB) following the G20 request for a radical revision of the main benchmark interest rates. The request is a direct consequence of the loss of reliability of certain benchmark rates following their alleged manipulation, corroborated by the scarcity of liquidity in interbank markets in the period after the economic crisis.

At the European level, this reform was translated into the European Union Regulation 2016/1011 of 8 June 2016 (the so-called Benchmarks Regulation, BMR) in force since January 2018, implemented in Italy by Legislative Decree 19 of 13 February 2019. The regulation defined the new regulatory framework on reference rates, EURIBOR, LIBOR and EONIA, creating uncertainty about the long-term availability of some Benchmarks. In this context, the Banca Popolare di Sondrio group has launched an assessment project from which it emerged that the impact of the reform is of low significance with regard to the following areas of investigation: products, contracts, models and information systems.

With reference to the EURIBOR, the reference rate used for numerous types of funding and lending transactions and derivative products, calculated for different maturities and administered by the European Money Markets Institute (EMMI), from 28 November 2019 it is calculated using a new methodology in order to adapt to this regulation. This innovative methodology does not change the economic variable that the index represents, which remains the cost of funding for the contributing European banks. The change relates to the figure being measured, which now consists of the actual cost of funding recorded by the transactions effectively concluded and no longer, as was previously the case, from that relating to the purchase or sale proposals declared by the contributing banks.

Publication of the EONIA benchmark rate as previously calculated ceased as of 1 October 2019. The publication of €STR (Euro Short-Term Rate) replaced this parameter from 2 October 2019. As regards the €STR rate, the Group's exposure appears to have no impact given the absence of products indexed to the new €STR.

In the end of the day, publication of LIBOR ceased from the end of 2021 and in the individual countries concerned there are already alternative risk-free rates that will replace LIBOR.

With regard to the disclosures pursuant to IFRS 7, paragraphs 24 I and 24 J concerning the reform of the reference indices for determining interest rates, no significant impact was seen on instruments that have already experienced the transition.

As of 2021, Regulation no. 25/2021 dated 13 January 2021, which implements the document «Reform of interest rate benchmarks - phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16», is mandatorily applicable for the first time. From the point of view of accounting presentation, it is clarified that the amendments made as a result of the IBOR Reform relating to the replacement of the existing IBOR rate with the new Risk Free Rate should not constitute a derecognition, but should be considered for accounting purposes as a modification). In this regard, a practical expedient is introduced to represent such modifications, if made as a direct consequence of the IBOR Reform and on equivalent economic bases, with a prospective adjustment of the effective interest rate, with impacts on the interest margin of future periods.

On the subject of hedge accounting, in the second phase of the project, the IASB introduced certain exceptions to IAS 39, in the case of modifications required as a direct consequence of IBOR Reform and carried out on an equivalent economic basis, which make it possible not to carry out discontinuing following the updating of the documentation on the hedging (for the change in the hedged risk, the underlying hedged item or the hedging derivative or the method of verifying the solidity of the hedge). Any effect of ineffectiveness must, however, be recognised in the income statement. As the Group has no significant hedge accounting transactions, it has not been significantly affected by the reform.

Please see Part E, 1.3 Derivative instruments and related hedging policy, Paragraph 1.3.2. Accounting hedges in these explanatory notes for further information in regard.

16.3 TLTRO III

The Governing Council of the European Central Bank (ECB) launched a new series of seven targeted longer-term refinancing operations (TLTRO III). The new financing operations, based on what is indicated in the ECB decision of 07/03/2019:

- envisaged auctions from September 2019 to March 2021 on a quarterly basis;
- have a duration of three years, with the possibility of voluntary early repayment (total or partial) starting one year after the settlement of each transaction.

During the meetings of 12 March and 30 April 2020, as a result of the Covid-19 emergency, the Governing Council of the ECB revised the parameters of the TLTRO III operations with reference to the maximum amount that can be financed and the related remuneration.

TLTRO-III operations have been conducted on a quarterly basis since September 2019. An additional three operations to be conducted in June, September, and December 2021 were added to the seven operations originally planned. Each operation has a term of three years. For operations conducted in June, September and December 2021, there is a voluntary redemption option exercisable quarterly beginning in June 2022.

TLTRO III operations are indexed to the average interest rate on the main refinancing operations (MRO), currently equal to 0%, or alternatively, depending on the achievement of certain benchmarks at 31 March, at the average interest rate on overnight deposits at the central bank's Deposit Facility (DF).

As a result of the crisis linked to Covid-19, a cut of 50 basis points was envisaged in the above rates for the period between 24 June 2020 and 23 June 2021, and with the ECB decision of December 2020 the reduction was also extended to the period between 24 June 2021 and 23 June 2022. Again, the concessional terms are subject to the achievement of certain growth targets measured at 31 March 2021 and 31 December 2021.

As the Parent Company has achieved all required growth targets, it will be eligible for the application of the Deposit Facility rate, as well as the reduction of an additional 50 b.p. for the period from June 2020 to June 2022, from all funds held by the Parent Company, depending on their allocation date.

The Group considered the funding provided to be non-arm's length and qualified the TLTRO III operations as a loan from a government whose benefit is treated as a government grant, in accordance with IAS 20. In line with the provisions of paragraph 8 of IAS 20, a government grant cannot be recognised until there is reasonable certainty that the entity meets the conditions.

From an accounting point of view, in consideration of paragraph 12 of IAS 20, the recognition of the benefit must be made in the years in which the entity recognizes as costs the related expenses that the contributions are intended to offset. Considering that the benefit was granted to the banks in order to support the provision of loans during the pandemic which, for the Parent Company, mainly consisted of granting of new loans directly linked to the pandemic, it can be concluded that the «higher cost» incurred by the Parent Company is attributable to both the cost of the new funding to finance new disbursements, and to a loss of cash flow on transactions subject to moratoria for the period of the suspension, which resulted in an additional financial requirement.

On 29 September 2021, the Parent Company repaid two TLTRO III loans in advance for a total of 3,700 million euro and subscribed a new tranche for the same amount in order to extend the maturity.

At 31 December 2021, the book value of the TLTRO III liabilities amounted to 8,874 million euro and the related accounted interest amounted to 83 million euro.

16.4 Revenue from contracts with customers

In compliance with IFRS 15, revenue arises from the transfer of goods or services to the customer and is recognised at an amount that reflects the consideration that the Group deems it is entitled to in exchange for the above goods or services using a five-step model (identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue when the entity satisfies a performance obligation).

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both. The contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to.

The amount of commission recognised on the placement of products is adjusted to take account of any variable revenues that might have to be returned in future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

16.5 Accounting treatment of tax credits connected with the «Cura Italia» and «Relaunch» «Decrees».

Decree-Laws no. 18/2020 (so-called «Cura Italia Decree») and no. 34/2020 (so-called «Relaunch Decree») have provided for a series of measures aimed at supporting Italian individuals and businesses in their relaunch following the Covid-19 emergency, including tax incentives related to expenses incurred for specific interventions that can be used in the form of tax deductions or tax credits.

These tax incentives are applied to households or businesses, they are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). For the building interventions provided for by the specific regulations referred to in Decree Law no. 34/2020 (the so-called «Relaunch Decree»), it is also possible to take advantage of the incentive through a discount on the amount due to the supplier, who will receive a tax credit. These tax credits may be transferred to third parties, including banks, which will use them to offset their own tax debts in accordance with the specific regulations laid down; alternatively, they may in turn transfer them to financial intermediaries registered in the register provided for in article 106 of the Consolidated Law on Banking and Credit and insurance companies authorised to operate in Italy pursuant to Legislative Decree no. 209/2005.

With a view to helping to support families and businesses, the Group launched a specific project aimed at acquiring these tax credits in the second half of 2020. As at 31 December 2021, the amount of such acquired tax credits, at book values and net of uses to offset its tax liabilities, was 448 million.

They were accounted for in compliance with the provisions of the international accounting standards. In this sense, consistently with the provisions of the Bank of Italy/Consob/Ivass Document no. 9, the purchased tax credits do not represent tax assets, government grants, intangible assets or financial assets, so the most appropriate classification in the balance sheet is «other assets».

At the time of initial recognition, the tax credit is recognised at the price of the transaction (value corresponding to its fair value). For subsequent valuations, the provisions of IFRS 9 are expected to be applied in accordance with the HTC Business Model.

With reference to the representation in the income statement, the income recorded in the item interest amounted to over 5 million.

16.6 Income from dividends

Dividends are recognised when the right to collect them arises.

16.7 Treasury shares

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

16.8 Covered bond

See Part E, section D, of these notes to the financial statements.

16.9 The single electronic reporting format for annual financial reports

Directive 2013/50/EU, which amended Directive 2004/109/EC (Transparency Directive), established that all annual financial reports of issuers whose securities are admitted to trading on a regulated market must be prepared in a single electronic reporting format.

The European Securities and Markets Authority (ESMA) has been tasked by the Transparency Directive with developing technical standards to specify such an electronic reporting format. The European Commission adopted the aforementioned technical standards with Delegated Regulation 2019/815 of 17 December 2018 (ESEF- European Single Electronic Format Regulation, hereinafter the Regulation), which established the following main obligations for issuers:

- issuers prepare and publish their annual financial report in XHTML (eXtensible HyperText Markup Language) format;
- issuers that prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) use the Inline eXtensible Business Reporting Language (iXBRL) for marking up such consolidated financial statements.

The combination of the XHTML format with iXBRL markings aims to make annual financial reports readable by both human users and automated devices, thereby improving the accessibility, analysis and comparability of the information included in annual financial reports.

The use of the XBRL markup language involves the application of a taxonomy (IFRS) that allows the conversion of human-readable text into machine-readable information. InlineXBRL technology enables XBRL mark-ups to be embedded in XHTML.

XBRL (eXtensible Business Reporting Language) is machine-readable and allows for the automated use of large amounts of information. The XBRL language is well-established and used in several jurisdictions and is currently the only appropriate markup language for marking information contained in financial statements. Using the XBRL markup language involves applying a taxonomy to convert human-readable text into machine-readable information. The IFRS taxonomy, made available by the IFRS Foundation, is a consolidated taxonomy developed to mark information presented under IFRS. The use of the IFRS taxonomy facilitates worldwide comparability of markups in financial statements prepared in accordance with IFRS.

From 1 January 2021, following the extension in the Milleproroghe Decree (Decree-Law no. 183 of 31 December 2020 converted into Law no. 21 of 26 February 2021), and therefore starting with the consolidated financial statements for the year ended 31 December 2021, the obligation to mark the following information is introduced:

- Basic Master Data
- Consolidated Financial Statements (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement)

As of 1 January 2022, and thus beginning with the consolidated financial statements for the year ended 31 December 2022, the requirement to prepare in accordance with the new ESEF format will also extend to the disclosures contained in the Consolidated Notes and the Consolidated Report on Operations where cross-references are made.

16.10 Interbank Deposit Protection Fund - Voluntary Scheme

In December 2015, the Parent Company joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. The financial asset was fully impaired in the 2018 financial statements. No charges for other operations were recorded in subsequent years or in the year under review.

16.11 Information pursuant to art. 1, paras. 125-129 of Law 124/17 dated 4 August 2017 «Annual law for the market and competition - Measures on the transparency of public payments» as amended by Decree Law 30/4/2019 no. 34 (so-called «Growth Decree») art. 35

With regard to the above legislation, the contributions or aid received by the bank in cash or kind, that were not generally available and did not represent consideration, remuneration or reimbursements, have been published on the National Register of State Aid, to which reference is made pursuant to art. 125-quinquies of that law.

16.12 Risks, uncertainties, and impacts of the COVID-19 outbreak

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the financial statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Group considers all available information at the reporting date, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the Group. The results reported in future might, in fact, also differ from the estimates made when preparing the interim financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated.

The principal uncertainties at this time, with a potential impact on the future operating scenarios that unfold for the Group, include the direct and indirect adverse consequences for the Italian and global economies linked to the COVID-19 pandemic, as well as the effects of the conflict between Russia and Ukraine. In relation to the impact resulting from the COVID-19 health emergency, reference is made to the guidance provided by the Authorities and the IASB during 2020. During 2021, there were no new regulatory amendments. Therefore, classifications and valuations were carried out in continuity with the 2020 Financial Statements, to which reference should be made for detailed information on the regulatory measures both in terms of how they were applied by the Group, except for the extension, through the Support Decree Bis of June, of the moratoria guaranteed by the State from 30 June 2021 to 31 December 2021, the further extension to 30 June 2022 introduced by Law no. 234 of 30 December 2021 (Budget Law), and the end, for the moratoria granted after 31 March 2021, of the period for granting simplifications in terms of their classification, for which, in the absence of further indications from the Supervisory Authorities, the assessment for the possible classification as forborne has been activated.

A. Economic results

The dynamics of the Group's main economic aggregates recorded at 31 December 2021 are summarised below, highlighting those most affected by the effects related to the health crisis brought about by the spread of COVID-19. In particular, net interest income benefited from the positive effects deriving from the expansion of volumes and the TLTRO III refinancing operations. Net fee and commission income have shown a positive evolution compared to last year when they had been affected by the reduction in branch operations following the restrictive measures introduced to limit the spread of the virus, with a negative impact particularly on those relating to the collection and payment system. The results of financial activities were very positive and were positively impacted by the recoveries recorded compared to 2020 by the financial markets. The cost of credit was influenced by the effects deriving from the changed macroeconomic scenario; there was a reduction in the overall cost of credit compared to the previous year, mainly attributable to the share of the performing portfolio due to its overall quality, the significant presence of government and real estate guarantees, the improvement in the macroeconomic scenarios and the resumption of payments of exposures in moratoria, for which specific provisions were set aside in 2020. On the other hand, the cost of credit on the non-performing receivables portfolio increased in 2021 following the increase in coverage levels also in relation to the massive sale carried out and the adoption of calendar provisioning in compliance with the regulatory framework. In the following paragraph, more detail is provided on the impacts on the quantification of expected losses, also highlighting the quantitative ones. Overall, this positively impacted the partial and total economic results, with a consequent positive effect also on profitability and credit quality indicators. Please refer to the chapter «Results of brief and alternative performance indicators» contained in the consolidated report on operations for more details and quantitative data.

B. ECL – Expected credit losses

With reference to the methodological framework used by the Group to quantify the expected losses on performing loans in 2021, in addition to the usual updating of the parameters of the macroeconomic scenarios and the weight factors associated with them based on the latest available forecasts, including the effects of the COVID-19 pandemic, the evolutionary interventions in the modelling continued, aimed at improving the estimates of the expected loss, in line with the requirements of the IFRS 9 accounting standard.

With specific reference to the explicit modelling of the scenario-dependency component as postulated by the accounting standard, it is specified that a number of macroeconomic scenarios including the COVID effects were adopted for the calculation of the write-downs relating to 31 December 2021:

- a baseline scenario, corresponding to the December 2021 update of the baseline scenario initially issued by the official provider at the time of the last forecast report referring to the third quarter of 2021;
- a (slightly) favourable scenario, corresponding to the favourable scenario issued by the official provider in the latest forecast report for the third quarter of 2021;
- a (mildly) adverse scenario, corresponding to the adverse scenario issued by the official provider in the latest forecast report for the third quarter of 2021.

Finally, as regards the weighting factors assigned to the individual scenarios during weighting, the baseline scenario, due to its nature, is assigned the prevailing weighting factor (equal to 55%), while the alternative scenarios enter with weighting factors of 20% and 25%.

In addition, due to the continuation of the macroeconomic context observed and from a prudential and prospective point of view, the analyses regarding receivables that benefited from moratoria applied in light of the COVID-19 crisis were updated in order to verify the correct classification within performing exposures.

Finally, in view of the continuing high level of uncertainty regarding the evolution of the current macroeconomic and business context, the expert-based overlay framework, aimed at capturing the risks linked to the pandemic in the best possible way, was maintained and suitably calibrated in light of the evolutionary dynamics of the above-mentioned recently observed risk factors. Overall, these revisions resulted in a level of collective loan loss adjustments of 118 million euro at 31 December 2021 compared to 175 million euro at 31 December 2020.

In any case, it cannot be excluded that the introduction of different methodologies, parameters and assumptions in determining the recoverable value of the Group's performing credit exposures – also influenced by the evolution of the economic-financial and regulatory context of reference – could lead to valuations that are different from those carried out for the purpose of this consolidated report at 31 December 2021.

For further details on the incorporation of the COVID-19 effects in the calculation of value adjustments on loans and on the sensitivity analysis, please refer to paragraphs «2.3 Methods for measuring expected losses» and «5 Impacts deriving from the COVID-19 pandemic» contained in the section on credit risk of «Part E – Information on risks and related hedging policy» of the notes to the separate financial statements.

C. Moratoria and other support measures

In order to evaluate the effects on the financial statements, in consideration of the economic support measures implemented by the Italian government and by trade associations, which require a significant intervention by the banking system, three macro-classes of measures can be identified:

- moratoria/suspensions on mortgages and loans in favour of individuals and businesses;
- State-guaranteed loans in favour of small, medium and large enterprises;
- cash advances to workers, depending on the particular type of loan to be granted.

Through the Communication of 30 June 2020 «Guidelines of the European Banking Authority on reporting and public disclosure requirements on exposures subject to measures applied in light of the COVID-19 crisis» and 15 December 2020, the Bank of Italy implemented the Guidelines of the European Banking Authority (EBA) on reporting and public disclosure requirements on exposures subject to measures applied in light of the COVID-19 crisis. In detail, the provisions governing the financial statements of banks (Circular no. 262 of 2005) have been supplemented to provide the market with information on the effects that COVID-19 and the economic support measures have had on the strategies, objectives and risk management policies, as well as on the economic and financial position of intermediaries.

The criteria for the accounting classification of loans have been revised compared to the financial statements as at 31 December 2020, due to the new default classification rules introduced by the European Banking Authority (EBA) and implemented by the Bank of Italy. Moreover, given the exceptional nature of the situation caused by the COVID-19 pandemic and the guidelines of the Supervisory Authorities, aimed at using the margins of flexibility existing in the accounting and prudential regulations, during the 2020 it was decided to make some changes to the accounting classification, such as:

1) the new loans related to the pandemic situation, the Eba compliant suspensions and those granted in accordance with the «Cura Italia» Decree are not identified as forbearance measures at the time of granting, except for the positions identified as more risky, for which a specific activity aimed at assessing the possible forborne marking and/or the classification as a probable default has been carried out.
2) for suspensions and concessions other than point 1), the evaluation of the forborne marking takes place during the resolution phase of the facility according to the ordinary process; concessions aimed at facilitating the repayment of past debts and facilities granted to counterparties considered to be in financial difficulty are marked forborne; facilities granted from a commercial viewpoint, those granted to finance investment needs and those granted to align financial disbursements with income/cash flows are not marked forborne.

Lastly, for details in terms of gross exposure, impairment adjustments (overall and for the year), inter-stage transfers of the support measures granted by the Bank at 31 December 2021, please refer to the following tables:

- 4.4a of «Section 4 – Financial assets measured at amortised cost», contained in «Part B – Information on the balance sheet» of these consolidated Notes;
- 8.1a and 8.2a of «Section 8 – Net adjustments/writebacks for credit risk» contained in «Part C – Information on the income statement» of these consolidated Notes;
- A.1.3a and A.1.5a included in the quantitative information of the section related to credit risk of «Part E – Information on risks and related hedging policy» of these consolidated Notes.

D. Impairment test on goodwill

Checks are carried out periodically to ensure that there are no indicators of permanent losses on intangible assets with an indefinite useful life (goodwill) and equity investments recorded under assets. Impairment testing is carried out annually by determining the value in use or the fair value of the assets and verifying that the value at which the intangible asset or investment is recorded in the financial statements is lower than the value in use or the fair value, whichever is the higher, net of selling costs.

At 31 December 2021, goodwill on the books related to Factorit S.p.A., acquired in 2010, and Prestinuova S.p.a. acquired on 23 July 2018, total 12.6 million. The impairment test of these assets did not highlight the need to carry out any write-down of the carrying amounts. Part B of these Notes to the Consolidated Financial Statements, section 10 – «Intangible assets» – item 100, provides the main assumptions underlying the verification of the recoverability of goodwill and the related results.

E. Financial instruments (measurement of financial assets, equity investments and models for determining the fair value of instruments not listed in active markets)

Financial instruments not listed in active markets and illiquid and complex instruments are measured using specific complex models and/or parameters not observable in the market. These measurements are therefore highly complex, as highlighted by their classification in the fair value hierarchy. See Part A.4 – «Information on fair value» in these notes to the financial statements for qualitative and quantitative information on the methods adopted to determine the carrying amounts of instruments measured at fair value and those measured at amortised cost.

With regard to equity investments, the draft financial statements and updated business plans of the companies concerned might not be available, which would increase the uncertainties involved in measuring their value. In such cases, the carrying amounts assigned to the equity investments concerned, based on the available information, might differ from subsequent measurements made on the basis of different information that becomes available.

F. Deferred tax assets and valuation of liabilities associated with employee benefits

The assets shown in the Group's balance sheet include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they become tax deductible and, to a lesser extent, from tax losses carried forward. Section 11 – «Tax assets and tax liabilities», contained in Part B – Assets of these notes to the financial statements, provides information about the nature of DTAs and the checks carried out on their recoverability, as well as about the results of the sensitivity analysis carried out on the time horizon for their recoverability, considering reasonable changes in the expected cash flows.

The measurement of the liability for employee benefits involves a certain degree of complexity, especially with regard to defined benefit plans and other long-term benefits, given that this involves making actuarial assumptions of a demographic (e.g. mortality rate, employee turnover) and financial (e.g. discount rates and inflation rates) nature. Part B of these notes to the financial statements contains separate analyses covering the sensitivity of the provision for employee termination indemnities and the provision for defined benefit pensions to changes in the actuarial assumptions included in the model.

A.3 TRANSFER OF FINANCIAL ASSETS HELD FOR TRADING

As in the previous year, the Group did not carry out any reclassifications of financial assets.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

Information on fair value as required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in an orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument.

With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the Credit Value Adjustment (CVA) and represents the potential loss associated with the counterparty credit risk, while the Debit Value Adjustment (DVA) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

Non-financial assets measured at fair value on a recurring basis

For the Banca Popolare di Sondrio Group, non-financial assets measured at fair value on a recurring basis are represented by real estate assets held for investment purposes, to which the accounting method set forth in IAS 40 is applied.

The fair value of properties held for investment purposes is determined through the use of special appraisals prepared by independent companies, professionally qualified and operating in the specific sector, capable of providing property valuations based on RICS Valuation standards.

These standards ensure that:

- the fair value is determined in accordance with the indications of the international accounting standard IFRS 13, i.e. it represents the estimated amount for which an asset would be sold and purchased, at the date of valuation, by a seller and a buyer with no special ties, both interested in the purchase and sale, at competitive conditions, after adequate marketing in which the parties have both acted in an informed, conscious and non-coerced manner;
- experts have professional, ethical and independence requirements in line with international and European standards.

For properties of a significant amount, i.e. properties with a value of more than 5 million, a «full» appraisal is envisaged, i.e. conducted by means of an inspection of the property, as well as a detailed analysis of the available documentation. For the remaining properties, however, it is possible to have recourse to a «drive-by» type appraisal, that is, based on the examination of the documentation as well as through an external inspection of the unit being appraised.

Taking into account that for real estate held for investment purposes the measurement criterion is fair value, the value is determined on the basis of new appraisals each year.

A.4.2 Processes and sensitivity of the measurements

The Group determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs that can be used, financial instruments are classified as Level 1, Level 2, Level 3. Financial instruments that are quoted in active markets for which the fair value is assumed based on official market quotations are classified in Level 1. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis. Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;
b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;
c) the rate applicable to risk-free monetary assets of similar duration;
d) the risk premium;
e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful. With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value. Given the limited weighting of such instruments within the Group's portfolio of financial assets and considering that the Level 3 instruments contained in the portfolio of financial assets largely comprise securities carried at cost, or through prices of previous transactions, without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

As regards the Asset Backed Securities (ABS) present in portfolio, deriving from the Diana, Luzzatti and Luzzatti II securitisations of non-performing loan portfolios, the analyses and assessments were carried out on the basis of the most recent information available and following the so-called waterfall structure for modelling the cash flows of the securitisations. From our analyses, no elements emerged that would justify a change in the fair value of the tranches with respect to the values currently recorded in the financial statements. There are also in portfolio units of funds deriving from corporate loan restructuring, whose measurement at fair value is carried out on the basis of the NAV, corrected if necessary to take into account the investment's poor liquidity.

The instruments classified at level 3, for which non-observable quantitative inputs are used in the determination of the fair value, are largely attributable to financial instruments that did not pass the SPPI test envisaged for the classification of financial assets by IFRS 9. The fair value of most of these financial instruments is determined through a Discounted Cash Flow model or, for revocable products, set equal to the gross exposure adjusted for the credit risk loss component. The economic results do not fluctuate significantly on changes in the unobservable risk parameters. In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.12% under the adverse scenario and lower by 0.06% under the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low.
b) analysis of the sensitivity to changes in the LGD (Loss Given default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (fair value lower by 0.36% under the adverse scenario and higher by 0.06% under the favourable scenario). Here too, the changes were very limited because the credit risk associated with most of these instruments is low.
c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by -2.60% following an increase in the rate curves and, conversely, increased by +7.59% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The shocked and non-shocked fair value may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low.
d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +5.91%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is -2.47% if the rate curves are shifted up, and +2.46% if they are shifted down.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation no. 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets for the assets and liabilities being measured (level 1);
b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Group.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used.

Fair value hierarchy of real estate assets

The fair value of real estate held for investment purposes is classified at level 3 in the fair value hierarchy under IFRS 13, as it is determined using valuation techniques for which one of the significant inputs is not based on observable market data.

A4.4. Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13. The disclosures envisaged in paras. 51, 93 (i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities designated at fair value on a recurring basis: breakdown by fair value levels

	31/12/2021			31/12/2020		
Financial assets/liabilities measured at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Financial assets measured at fair value through profit or loss**	**196,656**	**721,751**	**513,777**	**154,914**	**624,957**	**448,862**
a) financial assets held for trading	158,701	43,442	2,150	117,984	66,616	5,945
b) financial assets designated at fair value	–	–	–	–	–	–
c) other financial assets mandatorily measured at fair value	37,955	678,309	511,627	36,930	558,341	442,917
2. **Financial assets measured at fair value through other comprehensive income**	**2,993,614**	**–**	**108,532**	**2,475,922**	**–**	**144,017**
3. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
4. **Property, equipment and investment property**	**–**	**–**	**81,297**	**–**	**–**	**62,080**
5. **Intangible assets**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**3,190,270**	**721,751**	**703,606**	**2,630,836**	**624,957**	**654,959**
1. **Financial liabilities held for trading**	**–**	**104,339**	**–**	**–**	**32,926**	**890**
2. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Hedging derivatives**	**–**	**2,446**	**–**	**–**	**6,271**	**–**
Total	**–**	**106,785**	**–**	**–**	**39,197**	**890**

There were limited transfers of financial instruments between the three fair value levels during the year.

The impact of the CVA (Credit value adjustment) and DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because most of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. **Opening balance**	**448,862**	**5,945**	**–**	**442,917**	**144,017**	**–**	**62,080**	**–**
2. **Increases**	**166,048**	**2,654**	**–**	**163,394**	**17,345**	**–**	**20,179**	**–**
2.1. Purchases	138,877	–	–	138,877	97	–	340	–
2.2. Income booked to:	26,149	2,631	–	23,518	16,933	–	14,749	–
2.2.1. Income Statement	26,149	2,631	–	23,518	–	–	80	–
- of which gains	23,939	2,150	–	21,789	–	–	80	–
2.2.2. Equity	–	–	–	–	16,933	–	14,669	–
2.3. Transfers from other levels	80	23	–	57	–	–	–	–
2.4. Other increases	942	–	–	942	315	–	5,090	–
3. **Decreases**	**101,133**	**6,449**	**–**	**94,684**	**52,830**	**–**	**962**	**–**
3.1. Disposals	6,360	6,360	–	–	5,771	–	–	–
3.2. Reimbursements	68,096	–	–	68,096	269	–	–	–
3.3. Losses booked to:	16,915	60	–	16,855	10,457	–	962	–
3.3.1. Income Statement	16,915	60	–	16,855	–	–	962	–
- of which losses	16,902	60	–	16,842	–	–	962	–
3.3.2. Equity	–	–	–	–	10,457	–	–	–
3.4. Transfers from other levels	–	–	–	–	28,434	–	–	–
3.5. Other decreases	9,762	29	–	9,733	7,899	–	–	–
4. **Closing balance**	**513,777**	**2,150**	**–**	**511,627**	**108,532**	**–**	**81,297**	**–**

The increase during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This line item also includes the units in mutual funds not held for trading that were previously classified as «financial assets measured at fair value» and «financial assets available for sale».

A.4.5.3 Annual changes in financial liabilities measured at fair value (level 3)

	Financial liabilities held for trading	Financial liabilities measured at fair value	Hedging derivatives
1. **Opening balance**	**890**	**–**	**–**
2. **Increases**	**–**	**–**	**–**
2.1 Issuances	–	–	–
2.2. Losses booked to:	–	–	–
2.2.1. Income Statement	–	–	–
- of which losses	–	–	–
2.2.2. Equity	–	–	–
2.3. Transfers from other levels	–	–	–
2.4. Other increases	–	–	–
3. **Decreases**	**890**	**–**	**–**
3.1. Reimbursements	–	–	–
3.2. Repurchases	–	–	–
3.3. Income booked to:	890	–	–
3.3.1. Income Statement	890	–	–
- of which gains	890	–	–
3.3.2. Equity	–	–	–
3.4. Transfers to other levels	–	–	–
3.5. Other decreases	–	–	–
4. **Closing balance**	**–**	**–**	**–**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2021				31/12/2020			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	42,717,673	9,647,966	–	33,899,572	39,168,264	7,203,151	–	33,166,713
2. Investment property	–	–	–	–	–	–	–	–
3. Non-current assets and groups of assets held for sale	–	–	–	–	–	–	–	–
Total	**42,717,673**	**9,647,966**	**–**	**33,899,572**	**39,168,264**	**7,203,151**	**–**	**33,166,713**
1. Financial liabilities measured at amortised cost	50,178,641	3,504,257	240,653	46,478,339	45,386,147	2,614,567	284,068	42,555,036
2. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**50,178,641**	**3,504,257**	**240,653**	**46,478,339**	**45,386,147**	**2,614,567**	**284,068**	**42,555,036**

A.5 – INFORMATION ON THE «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IFRS 9 para. B5.1.2A derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B *Information on the consolidated balance sheet*

Assets

Section 1 *Cash and cash equivalents - Item 10*

1.1 Cash and cash equivalents: breakdown

	31/12/2021	31/12/2020
a) Cash	137,325	124,841
b) Current accounts and sight deposits with central banks	5,315,110	4,941,765
c) Current accounts and sight deposits with banks	200,298	271,274
Total	**5,652,733**	**5,337,880**

The figures at 31/12/2020 have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

Section 2 *Financial assets measured at fair value through profit or loss - Item 20*

2.1 Financial assets held for trading: breakdown

	31/12/2021			31/12/2020		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	24,255	–	–	25,441	–	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	24,255	–	–	25,441	–	–
2. Equity securities	65,378	–	–	66,970	–	–
3. Mutual funds	68,755	16,626	–	25,573	12,819	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**158,388**	**16,626**	**–**	**117,984**	**12,819**	**–**
B. **Derivative instruments**	–	–	–	–	–	–
1. Financial derivatives	313	26,816	2,151	–	53,797	5,945
1.1 for trading	313	26,816	2,151	–	53,797	5,945
1.2 associated with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 associated with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total (B)	**313**	**26,816**	**2,151**	**–**	**53,797**	**5,945**
Total (A+B)	**158,701**	**43,442**	**2,151**	**117,984**	**66,616**	**5,945**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Amounts	31/12/2021	31/12/2020
A. **Fixed-yield securities**		
1. Fixed-yield securities	24,255	25,441
a) Central banks	–	–
b) Public administrations	24,255	25,441
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
2. Equity securities	65,378	66,970
a) Banks	14,623	16,152
b) Other financial companies	11,275	7,570
of which: insurance companies	5,408	6,405
c) Non-financial companies	39,480	43,248
d) Other issuers	–	–
3. Mutual funds	85,381	38,392
4. Loans	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**175,014**	**130,803**
B. **Derivative instruments**		
a) Central Counterparties	–	–
b) Other	29,280	59,742
Total (B)	**29,280**	**59,742**
Total (A+B)	**204,294**	**190,545**

2.5 Other financial assets mandatorily measured at fair value: breakdown by sector

	31/12/2021			31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**37,955**	**–**	**32,649**	**36,873**	**–**	**33,032**
1.1 Structured securities	–	–	32,649	–	–	33,032
1.2 Other fixed-yield securities	37,955	–	–	36,873	–	–
2. **Equity securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**–**	**678,309**	**74,864**	**57**	**558,341**	**57,130**
4. **Loans**	**–**	**–**	**404,114**	**–**	**–**	**352,755**
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	404,114	–	–	352,755
Total	**37,955**	**678,309**	**511,627**	**36,930**	**558,341**	**442,917**

Loans classified under this item are financial instruments that have not passed the SPPI test. The fixed-yield securities classified under this item are instruments that are part of a business model of financial instruments managed at fair value and not held for trading.

Mutual funds are made up of: equity funds and sicavs for 72.522 million euro, bond funds for 623.728 million euro, balanced and flexible funds for 53.302 million euro and real estate funds for 3.299 million euro.

With regard to mutual funds acquired as part of transactions for the sale of receivables included among bond funds, please refer to the specific paragraph reported in Part E of these Explanatory Notes (Subsection D «Disposals» point «C Consolidation for supervisory purposes - Financial assets sold and fully cancelled»).

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/ issuer

	31/12/2021	31/12/2020
1. **Equity securities**	–	–
of which: banks	–	–
of which: other financial companies	–	–
of which: non-financial companies	–	–
2. **Fixed-yield securities**	**70,604**	**69,904**
a) Central banks	–	–
b) Public administrations	31,522	20,863
c) Banks	6,433	16,009
d) Other financial companies	29,490	29,175
of which: insurance companies	–	–
e) Non-financial companies	3,159	3,857
3. **Mutual funds**	**753,173**	**615,530**
4. **Loans**	**404,114**	**352,754**
a) Central banks	–	–
b) Public administrations	67	92
c) Banks	–	–
d) Other financial companies	12,007	5,287
of which: insurance companies	–	–
e) Non-financial companies	263,012	223,320
f) Households	129,028	124,055
Total	**1,227,891**	**1,038,188**

Section 3 Financial assets measured at fair value through other comprehensive income - Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by category

	31/12/2021			31/12/2020		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**2,990,730**	**–**	**10,721**	**2,472,575**	**–**	**43,556**
1.1 Structured securities	409,256	–	10,165	418,402	–	42,727
1.2 Other fixed-yield securities	2,581,474	–	556	2,054,173	–	829
2. **Equity securities**	**2,888**	**–**	**97,811**	**3,347**	**–**	**100,461**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,993,618**	**–**	**108,532**	**2,475,922**	**–**	**144,017**

The fixed-yield securities portfolio is made up mostly of Italian government securities held with the intent of receiving cash flows and benefiting from any gains deriving from their sale. For unlisted equities with observable inputs, but for which the most recent information available to measure their fair value is insufficient, the best estimate was made considering their adjusted equity value.

Equity securities also include equity investments held with a view to supporting the typical business and supporting the development of the territorial realities in which the Group operates.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	31/12/2021	31/12/2020
1. **Fixed-yield securities**	**3,001,451**	**2,516,131**
a) Central banks	–	–
b) Public administrations	2,511,285	1,956,408
c) Banks	334,019	376,001
d) Other financial companies	79,940	86,368
of which: insurance companies	–	–
e) Non-financial companies	76,207	97,354
2. **Equity securities**	**100,699**	**103,808**
a) Banks	2,172	7,966
b) Other issuers:	98,527	95,842
– other financial companies	85,583	73,134
of which: insurance companies	–	–
– non-financial companies	12,944	22,708
– other	–	–
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**3,102,150**	**2,619,939**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total impairment

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs
Fixed-yield securities	3,002,409	–	–	–	–	958	–	–	–	–
Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2021	**3,002,409**	**–**	**–**	**–**	**–**	**958**	**–**	**–**	**–**	**–**
Total 31/12/2020	**2,475,838**	**–**	**42,260**	**–**	**–**	**1,427**	**540**	**–**	**–**	**–**

3.3a Loans measured at fair value with impact on comprehensive income subject to Covid-19 support measures: gross value and total impairment.

As at 31 December 2021, there are no loans measured at fair value through comprehensive income subject to Covid-19 support measures.

Section 4 *Financial assets measured at amortised cost - Item 40*

4.1 Financial assets measured at amortised cost: breakdown of loans to banks

Type of transaction/Amounts	Total 31/12/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
A. **Loans with Central Banks**	**2,231,679**	**-**	**-**	**-**	**-**	**2,231,679**	**2,274,664**	**-**	**-**	**-**	**-**	**2,274,664**
1. Fixed-term deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	2,231,679	-	-	-	-	-	2,271,762	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	2,902	-	-	-	-	-
B. **Loans and receivables with banks**	**1,044,670**	**-**	**-**	**783,387**	**-**	**272,685**	**1,074,657**	**-**	**-**	**528,437**	**-**	**568,721**
1. Loans	257,421	-	-	-	-	257,638	538,178	-	-	-	-	538,385
1.1 Current accounts	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Fixed-term deposits	233,711	-	-	-	-	-	447,920	-	-	-	-	-
1.3. Other loans:	23,710	-	-	-	-	-	90,258	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
- Leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	23,710	-	-	-	-	-	90,258	-	-	-	-	-
2. Fixed-yield securities	787,249	-	-	783,387	-	15,047	536,479	-	-	528,437	-	30,336
2.1 Structured securities	378,339	-	-	387,291	-	-	248,789	-	-	245,020	-	15,336
2.2 Other fixed-yield securities	408,910	-	-	396,096	-	15,047	287,690	-	-	283,417	-	15,000
Total	**3,276,349**	**-**	**-**	**783,387**	**-**	**2,504,364**	**3,349,321**	**-**	**-**	**528,437**	**-**	**2,843,385**

These receivables are not specifically hedged.

The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their carrying amount.

The figures at 31/12/2020 have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of transaction/Amounts	31/12/2021 Carrying amount First and second stage	Third stage	Impaired purchased or originated	Fair value Level 1	Level 2	Level 3	31/12/2020 Carrying amount First and second stage	Third stage	Impaired purchased or originated	Fair value Level 1	Level 2	Level 3
1. Loans	**29,042,568**	**731,721**	**131,735**	**-**	**-**	**30,658,657**	**27,203,717**	**957,100**	**158,179**	**-**	**-**	**29,358,318**
1.1. Current accounts	2,925,101	244,858	37,704	-	-	-	2,834,284	371,869	55,774	-	-	-
1.2. Repo transactions	-	-	-	-	-	-	67,273	-	-	-	-	-
1.3. Mortgage loans	17,977,590	436,205	83,694	-	-	-	16,517,121	517,260	87,440	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	445,516	8,873	637	-	-	-	448,747	8,894	794	-	-	-
1.5 Leases	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	2,735,659	1,176	-	-	-	-	2,376,027	3,057	-	-	-	-
1.7. Other loans	4,958,702	40,609	9,700	-	-	-	4,960,265	56,020	14,171	-	-	-
2. Fixed-yield securities	**9,535,300**	**-**	**-**	**8,864,579**	**-**	**736,551**	**7,228,671**	**-**	**-**	**6,674,714**	**-**	**693,738**
2.1. Structured securities	1,887,531	-	-	1,197,303	-	736,551	1,967,436	-	-	1,308,945	-	693,738
2.2. Other fixed-yield securities	7,647,769	-	-	7,667,276	-	-	5,261,235	-	-	5,365,769	-	-
Total	**38,577,868**	**731,721**	**131,735**	**8,864,579**	**-**	**31,395,208**	**34,432,388**	**957,100**	**158,179**	**6,674,714**	**-**	**30,052,056**

Loans and receivables are specifically hedged.

Mortgage loans include 1,261 million euro of residential mortgages, which were the subject of covered bond transactions by the Parent Company.

The securities issued under the covered bond programme were placed with institutional customers.

Given that the Parent Company maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet. The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the group.

The difference between fair value and carrying amount is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

As a result of the derisking operations that took place during the year, non-performing loans (third stage) are down on the previous year. Item 2. Fixed-yield securities includes 319.784 million euro in senior securities issued by the vehicle Diana S.p.V., POP NPLs 2020 S.p.V., as part of the two transactions for the sale of NPL receivables defined in 2020, and Luzzatti POP NPLs 2021 S.p.V. defined in the last quarter of 2021. See Part E, Section 1, «C. Securitisation transactions» for further information.

The figures at 31/12/2020 have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans to customers

	31/12/2021			31/12/2020		
Type of transaction/Amounts	First and second stage	Third stage	Impaired purchased or originated	First and second stage	Third stage	Impaired purchased or originated
1. **Fixed-yield securities**	**9,535,301**	**–**	**–**	**7,228,671**	**–**	**–**
a) Public administrations	8,214,146	–	–	6,154,877	–	–
b) Other financial companies	1,059,591	–	–	997,945	–	–
of which: insurance companies	6,112	–	–	6,121	–	–
c) Non-financial companies	261,564	–	–	75,849	–	–
2. **Loans to**:	**29,042,567**	**731,721**	**131,735**	**27,203,717**	**957,100**	**158,179**
a) Public administrations	391,172	19	–	548,070	278	–
b) Other financial companies	2,594,452	11,679	21	2,068,530	11,123	2
of which: insurance companies	4,427	–	–	10,610	–	–
c) Non-financial companies	15,595,502	516,353	91,846	15,291,949	650,017	114,105
d) Households	10,461,441	203,670	39,868	9,295,168	295,682	44,072
Total	**38,577,868**	**731,721**	**131,735**	**34,432,388**	**957,100**	**158,179**

4.4 Financial assets measured at amortised cost: gross value and total value adjustments

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs
Fixed-yield securities	10,290,212	–	40,130	–	–	3,320	4,471	–	–	–
Loans	29,537,112	–	2,110,273	1,652,241	240,421	56,228	59,489	920,519	108,686	136,527
Total 31/12/2021	**39,827,324**	**–**	**2,150,403**	**1,652,241**	**240,421**	**59,548**	**63,960**	**920,519**	**108,686**	**136,527**
Total 31/12/2020	**34,519,866**	**–**	**3,444,705**	**2,043,155**	**260,832**	**65,503**	**117,359**	**1,086,057**	**102,653**	**195,711**

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and total impairment

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs*
1. Loans subject to forbearance complying with the	–	–	731	–	–	–	12	–	–	–
2. Loans subject to outstanding moratoria measures no longer in compliance with GL and not evaluated as granted	1,312	–	9,634	68	–	3	242	29	–	–
3. Loans subject to other forbearance measures	94	–	51,449	15,635	999	–	2,764	4,544	282	–
4. New loans	2,393,490	–	136,359	24,524	5,562	558	1,243	6,790	1,355	–
Total 31/12/2021	**2,394,896**	**–**	**198,173**	**40,227**	**6,561**	**561**	**4,261**	**11,363**	**1,637**	**–**
Total 31/12/2020	**3,679,789**	**–**	**1,344,680**	**90,330**	**–**	**3,770**	**49,709**	**25,217**	**–**	**–**

Section 7 *Equity investments - Item 70*

7.1 Investments: disclosures on holdings

Company Name	Registered office	Operative office	Type of relationship	Parent company	% holding	% of votes
A. **Investments in companies under joint control**						
RAJNA IMMOBILIARE SRL	Sondrio	Sondrio	7	Banca Popolare di Sondrio SCPA	50.000	50.000
RENT2GO	Bolzano	Bolzano	7	Banca Popolare di Sondrio SCPA	33.333	33.333
B. **Associated companies (subject to significant influence)**						
ALBA LEASING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.264	19.264
ARCA VITA SPA	Verona	Verona	8	Banca Popolare di Sondrio SCPA	14.837	14.837
ARCA HOLDING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	34.715	34.715
UNIONE FIDUCIARIA SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	24.000	24.000
POLIS FONDI SGR	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.600	19.600
SOFIPO SA	Lugano	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000	30.000
BORMIO GOLF SPA	Bormio	Bormio	8	Banca Popolare di Sondrio SCPA	25.237	25.237
LAGO DI COMO GAL SCRL	Canzo	Canzo	8	Banca Popolare di Sondrio SCPA	28.953	28.953
ACQUEDOTTO DELLO STELVIO SRL	Bormio	Bormio	8	Pirovano Stelvio spa	27.000	27.000
SIFAS SPA	Bormio	Bormio	8	Pirovano Stelvio spa	21.614	21.614
COSSI COSTRUZIONI SPA	Sondrio	Sondrio	8	Banca Popolare di Sondrio SCPA	18.250	18.250

Key
7 = joint control.
8 = associated companies.

7.2 Significant equity investments: book value, fair value and dividends received

Company Name	Carrying amount	Fair value	Dividends received
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.r.l.	308	–	75
2. RENT2GO	3,660	–	–
B. **Associated companies (subject to significant influence)**			
1. ALBA LEASING S.p.A.	79,436	–	–
2. ARCA VITA S.p.A.	77,391	–	7,365
3. ARCA HOLDING S.p.A.	160,120	–	3,472
4. UNIONE FIDUCIARIA S.p.A.	12,688	–	–
5. POLIS FONDI SGR PA	1,412	–	–
6. COSSI COSTRUZIONI S.p.A.	3,581	–	–
7. SOFIPO SA	–	–	–
Total	**338,598**	**–**	**–**

The fair value is not indicated for companies not listed on active markets.

7.3 Significant equity investments: key financial information

Company Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenue
A. **Investments in companies under joint control**						
1. RAJNA IMMOBILIARE S.r.l.	167		576	–	17	131
2. RENT2GO S.r.l.	384		94,890	68,975	14,328	23,576
B. **Associated companies (subject to significant influence)**						
1. ALBA LEASING S.p.A.	7	5,097,011	170,905	4,695,854	164,135	108,024
2. ARCA VITA S.p.A.	328,156	12,939,830	221,008	1,877,829	11,200,865	1,479,992
3. ARCA HOLDING S.p.A.	2	305,845	187,043	55,102	48,687	326,945
4. UNIONE FIDUCIARIA S.p.A.	10,248	1,396	66,132	–	18,444	20,399
5. POLIS FONDI SGR PA	–	772	11,368	1	4,318	6,610
6. COSSI COSTRUZIONI SPA	16,751	2,259	40,672	2,685	43,417	43,199

The above figures are taken from the most recent financial investments available.

A reconciliation of the accounting information, reported in the financial statements of the investee companies, with the carrying amount of the equity investments, as required by IFRS 12 is shown below.

Company Name	Equity value	Equity value pro rata	Carrying amount	Dividends
A. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	616	308	308	75
2. RENT2GO	10,980	3,660	3,660	–
B. **Associated companies (subject to significant influence)**			–	–
1. ALBA LEASING S.p.A.	412,361	79,436	79,436	–
2. ARCA VITA S.p.A.	521,612	77,391	77,391	7,364
3. ARCA HOLDING S.p.A.	461,236	160,120	160,120	3,472
4. UNIONE FIDUCIARIA S.p.A.	52,868	12,688	12,688	–
5. POLIS FONDI SGR PA	7,206	1,412	1,412	–
6. COSSI COSTRUZIONI SPA	19,624	3,581	3,581	–
7. SOFIPO SA	–	–	–	–

7.4 Non-significant equity investments: accounting information

Company Name	Carrying amount of equity investments	Total assets	Total liabilities
Associated companies (subject to significant influence)	735	6,041	2,516

The above figures are taken from the most recent financial investments available.

Net interest income	Adjustments/ writebacks for property, equipment and investment property and intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Profit (loss) after tax of non-current assets pending disposal	Profit (loss) for the year (1)	Total other income components net of taxes (2)	Comprehensive income (3) = (1)+(2)
–	(37)	53	38	–	38	–	38
(1,154)	(10,441)	(1,129)	(1,574)	–	(1,574)	–	(1,574)
85,860	(4,070)	45,165	32,014	(31,449)	565	(77)	488
120,762	–	64,206	52,688	–	52,688	–	52,688
(154)	(2,941)	80,555	56,668	–	56,668	(27)	56,641
2	(2,116)	(504)	(514)	–	(514)	–	(514)
–	454	278	238	–	238	–	238
(290)	(1,938)	5,217	4,325	–	4,325	–	4,325

Total revenue	Post-tax profit (loss) from continuing operations	Profit (loss) after tax of non-current assets pending disposal	Profit (Losses) for the year	Other income components net of taxes	Statement of comprehensive income
2,759	448	–	448	–	448

7.5 Investments: changes in the year

	31/12/2021	31/12/2020
A. **Opening balance**	**305,444**	**294,609**
B. **Increases**	**35,307**	**18,107**
B.1 Purchases	–	667
B.2 Writebacks	–	–
B.3 Revaluations	60	99
B.4 Other changes	35,247	17,341
C. **Decreases**	**1,418**	**7,272**
C.1 Disposals	–	5,985
C.2 Adjustments	–	–
C.3 Writedowns	–	–
C.4 Other changes	1,418	1,287
D. **Closing balance**	**339,333**	**305,444**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(447)**	**(447)**

This item passes from 305.444 million euro to 339.333 million euro.

Other increases and decreases derive from the measurement of affiliates under the equity method.

7.6 Considerations and significant assumptions to determine the existence of joint control or significant influence

The existence of joint control or significant influence is determined as described in Part A – Accounting policies

7.7-7.8 Commitments relating to investments in companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing S.p.a. granted when this company started up as part of the reorganisation of Banca Italease S.p.a., against which the Parent Company has made a specific risk provision.

7.9 Significant restrictions

In accordance with the provisions of IFRS 12 paragraph 13, there are no significant restrictions on the banks and companies included in the scope of consolidation.

Section 9 *Property, equipment and investment property - Item 90*

9.1 Property, equipment and investment property used for business purposes: breakdown of assets measured at cost

Assets/Values	31/12/2021	31/12/2020
1. **Owned assets**	**268,176**	**263,240**
a) land	75,271	70,103
b) buildings	174,773	175,415
c) furniture	5,162	5,383
d) IT equipment	2,676	2,865
e) other	10,294	9,474
2. **Rights of use acquired through leases**	**180,970**	**199,167**
a) land	–	–
b) buildings	180,551	198,629
c) furniture	–	–
d) IT equipment	158	173
e) other	261	365
Total	**449,146**	**462,407**
of which: obtained through enforcement of guarantees received	–	–

9.4 Property, plant and equipment held for investment purposes: breakdown of assets measured at fair value

	31/12/2021			31/12/2020		
Assets/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Owned assets**	**–**	**–**	**81,297**	**–**	**–**	**62,080**
a) land	–	–	–	–	–	–
b) buildings	–	–	81,297	–	–	62,080
2. **Rights of use acquired through leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**81,297**	**–**	**–**	**62,080**
of which: obtained through enforcement of guarantees received	–	–	–	–	–	–

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

Assets/Values	31/12/2021	31/12/2020
1. **Inventories of property, equipment and investment property obtained through enforcement of guarantees received**	**49,003**	**43,312**
a) land	2,445	1,596
b) buildings	46,558	41,716
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
2. **Other inventories of property, equipment and investment property**	**–**	**–**
Total	**49,003**	**43,312**
of which: measured at fair value less costs to sell	–	–

The figures at 31/12/2020 have been restated for consistency of comparison, following reclassification within the sub-items.

9.6 Property, equipment and investment property used for business purposes: changes in the year

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. **Opening gross amount**	**70,185**	**558,307**	**40,112**	**34,280**	**99,663**	**802,547**
A.1 Total net reductions in value	(82)	(184,263)	(34,729)	(31,242)	(89,824)	(340,140)
A.2 Opening net amount	70,103	374,044	5,383	3,038	9,839	462,407
B. **Increases:**	**5,300**	**17,176**	**1,057**	**851**	**6,642**	**31,026**
B.1 Purchases	5,180	12,036	1,022	695	6,548	25,481
B.2 Capitalised improvement expenditure	–	2,630	–	–	–	2,630
B.3 Writebacks	–	–	–	–	–	–
B.4 Fair value increases booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate differences	120	1,621	31	83	59	1,914
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	889	4	73	35	1,001
C. **Decreases:**	**132**	**35,896**	**1,278**	**1,055**	**5,926**	**44,287**
C.1 Disposals	–	103	–	–	10	113
C.2 Depreciation	–	29,144	1,278	1,055	5,882	37,359
C.3 Impairment adjustments booked	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate differences	–	–	–	–	–	–
C.6 Transfers to:	132	4,958	–	–	–	5,090
a) investment property	132	4,958	–	–	–	5,090
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	1,691	–	–	34	1,725
D. **Closing net amount**	**75,271**	**355,324**	**5,162**	**2,834**	**10,555**	**449,146**
D.1 Total net reductions in value	82	204,380	36,371	32,811	95,108	368,752
D.2 Closing gross amount	75,353	559,704	41,533	35,645	105,663	817,898
E. **Valuation at cost**	**75,271**	**355,324**	**5,162**	**2,834**	**10,555**	**449,146**

9.7 Investment property: changes in the year

	Total	
	Land	Buildings
A. **Opening balance**	**–**	**62,080**
B. **Increases**	**–**	**20,179**
B.1 Purchases	–	340
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	14,749
B.4 Writebacks	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	5,090
B.7 Other changes	–	–
C. **Decreases**	**–**	**962**
C.1 Disposals	–	–
C.2 Depreciation	–	–
C.3 Negative changes in fair value	–	962
C.4 Impairment writedowns	–	–
C.5 Exchange losses	–	–
C.6 Transfers to:	–	–
a) assets used in business	–	–
b) non-current assets and disposal groups held for sale	–	–
C.7 Other changes	–	–
D. **Closing balance**	**–**	**81,297**
E. **Valuation at fair value**	**–**	**–**

During the year, for certain properties not used for business purposes, in view of expectations regarding their present and future use, it was decided to reclassify a portfolio of properties under assets held for investment purposes measured at fair value.
Information on the methods of determining fair value is provided in Part A.4 of the Notes to the Financial Statements in the chapter entitled «Methods of determining fair value».
In this regard, it should be noted that the Group does not hold investment assets represented by rights of use acquired through leasing.
As of 31 December 2021, assets held for investment purposes, consisting entirely of owned properties measured at fair value, totalled 81.297 million.
Investment property also includes property owned by Fondo Immobiliare Centro delle Alpi Real Estate, which has been consolidated on a line-by-line basis.

9.8 Inventories of property, equipment and investment property governed by IAS 2: changes in the year

	Inventories of property, equipment and investment property obtained through enforcement of guarantees received					Other property, equipment and investment	
	Land	Buildings	Furniture	Electronic equipment	Other		**Total**
A. **Opening balance**	**1,596**	**41,716**	**–**	**–**	**–**	**–**	**43,312**
B. **Increases**	**1,116**	**9,759**	**–**	**–**	**–**	**–**	**10,875**
B.1 Purchases	1,116	9,524	–	–	–	–	10,640
B.2 Writebacks	–	–	–	–	–	–	–
B.3 Exchange gains	–	–	–	–	–	–	–
B.4 Other changes	–	235	–	–	–	–	235
C. **Decreases**	**267**	**4,917**	**–**	**–**	**–**	**–**	**5,184**
C.1 Disposals	267	3,742	–	–	–	–	4,009
C.2 Impairment adjustments	–	–	–	–	–	–	–
C.3 Exchange losses	–	–	–	–	–	–	–
C.4 Other changes	–	1,175	–	–	–	–	1,175
D. **Closing balance**	**2,445**	**46,558**	**–**	**–**	**–**	**–**	**49,003**

9.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to 2.553 million euro.

Section 10 *Intangible assets - Item 100*

10.1 Intangible assets: breakdown by type of asset

	31/12/2021		31/12/2020	
Assets	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**12,632**	**–**	**12,632**
A.1.1 attributable to the Group	–	12,632	–	12,632
A.1.2 attributable to minorities	–	–	–	–
A.2 **Other intangible assets**	**18,381**	**–**	**15,696**	**–**
of which Software	18,381	–	15,050	–
A.2.1 Assets measured at cost:	18,381	–	15,696	–
a) intangible assets generated internally	222	–	414	–
b) other assets	18,159	–	15,282	–
A.2.2 Assets measured at fair value:	–	–	–	–
a) intangible assets generated internally	–	–	–	–
b) other assets	–	–	–	–
Total	**18,381**	**12,632**	**15,696**	**12,632**

Intangible assets comprise 18.381 million euro mainly for the cost of purchasing software with a finite life that is amortised over that same period, normally 3 years, and goodwill for 12.632 million euro. The accounting treatment of goodwill is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

Based on IFRS 3, the allocation took place according to the purchase method, which says that allocation of the identifiable assets and liabilities acquired has to take place with reference to the acquisition date. The difference between the acquisition price and the fair value of the assets and liabilities has to be recognised as goodwill and allocated to the CGU concerned.

It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. Goodwill concerns:

- Factorit S.p.a., acquired in 2010. The Parent Company booked a provisional figure of 7.847 million euro, which was the difference between the price paid and the book net equity at the acquisition date, with the possibility of establishing a more accurate fair value for the assets and liabilities within 12 months of the acquisition date.
- Prestinuova S.p.a., acquired on 23 July 2018. This company operates in the granting of loans repayable by assigning a fifth of one's salary or pension. The acquisition took place on payment of a consideration of 53 million euro. The company's equity on acquisition amounted to 40 million euro with a difference of 14 million euro. After an initial recognition in the consolidated interim report at 30 September 2018 of a provisional goodwill of 14 million euro, in the months following the acquisition, the Group carried out the activities to determine the fair value of assets and liabilities, which led to the recognition of effective goodwill of 5 million euro on the acquisition.

After a careful review, there were no differences in fair value attributable to assets and liabilities which involved corrections of the values attributed at the time of the acquisition, which meant that there was no need to adjust the value of the various items of goodwill that had been booked.

No impairment of goodwill has been recorded as the tests carried out in accordance with IAS 36, which requires annual impairment testing of goodwill to identify any impairment, did not reveal any loss in value. In this case we have used the Dividend Discount Model (DDM), which assumes that the economic value of a financial intermediary is equal to the sum of the present value of the future cash flows generated in the chosen time horizon of the plan and distributable to shareholders while maintaining an adequate level of capitalisation to ensure future growth and perpetual capitalisation of a dividend considered after the explicit planning period.

We assumed a rate of the dividend growth after the explicit planning period of 1.5% per year and a cost of capital used to discount future dividends of 7.31% for Factorit Spa and 8.56% for Prestinuova Spa. The value in use amounted to 224.9 million euro, with a surplus over its share of equity plus goodwill of 56.9 million euro for Factorit Spa. The value in use of Prestinuova S.p.A. amounted to about 98.1 million euro, with a surplus of 16 million euro.

In line with the warnings issued by CONSOB, and with ESMA's statements, aimed at underlining the importance of providing updated information due to the complexity of the current situation, characterised by the presence of elements of uncertainty inherent in the duration and size of the negative impacts of the pandemic on the macro-economy, specific sensitivity analyses were carried out to assess the effects on the values in use and, consequently, on the results of the Impairment tests on the main parameters underlying the valuation model (cost of capital and medium-long term growth rate).

These analyses highlighted differences between the values in use during the year and the extreme values, that did not reveal any particular «prospective» critical issues regarding the successful outcome of the assessments.

In particular, the impacts on the values in use, namely +/- 25 and 50 basis points in the cost of capital and +/- 25 and 50 basis points in the medium/long term growth rate, were verified and for all the assumed combinations the values in use were higher than the comparative values.

In order not to jeopardise the positive outcome of these valuation exercises, the maximum sustainable level in terms of cost of capital (discount rate) was quantified. In the impairment test on the goodwill of Factorit S.p.A. and Prestinuova S.p.A., the tolerance margin on the cost of capital was equal to around 2.6 percentage points in the first case and around 3.1 percentage points in the second.

10.2 Intangible assets: changes in the year

	Goodwill	Other intangible assets: internally generated DEF	Other intangible assets: internally generated INDEF	Other intangible assets: others DEF	Other intangible assets: others INDEF	Total
A. **Opening balance**	**12,632**	**452**	**–**	**227,234**	**–**	**240,318**
A.1 Total net reductions in value	–	(38)	–	(211,952)	–	(211,990)
A.2 Opening net amount	12,632	414	–	15,282	–	28,328
B. **Increases**	**–**	**–**	**–**	**19,404**	**–**	**19,404**
B.1 Purchases	–	–	–	19,302	–	19,302
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Writebacks	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
– booked to equity	–	–	–	–	–	–
– booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	98	–	98
B.6 Other changes	–	–	–	4	–	4
C. **Decreases**	**–**	**192**	**–**	**16,527**	**–**	**16,719**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	65	–	16,527	–	16,592
– Amortisation	–	65	–	16,527	–	16,592
– Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value:	–	–	–	–	–	–
– booked to equity	–	–	–	–	–	–
– booked to income statement	–	–	–	–	–	–
C.4 Transfers to non-current assets held for sale and discontinued operations	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	127	–	–	–	127
D. **Closing net amount**	**12,632**	**222**	**–**	**18,159**	**–**	**31,013**
D.1 Total net reductions in value	–	(103)	–	(228,479)	–	(228,582)
E. **Closing gross amount**	**12,632**	**325**	**–**	**246,638**	**–**	**259,595**
F. **Valuation at cost**	**12,632**	**222**	**–**	**18,159**	**–**	**31,013**

Key
DEF: definite life
INDEF: indefinite life

Section 11 *Tax assets and liabilities - Item 110 and item 60 of liabilities*

11.1 Deferred tax assets: breakdown

	31/12/2021	31/12/2020
Loan write-downs	258,650	315,262
Provisions for risks and charges	32,310	32,501
Deferred charges	105	96
Securities and equity investments	2,175	925
Administrative expenses, amortisation and depreciation	22,109	23,489
Tax losses	6,336	4,916
Total	**321,685**	**377,189**

In accordance with IAS 12 and the ESMA communication dated 15 July 2019, the Group has recognised deferred tax assets (DTA) totalling 321.685 million euro. Of these, 24.899 million euro relate to equity accounts, 244.901 million euro comply with the requirements of Law no. 214 dated 22 December 2011 and may be transformed into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. The other tax assets not transformable into tax credits, 51.885 million euro, have been recognised after checking their recoverability, which is supported by a probability opinion expressed after performing the so-called probability test. This opinion was expressed after analysing the likelihood that sufficient taxable income will be generated in future. In particular, the estimate of future profitability underling the recoverability opinion was based on reasonable and realistic hypotheses and assumptions, after weighting the degrees of uncertainty. The assessment relating to the capacity of future taxable income was carried out over a reference time span up to the year 2027 with economic projections for the years 2022 to 2025 deriving from the latest business plan approved by the Board of Directors and the estimate of the expected profitability for the years 2026 and 2027 obtained as a prudential restatement of the forecasts for the year 2025. The calculation of the impact of permanent IRES and IRAP variations on pre-tax profit and net interest and other banking income was carried out by considering a historical data base referring to the years 2015-2021 and applying rules for the normalisation of tax recoveries from previous years with the aim of achieving a re-expression of taxable income consistent with current tax legislation, eliminating from the taxable income of previous years the variations relating to non-recurring or extraordinary components no longer considered repeatable. The probability test relating to the deferred tax assets was carried out separately, due to the different conditions of use of the underlying temporary differences, for the Group entities participating in the tax consolidation: Parent Company, Banca della Nuova Terra SpA and Factorit SpA.

11.2 Deferred tax liabilities: breakdown

	31/12/2021	31/12/2020
Owned and leased buildings	8,659	8,721
Revaluation of property at fair value	4,851	–
Revaluation of securities and gains	14,189	17,774
Administrative expenses	297	–
Loans	7,618	7,338
Total	**35,614**	**33,833**

11.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2021	31/12/2020
1. **Opening balance**	**352,918**	**390,222**
2. **Increases**	**16,707**	**26,226**
2.1 Deferred tax assets arisen in the year	14,849	26,082
a) relating to prior years	–	–
b) due to changes in accounting policies	–	1,122
c) write-backs	–	–
d) other	14,849	24,960
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	1,858	144
3. **Decreases**	**72,839**	**63,530**
3.1 Deferred tax assets eliminated in the year	65,003	63,495
a) reversals	64,688	63,354
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	315	141
3.2 Reduction in tax rates	–	–
3.3 Other decreases:	7,836	35
a) transformation into tax credits of which as per Law 214/2011	7,831	–
b) other	5	35
4. **Closing balance**	**296,786**	**352,918**

11.4 Changes in deferred tax assets as per Law 214/2011

	31/12/2021	31/12/2020
1. **Opening balance**	**299,481**	**338,418**
2. **Increases**	**37**	**–**
3. **Decreases**	**54,617**	**38,937**
3.1 Reversals	46,786	38,937
3.2 Transformation into tax credits	7,831	–
a) resulting from operating losses	–	–
b) resulting from tax losses	7,831	–
3.3 Other decreases	–	–
4. **Closing balance**	**244,901**	**299,481**

11.5 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2021	31/12/2020
1. **Opening balance**	**14,200**	**15,387**
2. **Increases**	**2,626**	**1,153**
2.1 Deferred tax liabilities arisen in the year	2,389	1,130
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	2,389	1,130
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	237	23
3. **Decreases**	**2,053**	**2,340**
3.1 Deferred tax liabilities eliminated in the year	2,053	2,340
a) reversals	2,053	2,340
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**14,773**	**14,200**

11.6 Change in deferred tax assets (with contra-entry to equity)

	31/12/2021	31/12/2020
1. **Opening balance**	**24,273**	**24,102**
2. **Increases**	**2,468**	**2,746**
2.1 Deferred tax assets arisen in the year	1,978	2,287
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,978	2,287
2.2 New taxes or increases in tax rates	178	426
2.3 Other increases	312	33
3. **Decreases**	**1,842**	**2,575**
3.1 Deferred tax assets eliminated in the year	1,842	2,575
a) reversals	1,751	2,575
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	91	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**24,899**	**24,273**

This amount relates to losses on securities measured at fair value through other comprehensive income and to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised.

11.7 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2021	31/12/2020
1. **Opening balance**	**19,633**	**13,820**
2. **Increases**	**6,037**	**11,126**
2.1 Deferred tax liabilities arisen in the year	6,037	11,126
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	6,037	11,126
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**4,829**	**5,313**
3.1 Deferred tax liabilities eliminated in the year	4,829	5,313
a) reversals	4,829	5,313
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**20,841**	**19,633**

This amount relates to the tax on the unrealised gains recognised in equity on financial assets measured at fair value through other comprehensive income and to the revaluation of the properties measured at fair value.

Section 13 *Other assets - Item 130*

13.1 Other assets: breakdown

	31/12/2021	31/12/2020
Advances paid to tax authorities	57,878	54,691
Tax credits DL «Cura Italia» and «Relaunch»	447,570	1,043
Tax credits and related interest	3,070	5,380
Current account cheques drawn on third parties	19,282	17,680
Current account cheques drawn on Group banks	411	221
Transactions in customers' securities	30,479	76,671
Inventories	910	1,149
Advances to suppliers	1,080	663
Advances to customers awaiting collections	21,924	19,120
Miscellaneous debits in transit	31,104	31,303
Liquid assets serving pension and similar obligations	253	15,002
Accrued income not allocated	47,446	39,234
Prepayments not allocated	23,269	21,451
Differences on elimination	717	2,218
Residual items	145,880	112,873
Total	**831,273**	**398,699**

The significant increase in item 130 «Other assets» is due to the acquisition of tax credits connected with the «Cura Italia» and «Relaunch» Law Decrees, amounting to 447.570 million euro. On the basis of «Bank of Italy/Consob/IVASS Document no. 9 of 5 January 2021» in the presence of tax credits introduced by Decree no. 18/2020 (so-called «Cura Italia Decree») and no. 34/2020 (so-called «Relaunch»), these receivables have been classified under the residual item «other assets» in the balance sheet, in line with paragraphs 54 and 55 of IAS 1 «Presentation of Financial Statements». For further details, reference should be made to Section 16 of these Notes. Other information.

Accrued income and prepayments mainly relate to commission income and costs that cannot be allocated to specific asset accounts.

Liabilities

Section 1 *Financial liabilities measured at amortised cost - Item 10*

1.1 Financial liabilities measured at amortised cost: breakdown of due to banks

	31/12/2021				31/12/2020			
		Fair Value				Fair Value		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Due to central banks**	**8,891,078**	**–**	**–**	**–**	**8,082,531**	**–**	**–**	**–**
2. **Due to banks**	**1,983,778**	**–**	**–**	**–**	**1,744,156**	**–**	**–**	**–**
2.1 Current accounts and sight deposits	478,219	–	–	–	535,893	–	–	–
2.2 Fixed-term deposits	973,555	–	–	–	809,135	–	–	–
2.3 Loans	528,796	–	–	–	394,554	–	–	–
2.3.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.3.2 Others	528,796	–	–	–	394,554	–	–	–
2.4 Payables for commitments to repurchase own equity instruments	–	–	–	–	–	–	–	–
2.5 Payables for leases	116	–	–	–	229	–	–	–
2.6 Other payables	3,092	–	–	–	4,345	–	–	–
Total	**10,874,856**	**–**	**–**	**10,874,856**	**9,826,687**	**–**	**–**	**9,826,687**

These payables are not specifically hedged.

Amounts due to central banks comprise three loans from the ECB totalling 8,874 million euro as part of its «Targeted Longer-Term refinancing operations» (TLTRO III).

The first was taken out in June 2020 for 4,368 million euro maturing on 28 June 2023, during the first quarter of 2021 another loan was taken out, maturing on 27 March 2024, for 806 million euro. On 29 September 2021, the Bank repaid two TLTRO III loans in advance for a total of 3,700 million euro and subscribed a new tranche for the same amount in order to extend the maturity to September 2024.

These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the carrying amount as the amounts are short-term or due on demand.

1.2 Financial liabilities measured at amortised cost: breakdown of due to customers

	31/12/2021				31/12/2020			
		Fair Value				Fair Value		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**34,829,813**	**–**	**–**	**–**	**31,758,829**	**–**	**–**	**–**
2. **Fixed-term deposits**	**503,572**	**–**	**–**	**–**	**665,874**	**–**	**–**	**–**
3. **Loans**	**–**	**–**	**–**	**–**	**56,377**	**–**	**–**	**–**
3.1 Repurchase agreements	–	–	–	–	55,422	–	–	–
3.2 Other	–	–	–	–	955	–	–	–
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Payables for leases**	**183,169**	**–**	**–**	**–**	**200,392**	**–**	**–**	**–**
6. **Other payables**	**86,928**	**–**	**–**	**–**	**46,876**	**–**	**–**	**–**
Total	**35,603,482**	**–**	**–**	**35,603,482**	**32,728,348**	**–**	**–**	**32,728,348**

These payables are not specifically hedged.

The fair value is assumed to be the same as the carrying amount as the amounts are short-term or due on demand.

1.3 Financial liabilities measured at amortised cost: breakdown of issued securities by category

	31/12/2021				31/12/2020			
		Fair Value				Fair Value		
Type of securities/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
A. **Securities**								
1. bonds	3,573,401	3,504,257	113,752	–	2,680,984	2,614,567	133,940	–
1.1 structured	1,591,067	1,540,107	77,107	–	812,072	748,303	99,794	–
1.2 others	1,982,334	1,964,150	36,645	–	1,868,912	1,866,264	34,146	–
2. other securities	126,902	–	126,902	–	150,128	–	150,128	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 others	–	–	–	–	–	–	–	–
Total	**3,700,303**	**3,504,257**	**240,654**	**–**	**2,831,112**	**2,614,567**	**284,068**	**–**

The fair value of the sub-item other securities is equal to the carrying amount as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

The level 1 securities relate to covered bonds and almost exclusively subordinated bonds listed on the HI-MTF market (Multilateral Trading Facility).

1.4 Detail of subordinated payables/securities

Subordinated securities amount to 984.387 million euro and are made up of the loans indicated below:

- a bond of 300.383 million euro from 25/11/2021 and maturity on 25/02/2032 with repayment in full on maturity. It bears a fixed interest rate of 3.875%;
- a bond of 203.556 million euro from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%;
- a bond of 275.661 million euro from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%;
- a bond of 204.787 million euro from 30/07/2019 and maturity on 30/07/2029 with repayment in full on maturity. It bears a fixed interest rate of 6.25%.

1.6 Payables for leases

Financial outflows for leasing

	2021				2020
	Buildings*	Cars	Other	Total	Total
Initial Lease Liability	200,116	336	169	200,621	222,797
Financial flows	(23,264)	(136)	(90)	(23,490)	(23,744)
Interest	3,223	1	1	3,225	3,576
Other changes	2,816	40	73	2,929	(2,008)
Closing carrying amount	**182,891**	**241**	**153**	**183,285**	**200,621**

* Including finance leases under IAS 17

As regards the Other changes during the year, the impact is mainly due to recalculation of the Lease Liability following the ISTAT changes and the opening and closing of contracts.

As of 31/12/2021, the lessee's weighted average marginal borrowing rate of the rates used to discount the lease liabilities is 1.71%.

Analysis of leasing liability maturities

	within 1 year	1 to 5 years	over 5 years and up to 10 years	over 10 years
Buildings*	23,377	89,569	78,160	26,838
Cars	100	133	–	–
Other types	86	84	–	–
Total	**23,563**	**89,786**	**78,160**	**26,838**

* Including finance leases under IAS 17

The amounts reported pursuant to paras. 39 and B11 of IFRS 7 «Financial instruments» represent non-discounted cash flows.

Section 2 *Financial liabilities held for trading - Item 20*

2.1 Financial liabilities held for trading: breakdown

	31/12/2021					31/12/2020				
		Fair Value					Fair Value			
Type of transaction/Amounts	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Others	–	–	–	–	–	–	–	–	–	–
Total (A)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivative instruments**										
1. Financial derivatives	–	–	104,339	–	–	–	–	32,926	890	–
1.1 for trading	–	–	104,339	–	–	–	–	32,926	890	–
1.2 Associated with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–	–	–	–	–
2.2 Associated with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–	–	–	–	–
Total (B)	**–**	**–**	**104,339**	**–**	**–**	**–**	**–**	**32,926**	**890**	**–**
Total (A+B)	**–**	**–**	**104,339**	**–**	**–**	**–**	**–**	**32,926**	**890**	**–**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal or notional value

Section 4 *Hedge derivatives - Item 40*

4.1 Hedge derivatives: breakdown by hedge type and levels

	Nominal Value 31/12/2021	Fair value 31/12/2021			**Nominal Value 31/12/2020**	Fair value 31/12/2020		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. **Financial derivatives**	**143,839**	**–**	**2,446**	**–**	**196,352**	**–**	**6,271**	**–**
1) Fair value	143,839	–	2,446	–	196,352	–	6,271	–
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**143,839**	**–**	**2,446**	**–**	**196,352**	**–**	**6,271**	**–**

4.2 Analysis of hedging derivatives by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair Value							Financial flows		
	Micro									
	debt securities and interest rates	equity securities and stock indices	currencies and gold	receivable	commodities	other	Macro	Micro	Macro	Foreign Investments
1. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–
2. Financial assets measured at amortised cost	2,446	–	–	–	–	–	–	–	–	–
3. Portfolio	–	–	–	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–	–	–	–
Total assets	**2,446**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–	–

Section 6 ***Tax liabilities***

The line item amounts to 39.872 million euro and relates for 4.258 million euro to current taxes and for 35.614 million euro to deferred taxes.

As regards the breakdown and amount of deferred taxes, please read «Assets - Section 11» of these notes. The bank's tax years up to 2015 have been closed.

Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, introduced the possibility by paying a fee, subject to certain conditions, of transforming D.T.A. (Deferred Tax Assets) into tax credits. The Bank has made the tax group election in relation to the Bank, Factorit S.p.a., Banca della Nuova Terra S.p.a. and Pirovano S.p.a. The Group will not have to pay any fees as the conditions for payment have not been met.

The real estate company Borgo Palazzo is in a dispute about a VAT refund currently pending at the Court of Cassation following a sentence by the Lombardy Regional Tax Commission that was unfavourable to the company.

Section 8 *Other liabilities*

8.1 Other liabilities: breakdown

	31/12/2021	31/12/2020
Amounts at the disposal of third parties	419,433	434,996
Taxes to be paid on behalf of third parties	86,247	57,287
Taxes to be paid	4,678	1,677
Employee salaries and contributions	17,169	24,195
Suppliers	21,099	20,353
Transit accounts for sundry entities	6,724	39,345
Invoices to be received	19,934	16,550
Credits in transit for financial transactions	2,490	2,015
Value date differentials on portfolio transactions	223,620	177,613
Directors' and statutory auditors' emoluments	1,357	1,263
Loans granted to customers to be finalised	6,863	6,734
Miscellaneous credit items being settled	58,124	17,460
Accrued expenses not allocated	21,525	19,666
Deferred income not allocated	13,021	12,877
Differences on elimination	24,471	31,649
Residual items	59,767	50,511
Total	**986,522**	**914,191**

This line item shows an increase of 7.91%.

The «value date differentials on portfolio transactions» relate to the notes received and sent for collection with recourse or for crediting after collection, which are only recognised in the balance sheet on settlement. The value date differences between the related assets and liabilities give rise to the above differentials.

Section 9 *Termination indemnities - Item 90*

9.1 Termination indemnities: changes in the year

	Total 31/12/2021	Total 31/12/2020
A. **Opening balance**	**42,341**	**43,789**
B. **Increases**	**8,033**	**8,643**
B.1 Provisions for the year	8,021	7,853
B.2 Other changes	12	790
C. **Decreases**	**10,184**	**10,091**
C.1 Payments made	1,961	2,397
C.2 Other changes	8,223	7,694
D. **Closing balance**	**40,190**	**42,341**
Total	**40,190**	**42,341**

Section 10 *Provisions for risk and charges - Item 100*

10.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2021	31/12/2020
1. **Provisions for credit risk related to commitments and financial guarantees given**	**27,186**	**39,726**
2. **Provisions on other commitments and other guarantees given**	**16,039**	**18,794**
3. **Pension and similar obligations**	**191,565**	**189,873**
4. **Other provisions for risks and charges**	**54,272**	**43,364**
4.1 legal disputes	35,435	23,602
4.2 personnel expenses	18,016	15,103
4.3 other	821	4,659
Total	**289,062**	**291,757**

At year end, the Group is not exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. The figures for the company's pension funds include, in addition to the Parent Company's fund, the accounting of the «Swiss BVG pension» according to IAS 19, which entailed recognition of a liability.

10.2 Provisions for risks and charges: changes in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	Total
A. **Opening balance**	**18,794**	**189,873**	**43,364**	**252,031**
B. **Increases**	**4,383**	**13,130**	**37,974**	**55,487**
B.1 Provisions during the year	4,383	2,906	37,940	45,229
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	–	–	–
B.4 Other changes	–	10,224	34	10,258
C. **Decreases**	**7,138**	**11,438**	**27,066**	**45,642**
C.1 Utilisations during the year	–	6,959	21,265	28,224
C.2 Changes due to variations in the discount rate	–	4,474	–	4,474
C.3 Other changes	7,138	5	5,801	12,944
D. **Closing balance**	**16,039**	**191,565**	**54,272**	**261,876**

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given				
	First stage	Second stage	Third stage	Impaired purchased or originated	Total
Commitments to grant loans	11,886	4,531	232	29	16,678
Financial guarantees issued	611	86	9,811	–	10,508
Total	**12,497**	**4,617**	**10,043**	**29**	**27,186**

10.5 Defined-benefit pension plans

10.5.1. Characteristics of the plans and related risks

The pension fund of 191.565 million euro consists of the pension fund for the Parent

Company's personnel of 164.887 million euro and the actuarial liabilities linked to the supplementary pension plan for employees of BPS Suisse SA of 26.678 million euro.

The Parent Company's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 c.c..

The amount of the pension fund for the Parent Company's personnel is adjusted to take into account the closed group of members formed on 28/04/1993. This closed group consists of 321 employees and 317 pensioners.

Since 28/04/1993, employees have been given the chance to join another supplementary pension scheme as laid down by law and by contract.

BPS Suisse SA is a member of the BVG collective foundation of Rentenanstalt, which guarantees a professional pension to its employees through Swiss Life.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

10.5.2 Changes in net (assets) liabilities and redemption rights

	31/12/2021	31/12/2020
At 1 January	**189,873**	**179,965**
service cost	5,402	5,540
interest cost	576	1,081
actuarial gains/losses	(2,365)	10,441
payments	(10,307)	(9,495)
other provisions	8,386	2,341
At 31 December	**191,565**	**189,873**

10.5.3 Information on the fair value of plan assets

Details of the assets of the Parent Company's pension plan are summarised in the following table:

	31/12/2021	31/12/2020
Fixed-yield securities	120,666	106,951
Equity securities	3,647	2,396
Mutual funds invested in bonds	9,735	8,139
Mutual funds invested in shares	13,614	12,798
Mutual funds invested in property	16,972	17,010
Other assets	253	15,002
Total	**164,887**	**162,296**

The amount of the fund increases by 2.591 million euro, +1.60%.

Payments of benefits amount to 4.049 million euro compared with 4.046 million euro. The contributions paid by the employees totalled 0.208 million euro (0.214 million euro in the prior year).

10.5.4 Description of the principal actuarial assumptions

The assumptions adopted in the actuarial calculation are provided separately for the Parent Company and BPS Suisse SA:

Banca Popolare di Sondrio Scpa

	2021	2020
discount rate	0.82%	0.36%
expected increase in salaries	0.25%	0.25%
rate of inflation	1.50%	0.00%

The average annual rate of increase of pensions paid by the Fund takes into account the equalisation provided for mandatory pension benefits.

See the Bank's financial statements for an explanation of how the discount rate was chosen.

Banca Popolare di Sondrio (Suisse) SA

	31/12/2021	31/12/2020
discount rate	0.30%	0.10%
expected increase in salaries	0.80%	0.85%
rate of inflation	0.80%	0.85%
underlying rate of pension increases	0.00%	0.00%

The discount rate has been chosen according to Swiss high standing corporate bonds with a duration between 15 and 20 years.

10.5.5 Information on the amount, timing and uncertainties of cash flows

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. For this purpose, the base used for the valuation was also used as the base scenario and the two most significant assumptions were increased and decreased, obtaining the results shown below separately for Banca Popolare di Sondrio Scpa and Banca Popolare di Sondrio (Suisse) SA:

Sensitivity

Banca Popolare di Sondrio Scpa

+0.25% increase in the discount rate, liability of 136.359 million euro
-0.25% decrease in the discount rate, liability of € 147.408 million euro
+0.25% increase in the inflation rate, liability of 144.197 million euro
-0.25% decrease in the inflation rate, liability of 139.308 million euro

Banca Popolare di Sondrio (Suisse) SA

Change +0.50% in the discount rate, liability of 19.561 million euro
Change -0.50% in the discount rate, liability of 34.736 million euro
Change +0.50% in rate of salary increase, liability of 27.215 million euro
Change -0.50% in rate of salary increase, liability of 26.141 million euro

10.6 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2021	31/12/2020
Legal disputes	35,435	23,602
Personnel expenses	18,016	15,103
Other provisions	821	4,659
Total	**54,272**	**43,364**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

This increase of 11.833 million euro arises from the difference between the provision of the year and the release of provisions set aside in prior years.

The Group recognises liabilities for legal disputes in accordance with IAS 37. No provision or disclosure is made for contingent liabilities for which there is a remote risk of disbursement. For potential liabilities for which there is a probable risk, provisions are made in agreement with the lawyers.

At 31 December 2021, a number of disputes, other than tax-related ones, were pending, with a total petitum of about 137 million. This amount includes all existing disputes regardless of the estimate of the risk of disbursement of economic resources deriving from the potential loss. It therefore also includes disputes with a remote risk.

The following paragraphs provide brief information on the disputes considered significant - mainly those with claims exceeding 5 million euro and with the risk of disbursement deemed «probable» or «possible» - as well as on cases considered significant.

Claims for «indemnification» relating to loans sold as part of the securitisation transactions called «Diana» and «PopSo NPLS 2020»

The assignee companies have the contractual right to make claims for compensation for alleged breaches of the guarantees given by the bank on the portfolio of assigned receivables. Approximately 150 requests for a potential amount of 36.4 million euro are pending, for which a provision of 11.9 million euro has been made.

Disputes relating to compound interest and usury

LThe disputes falling within this line of litigation for years represented a significant part of the litigation brought against the Italian banking system. For disputes relating to compound interest, the petitum is equal to approximately 6.87 million, with provisions for 2.01 million, while for those relating to usury, the petitum is equal to 4.92 million, with provisions for 0.64 million.

Clawback actions in insolvency proceedings

12 disputes were pending for a petitum of 6.48 million, with a provision of 1.60 million. None with a request for a refund of a particularly significant amount.

AMA – Azienda Municipale Ambiente s.p.a.

In December 2020, the Bank was notified of the summons before the Court of Rome, concerning the requests for assessment and declaration of the nullity or cancellation of the transaction in financial instruments called «Interest Rate Swap» stipulated on 30 September 2010 and the repayment of amounts unduly received by the Bank for 20.67 million euro. The Bank entered an appearance at the hearing set for 11 May 2021. The Judge ordered an expert witness report, with expert operations beginning on 4 March 2022. Currently, the risk of losing appears «possible».

Bankruptcy of Interservice s.r.l. in liquidation

In February 2015, the bankruptcy procedure sued the Bank before the Court of Milan with a request for compensation for the damage caused to the company by the illegal conduct of its director, quantified at 14.65 million euro. With a sentence published on 26 May 2020, the Court rejected the plaintiff's request, but the plaintiff has filed an appeal. The risk of losing the case appears «possible», although commensurate with a significantly reduced outlay compared to the original request (approximately 228 thousand euro).

Ginevra s.r.l.

In January 2019, the company and the shareholders Giuliana Piovan and Gianpiero De Luca sued the Bank before the Court of Genoa with a request for compensation, quantified at 11.40 million euro, for contractual liability for failure to grant credit, compound interest and usury. The Judge has already set a hearing for the clarification of the conclusions on 11 April 2022. The risk of losing appears «possible».

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It increases by 2.913 million euro, +19.29 %.

Other provisions include the Parent Company's provision for charitable donations consisting of net profits authorised by the shareholders of 0.676 million euro used to make approved payments. It increased by 0.300 million euro in the 2020 profit distribution and decreases by 0.112 million euro due to donations made during the year.

Section 13 ***Group equity - Items 120, 130, 140, 150, 160, 170 and 180***

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling 1,360.157 million euro, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2021.

At the period-end, the Bank held treasury shares with a carrying value of 25.457 million euro.

13.2 Capital - Number of Parent Company shares: changes in the year

Items/Type	Ordinary	Other
A. **Shares at the beginning of the year**	**453,385,777**	**–**
– fully paid	453,385,777	–
– not fully paid	–	–
A.1 Treasury shares (–)	(3,679,959)	–
A.2 Shares in circulation opening balance	449,705,818	–
B. **Increases**	**–**	**–**
B.1 New issues	–	–
– for payment:	–	–
– conversion of bonds	–	–
– exercise of warrants	–	–
– other	–	–
– free of charge:	–	–
– to employees	–	–
– to directors	–	–
– other	–	–
B.2 Sale of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**6,413**	**–**
C.1 Derecognition	–	–
C.2 Purchase of treasury shares	6,413	–
C.3 Disposal of businesses	–	–
C.4 Other changes	–	–
D. **Shares outstanding: closing balance**	**449,699,405**	**–**
D.1 Treasury shares (+)	3,686,372	–
D.2 Shares at the end of the year	453,385,777	–
– fully paid	453,385,777	–
– not fully paid	–	–

13.3. Capital: other information

It amounts to 79.005 million euro, unchanged on last year.

13.4 Profit reserves: other information

Item 150 «Reserves» amounts to 1,555.718 million euro with an increase of 7.34%, and also includes the reserve for the purchase of treasury shares, which is available to the directors for the purchase or sale of treasury shares on market terms, as part of normal trading to support the circulation of shares. This reserve amounts to 30 million euro (used for 25.322 million euro).

Section 14 Minority interests - Item 190

14.1 Detail of item 210 «Minority interests»

The line item equity of minority interests amounts to 104.583 million euro and is made up of the share capital of 33.579 million euro, the share premium reserve of 4.358 million euro, reserves of 60.421 million euro, valuation reserves of -0.161 million euro and profits of 6.386 million euro.

14.2 Capital instruments: breakdown and changes in the year

There were no issues of financial instruments that contribute to the formation of capital issued by group companies not subject to total control.

Other information

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given					
	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2021**	**Total 31/12/2020**
1. **Commitments to grant loans**	**12,508,404**	**374,816**	**113,011**	**8,258**	**13,004,489**	**13,092,702**
a) Central banks	–	–	–	–	–	–
b) Public administrations	618,848	3,151	3	–	622,002	706,764
c) Banks	67,092	–	–	–	67,092	25,135
d) Other financial companies	1,104,335	2,539	15,000	1	1,121,875	1,088,841
e) Non-financial companies	9,287,099	303,801	91,706	7,668	9,690,274	9,931,694
f) Households	1,431,030	65,325	6,302	589	1,503,246	1,340,268
2. **Financial guarantees issued**	**859,752**	**11,076**	**16,123**	**–**	**886,951**	**585,464**
a) Central banks	–	–	–	–	–	–
b) Public administrations	6,766	–	–	–	6,766	7,068
c) Banks	13,868	270	–	–	14,138	12,759
d) Other financial companies	112,966	–	210	–	113,176	134,609
e) Non-financial companies	657,300	7,540	15,086	–	679,926	359,414
f) Households	68,852	3,266	827	–	72,945	71,614

2. Other commitments and other guarantees given

	Nominal value	**Nominal value**
	Total 31/12/2021	**Total 31/12/2020**
Other guarantees given	**3,523,870**	**3,103,099**
of which: non-performing exposures	33,315	60,894
a) Central banks	–	–
b) Public administrations	36,915	65,380
c) Banks	143,818	83,785
d) Other financial companies	30,948	34,178
e) Non-financial companies	3,129,135	2,719,444
f) Households	183,054	200,312
Other commitments	**3,355,345**	**3,142,004**
of which: non-performing exposures	48,142	59,727
a) Central banks	–	–
b) Public administrations	61,664	27,026
c) Banks	247,935	212,505
d) Other financial companies	67,867	67,014
e) Non-financial companies	2,907,610	2,736,293
f) Households	70,269	99,166

3. Assets lodged to guarantee the bank's liabilities and commitments

Portfolios	Amount 31/12/2021	Amount 31/12/2020
1. Financial assets measured at fair value through profit or loss	80,023	76,359
2. Financial assets measured at fair value through other comprehensive income	615,294	467,839
3. Financial assets measured at amortised cost	11,532,794	10,424,545
4. Property, equipment and investment property	–	–
of which: property, plant and equipment held as inventories	–	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO) and to guarantee the operations of the Swiss subsidiary.

The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

5. Management and intermediation for third parties

Type of service	31/12/2021
1. **Execution of orders on behalf of customers**	**1,402,562**
a) purchases	779,905
1. settled	779,596
2. not settled	309
b) sales	622,657
1. settled	622,114
2. not settled	543
2. **Portfolio management**	**1,847,624**
a) individual	1,847,624
b) collective	–
3. **Custody and administration of securities**	**55,923,334**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	4,074,429
1. securities issued by companies included in the consolidation	–
2. other securities	4,074,429
b) third-party securities on deposit (excluding portfolio management): other	16,912,022
1. securities issued by companies included in the consolidation	2,033,562
2. other securities	14,878,460
c) third-party securities on deposit with third parties	20,724,352
d) own securities held by other custodians	14,212,531
4. **Other transactions**	**–**

6. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of the financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount (f=c–d–e) 31/12/2021**	**Net amount (f=c–d–e) 31/12/2020**
1. Derivatives	12,752	–	12,752	11,203	1,163	386	307
2. Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
Total 31/12/2021	**12,752**	**–**	**12,752**	**11,203**	**1,163**	**386**	**–**
Total 31/12/2020	**33,749**	**–**	**33,749**	**11,927**	**21,515**	**–**	**307**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements». In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparties, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

7. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of the financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount (f=c–d–e) 31/12/2021**	**Net amount (f=c–d–e) 31/12/2020**
1. Derivatives	98,516	–	98,516	11,203	82,643	4,670	891
2. Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–
Total 31/12/2021	**98,516**	**–**	**98,516**	**11,203**	**82,643**	**4,670**	**–**
Total 31/12/2020	**28,541**	**–**	**28,541**	**11,927**	**15,723**	**–**	**891**

Section 1 Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2021**	**Total 31/12/2020**
1. **Financial assets measured at fair value through profit or loss:**	**1,087**	**7,417**	**-**	**8,504**	**8,002**
1.1 Financial assets held for trading	115	-	-	115	244
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	972	7,417	-	8,389	7,758
2. **Financial assets measured at fair value through other comprehensive income**	**10,311**	**-**	**-**	**10,311**	**12,184**
3. **Financial assets measured at amortised cost**:	**56,950**	**471,164**	**-**	**528,114**	**519,921**
3.1 Loans and receivables with banks	10,215	1,830	-	12,045	11,959
3.2 Loans and receivables with customers	46,735	469,334	-	516,069	507,962
4. **Hedging derivatives**	**-**	**-**	**-**	**-**	**-**
5. **Other assets**	**-**	**-**	**5,586**	**5,586**	**-**
6. **Financial liabilities**	**-**	**-**	**-**	**89,553**	**54,293**
Total	**68,348**	**478,581**	**5,586**	**642,068**	**594,400**
of which: interest income on impaired financial assets	-	28,207	-	28,207	35,382
of which: interest income on financial lease	-	-	-	-	-

The interest earned on financial liabilities relates almost entirely to longer-term refinancing operations (TLTRO). For more information please read the Parent Company's explanatory notes.

1.2 Interest and similar income: other information

1.2.1 Interest and similar income on foreign currency assets

Items	**31/12/2021**	**31/12/2020**
Interest and similar income on foreign currency assets	70,289	78,261

1.3 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2021**	**Total 31/12/2020**
1. **Financial liabilities measured at amortised cost**	**(14,675)**	**(67,200)**	**–**	**(81,875)**	**(85,640)**
1.1 Due to central banks	(4)	–	–	(4)	(26)
1.2 Due to banks	(3,171)	–	–	(3,171)	(5,767)
1.3 Due to customers	(11,500)	–	–	(11,500)	(16,489)
1.4 Securities issued	–	(67,200)	–	(67,200)	(63,358)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**(1)**	**(1)**	**–**
5. **Hedging derivatives**	**–**	**–**	**(3,322)**	**(3,322)**	**(5,151)**
6. **Financial assets**	**–**	**–**	**–**	**(27,946)**	**(13,599)**
Total	**(14,675)**	**(67,200)**	**(3,323)**	**(113,144)**	**(104,390)**
of which: interest expense on lease payables	(3,213)	–	–	(3,213)	(3,576)

1.4 Interest and similar expense: other information

1.4.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2021**	**31/12/2020**
Interest expense on foreign currency liabilities	(12,092)	(13,714)

1.5 Differentials relating to hedging transactions

Items	**Total 31/12/2021**	**Total 31/12/2020**
A. Positive differentials relating to hedging transactions	–	–
B. Negative differentials relating to hedging transactions	(3,322)	(5,151)
C. Balance (A–B)	**(3,322)**	**(5,151)**

Section 2 *Commissions - Items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2021	31/12/2020
a) **Financial instruments**	**64,785**	**58,476**
1. Placement of securities	38,340	32,692
1.1 On a firm and/or irrevocable commitment basis	-	-
1.2 Without irrevocable commitment	38,340	32,692
2. Receiving and sending orders and execution of orders on behalf of customers	11,690	12,354
2.1 Receiving and sending orders for one or more financial instruments	11,690	12,354
2.2 Execution of orders on behalf of customers	-	-
3. Other commissions related to activities linked to financial instruments	14,755	13,430
of which: trading on own account	-	3
of which: individual portfolio	11,318	9,908
b) **Corporate Finance**	**-**	**-**
1. Mergers and acquisitions advisory services	-	-
2. Treasury services	-	-
3. Other commissions related to corporate finance services	-	-
c) **Investment advisory activities**	**-**	**-**
d) **Compensation and settlement**	**-**	**-**
e) **Collective portfolio management**	**-**	**-**
f) **Custody and administration**	**16,935**	**13,570**
1. Custodian bank	6,091	4,652
2. Other commissions related to custody and administration activities	10,844	8,918
g) **Central administrative services for collective portfolio management**	**-**	**-**
h) **Fiduciary business**	**-**	**-**
i) **Payment services**	**135,792**	**122,476**
1. Current accounts	41,159	38,546
2. Credit cards	16,492	13,909
3. Debit cards and other payment cards	17,513	15,846
4. Bank transfers and other payment orders	49,509	43,258
5. Other fees related to payment services	11,119	10,917
j) **Distribution of third-party services**	**27,557**	**21,468**
1. Collective portfolio management	-	-
2. Insurance products	24,619	19,233
3. Other products	2,938	2,235
of which: individual portfolio management	-	-
k) **Structured finance**	**-**	**-**
l) **Servicing for securitisation transactions**	**-**	**-**
m) **Commitments to make loans**	**-**	**-**
n) **Financial guarantees given**	**27,604**	**24,220**
of which: credit derivatives	-	-
o) **Financing transactions**	**76,676**	**75,280**
of which: for factoring transactions	22,893	19,813
p) **Trading in foreign currencies**	**-**	**-**
q) **Goods**	**-**	**-**
r) **Other commission income**	**25,453**	**18,007**
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading	-	-
Total	**374,802**	**333,497**

The figures for the previous year have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

2.2 Fee and commission expense: breakdown

Services/Amounts	31/12/2021	31/12/2020
a) **Financial instruments**	**(3,669)**	**(3,199)**
of which: trading of financial instruments	(3,669)	(3,199)
of which: placement of financial instruments	–	–
of which: individual portfolio management	–	–
– Own	–	–
– Delegated to third parties	–	–
b) **Compensation and settlement**	**–**	**–**
c) **Collective portfolio management**	**–**	**–**
1. Own	–	–
2. Delegated to third parties	–	–
d) **Custody and administration**	**(3,196)**	**(2,597)**
e) **Collection and payment services**	**(6,745)**	**(7,622)**
of which: credit cards, debit cards and other payment cards	(3,159)	(2,761)
f) **Servicing for securitisation transactions**	**–**	**–**
g) **Commitments to receive funds**	**–**	**–**
h) **Financial guarantees received**	**(159)**	**(353)**
of which: credit derivatives	–	–
i) **Door-to-door distribution of financial instruments, products and services**	**–**	**–**
j) **Trading in foreign currencies**	**–**	**–**
k) **Other commission expenses**	**(3,379)**	**(3,310)**
Total	**(17,148)**	**(17,081)**

The figures for the previous year have been restated in accordance with the provisions of the 7th update of Bank of Italy Circular no. 262 «Bank financial statements: formats and rules for preparation».

Section 3 Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	31/12/2021		31/12/2020	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,693	172	1,654	194
B. Other financial assets mandatorily measured at fair value	–	783	–	1,401
C. Financial assets measured at fair value through other comprehensive income	2,489	35	1,115	11
D. Equity investments	36	–	–	–
Total	**4,218**	**990**	**2,769**	**1,606**

Section 4 *Net trading income - Item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B) – (C+D)]
1. **Financial assets held for trading**	**23,921**	**36,463**	**(2,229)**	**(197)**	**57,958**
1.1 Fixed-yield securities	–	4	(218)	(20)	(234)
1.2 Equity securities	3,466	9,968	(1,402)	(150)	11,882
1.3 Mutual funds	7,019	1,710	(349)	(27)	8,353
1.4 Loans	–	–	–	–	–
1.5 Others	13,436	24,781	(260)	–	37,957
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Others	–	–	–	–	–
3. **Financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**(37)**
4. **Derivatives**	**8,415**	**23,496**	**(5,052)**	**(21,314)**	**5,729**
4.1 Financial derivatives:	8,415	23,496	(5,052)	(21,314)	5,729
– On debt securities and interest rates	3,032	7,616	(2,993)	(6,894)	761
– On equity securities and equity indices	3,353	6,767	(60)	(5,407)	4,653
– On currency and gold	–	–	–	–	184
– Other	2,030	9,113	(1,999)	(9,013)	131
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedges related to the fair value option	–	–	–	–	–
Total	**32,336**	**59,959**	**(7,281)**	**(21,511)**	**63,650**

The net trading gain (loss) passes from 12.473 million euro to 63.650 million euro.

The net result from trading on «other» financial assets is mainly made up of exchange gains.

This table does not include the result of the securities in the post-employment fund, which is shown under another item.

Section 5 *Net hedging gain (loss) - Item 90*

5.1 Net hedging gain (loss): breakdown

Income items/Amounts	31/12/2021	31/12/2020
A. **Income related to:**		
A.1 Fair value hedging derivatives	3,397	4,652
A.2 Hedged financial assets (fair value)	–	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Financial derivatives - Cash-flow hedges	–	–
A.5 Assets and liabilities denominated in foreign currencies	–	–
Total income from hedging activities (A)	**3,397**	**4,652**
B. **Charges relating to:**		
B.1 Fair value hedging derivatives	–	–
B.2 Hedged financial assets (fair value)	(3,154)	(4,687)
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Financial derivatives - Cash-flow hedges	–	–
B.5 Assets and liabilities denominated in foreign currencies	–	–
Total hedging charges (B)	**(3,154)**	**(4,687)**
C. **Net hedging gain (loss) (A – B)**	**243**	**(35)**
of which: result of hedging on net positions	–	–

The income consists of 3.397 million euro from the fair value valuation of hedging derivatives against a negative valuation of 3.154 million euro of the fair value of the loans being hedged. The net result of the measurement at fair value of the hedging structure is therefore positive for 0.243 million euro.

Section 6 *Gains (losses) from sales/repurchases - Item 100*

6.1 Gains (losses) from sales/repurchases: breakdown

	31/12/2021			31/12/2020		
Items/Income items	Gains	Losses	Profit (loss)	Gains	Losses	Profit (loss)
A. **Financial assets**						
1. Financial assets measured at amortised cost	35,580	(2,702)	32,878	23,806	(49,397)	(25,591)
1.1 Loans and receivables with banks	–	–	–	40	(3)	37
1.2 Loans and receivables with customers	35,580	(2,702)	32,878	23,766	(49,394)	(25,628)
2. Financial assets measured at fair value through other comprehensive income	16,179	(2,423)	13,756	24,812	–	24,812
2.1 Fixed-yield securities	16,179	(2,423)	13,756	24,812	–	24,812
2.2 Loans	–	–	–	–	–	–
Total assets (A)	**51,759**	**(5,125)**	**46,634**	**48,618**	**(49,397)**	**(779)**
B. **Financial liabilities measured at amortised cost**	**–**	**–**	**–**	**–**	**–**	**–**
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	9	(27)	(18)	91	(29)	62
Total liabilities (B)	**9**	**(27)**	**(18)**	**91**	**(29)**	**62**

The loss of line item «1.2 Loans and receivables with customers» totalling 2.702 million records the effects of the derisking in December 2021 with the sale of NPLs.

For further details, reference should be made to Part E of these consolidated notes, section «C. Securitisation transactions».

Section 7 *Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss - Item 110*

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Profit (loss) [(A+B) – (C+D)]
1. **Financial assets**	**39,366**	**3,308**	**(20,174)**	**(667)**	**21,833**
1.1 Fixed-yield securities	2,043	1,881	–	(636)	3,288
1.2 Equity securities	35	19	–	–	54
1.3 Mutual funds	18,852	1,408	(5,936)	(31)	14,293
1.4 Loans	18,436	–	(14,238)	–	4,198
2. **Financial assets: exchange differences**	**–**	**–**	**–**	**–**	**4,893**
Total	**39,366**	**3,308**	**(20,174)**	**(667)**	**26,726**

Section 8 *Net adjustments/writebacks for credit risk - Item 130*

8.1 Net adjustments for credit risk related to financial assets measured at amortised cost: breakdown

	Adjustments (1)					
			Third stage		Impaired purchased or originated	
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other
A. **Loans and receivables with banks**	**(417)**	**(7)**	**–**	**–**	**–**	**–**
– Loans	(295)	(7)	–	–	–	–
– Fixed-yield securities	(122)	–	–	–	–	–
B. **Loans and receivables with customers**	**(22,648)**	**(24,378)**	**(45,103)**	**(268,098)**	**(1,873)**	**(24,378)**
– Loans	(21,588)	(24,378)	(45,103)	(268,098)	(1,873)	(24,378)
– Fixed-yield securities	(1,060)	–	–	–	–	–
Total	**(23,065)**	**(24,385)**	**(45,103)**	**(268,098)**	**(1,873)**	**(24,378)**

8.1a Net adjustments for credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

	Net adjustments							
			Third stage		Impaired purchased or originated			
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other	**Total 31/12/2021**	**Total 31/12/2020**
1. Loans subject to forbearance complying with the GL	–	(11)	–	–	–	–	(11)	(34,381)
2. Loans subject to outstanding moratoria measures no longer in compliance with GL and not evaluated as granted	(3)	(242)	–	(29)	–	–	(274)	–
3. Loans subject to other forbearance measures	–	(1,506)	–	(2,180)	–	(59)	(3,745)	(8,487)
4. New loans	290	(1,054)	–	(6,270)	–	(372)	(7,406)	(2,864)
Total	**287**	**(2,813)**	**–**	**(8,479)**	**–**	**(431)**	**(11,436)**	**(45,732)**

Writebacks (2)					
First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2021**	**Total 31/12/2020**
2,606	**678**	**–**	**–**	**2,860**	**(7,729)**
1,676	32	–	–	1,406	(1,542)
930	646	–	–	1,454	(6,187)
90,372	**19,115**	**127,297**	**6,639**	**(143,055)**	**(133,662)**
88,322	19,115	127,297	6,639	(144,045)	(132,600)
2,050	–	–	–	990	(1,062)
92,978	**19,793**	**127,297**	**6,639**	**(140,195)**	**(141,391)**

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

	Adjustments (1)					
			Third stage		Impaired purchased or originated	
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other
A. **Fixed-yield securities**	**(609)**	**-**	**-**	**-**	**-**	**-**
B. **Loans**	**-**	**-**	**-**	**-**	**-**	**-**
- To customers	-	-	-	-	-	-
- To banks	-	-	-	-	-	-
Total	**(609)**	**-**	**-**	**-**	**-**	**-**

Value adjustments relate to the measurement of credit risk on fixed-yield securities classified under financial assets measured at fair value through other comprehensive income. Any value adjustments on equity securities are recorded directly in equity.

8.2a Net adjustments for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

During 2021, no credit risk adjustments were made on loans measured at fair value through other comprehensive income subject to Covid-19 support measures.

Section 9 *Gains/losses on contractual amendments without derecognition - Item 140*

9.1 Gains/losses on contractual amendments: breakdown

Contractual amendments without derecognition amount to 6.099 million euro.

Section 12 *Administrative expenses - Item 190*

12.1 Personnel expenses: breakdown

Type of expense/Amounts	**31/12/2021**	**31/12/2020**
1) **Employees**	**(266,499)**	**(247,948)**
a) wages and salaries	(168,701)	(163,590)
b) social security contributions	(42,456)	(40,402)
c) termination indemnities	(12)	(7)
d) pension expenses	(6,141)	(5,729)
e) provision for employee termination indemnities	(7,983)	(7,812)
f) provision for pension and similar obligations:	(14,103)	(7,035)
- defined contribution	-	-
- defined benefits	(14,103)	(7,035)
g) payments to external supplementary pension :	(4,103)	(3,989)
- defined contribution	(4,083)	(3,970)
- defined benefits	(20)	(19)
h) costs deriving from payment agreements based on own capital instruments	-	-
i) other personnel benefits	(23,000)	(19,384)
2) **Other working personnel**	**(365)**	**(192)**
3) **Directors and Statutory Auditors**	**(3,036)**	**(2,743)**
4) **Retired personnel**	**-**	**-**
Total	**(269,900)**	**(250,883)**

Writebacks (2)					
First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2021**	**Total 31/12/2020**
1,590	**28**	**–**	**–**	**1,009**	**(856)**
–	**–**	**–**	**–**	**–**	
–	–	–	–	–	
–	–	–	–	–	
1,590	**28**	**–**	**–**	**1,009**	**(856)**

12.2 Average number of employees by category

	31/12/2021	31/12/2020
1) **Employees**	**3,355**	**3,286**
a) managers	35	37
b) officials	815	811
c) other employees	2,505	2,438
2) **Other personnel**	**5**	**5**

	Total 31/12/2021	Total 31/12/2020
– Number of employees at year-end	3,395	3,328
– Other personnel	6	6

12.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2021	31/12/2020
Service cost	2,404	2,319
Interest cost	528	1,021
Contributions from employees	(209)	(215)
Reductions and payments	11,380	3,910
Total charge to income statement (A)	**14,103**	**7,035**
Yield from assets servicing the fund (B)	11,199	3,864
Total charge (A-B)	**2,904**	**3,171**

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 10.5 of the notes to the financial statements. The cost for the Parent Company consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations.

An additional provision of 11.199 million euro has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». A positive change of 4.474 million euro corresponding to the actuarial profit was not recognised in the income statement but in compliance with the provisions of the IAS 19 accounting standard was recorded as a positive change in equity as shown in the statement of comprehensive income.

12.4 Other employee benefits

The item essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

12.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2021	31/12/2020
Telephone, post and data transmission	(13,911)	(14,430)
Maintenance of property, equipment and investment property	(8,824)	(9,167)
Rent of buildings	(301)	(465)
Security	(4,376)	(4,232)
Transportation	(3,040)	(2,945)
Professional fees	(44,274)	(45,004)
Office materials	(1,967)	(2,004)
Electricity, heating and water	(5,080)	(5,413)
Advertising and entertainment	(3,459)	(3,255)
Legal	(12,604)	(15,538)
Insurance	(1,920)	(2,029)
Company searches and information	(7,922)	(7,542)
Indirect taxes and dues	(60,584)	(57,211)
Software and hardware rental and maintenance	(25,586)	(22,149)
Data entry by third parties	(2,606)	(2,728)
Cleaning	(6,550)	(6,220)
Membership fees	(1,941)	(2,025)
Services received from third parties	(8,925)	(8,257)
Outsourced activities	(24,617)	(22,879)
Deferred charges	(1,263)	(1,350)
Goods and services for employees	(769)	(635)
Contributions to resolution and guarantee funds	(43,066)	(35,259)
Other	(7,527)	(8,206)
Total	**(291,112)**	**(278,943)**

Section 13 *Net accruals to provisions for risks and charges - Item 200*

13.1 Net provisions for the credit risk on commitments to grant loans on financial guarantees given: breakdown

The line item is positive for 12.372 million euro made up of the difference between provisions for the year and reallocations.

13.2 Net provisions for other commitments to grant funds and guarantees given: breakdown

The line item is negative for 2.752 million euro made up of the difference between provisions for the year and reallocations.

13.3 Net provisions for other risks and charges: breakdown

The line item is negative for 15.972 million euro made up of the difference between provisions for the year and reallocations.

For further details on the provisions made, reference should be made to the information contained in «Section 10 - Provisions for risks and charges» - Item 100 of Part B - Liabilities of these Notes.

Section 14 *Depreciation and net impairment losses on property, equipment and investment property - Item 210*

14.1. Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Writebacks (c)	**Net result (a + b – c)**
A. **Property, equipment and investment property**				
1. For business purposes	(37,359)	–	–	(37,359)
– Owned	(16,080)	–	–	(16,080)
– Rights of use acquired through leases	(21,279)	–	–	(21,279)
2. Investment property	–	–	–	–
– Owned	–	–	–	–
– Rights of use acquired through leases	–	–	–	–
3. Inventories	–	–	–	–
B. **Assets held for sale**	**–**	**–**	**–**	**–**
Total	**(37,359)**	**–**	**–**	**(37,359)**

Section 15 *Amortisation and net impairment losses on intangible assets - Item 220*

15.1 Amortisation and net impairment of intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Writebacks (c)	**Net result (a + b – c)**
A. **Intangible assets**				
of which: software	(16,029)	–	–	(16,029)
A.1 Owned	(16,675)	–	–	(16,675)
– Internally generated	(65)	–	–	(65)
– Other	(16,610)	–	–	(16,610)
A.2 Acquired under finance leases	–	–	–	–
Total	**(16,675)**	**–**	**–**	**(16,675)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer EDP. There were no significant impairment losses relating to intangible assets during the year, so the disclosures required by IAS 36 paragraphs 130 letters a) c) d) f) g) and 131 are not provided.

Section 16 *Other operating income and expense - Item 230*

16.1 Other operating expenses: breakdown

	31/12/2021	**31/12/2020**
Out-of-period expense	(4,508)	(1,720)
Other	(4,080)	(4,962)
Consolidation differences	(2,240)	(1,822)
Total	**(10,828)**	**(8,504)**

16.2 Other operating income: breakdown

	31/12/2021	31/12/2020
Recovery of charges on deposits and overdrafts	945	987
Recovery of expenses	223	371
Rental income from buildings	5,959	5,996
Recovery of taxes	50,250	47,685
Financial income of pension and similar obligations plan	10,399	3,140
Out-of-period income - other	1,629	1,688
Other	9,462	9,833
Consolidation differences	3,261	1,916
Total	**82,128**	**71,616**

Section 17 Net gains (losses) on equity investments - Item 250

17.1 Net gains (losses) on equity investments: breakdown

Income elements/Sectors	31/12/2021	31/12/2020
1) **Joint control companies**		
A. **Income**	**21**	**19**
1. Revaluations	21	19
2. Gains on disposal	–	–
3. Writebacks	–	–
4. Other income	–	–
B. **Charges**	**(332)**	**(28)**
1. Write-downs	(332)	(28)
2. Impairment writedowns	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**(311)**	**(9)**
2) **Associated companies (subject to significant influence)**		
A. **Income**	**36,449**	**27,207**
1. Revaluations	36,449	27,101
2. Gains on disposal	–	106
3. Writebacks	–	–
4. Other income	–	–
B. **Charges**	**(237)**	**(201)**
1. Write-downs	(237)	(196)
2. Impairment writedowns	–	(5)
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**36,212**	**27,006**
Total	**35,901**	**26,997**

Section 18 *Net result of fair value measurement of property, equipment and investment property and intangible assets - Item 260*

18.1 Net result of the valuation at fair value (or revalued amount) or at the estimated realisable value of property, equipment and investment property and intangible assets: breakdown

Assets/Income elements	Revaluations (a)	Writedowns (b)	Exchange gains (c)	Exchange losses (d)	Net result (a-b+c-d)
A. **Property, equipment and investment property**	**80**	**(962)**	**-**	**-**	**(882)**
A.1 For business purposes:	-	-	-	-	-
- Owned	-	-	-	-	-
- Rights of use acquired through leases	-	-	-	-	-
A.2 Investment property:	80	(962)	-	-	(882)
- Owned	80	(962)	-	-	(882)
- Rights of use acquired through leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. **Intangible assets**	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
- Internally generated	-	-	-	-	-
- Other	-	-	-	-	-
B.2 Rights of use acquired through leases	-	-	-	-	-
Total	**80**	**(962)**	**-**	**-**	**(882)**

Section 20 *Gains (losses) on sale of investments - Item 280*

20.1 Gains (losses) on sale of investments: breakdown

Income item/amount	31/12/2021	31/12/2020
A. **Property**	**356**	**35**
- Gains on disposal	356	102
- Losses on disposal	-	(67)
B. **Other assets**	**28**	**19**
- Gains on disposal	28	29
- Losses on disposal	-	(10)
Profit (loss)	**384**	**54**

Section 21 *Taxes on income from ordinary operations - Item 300*

21.1 Income taxes: breakdown

Income elements/Sectors	31/12/2021	31/12/2020
1. Current taxes (-)	(55,396)	(11,355)
2. Change in prior period income taxes (+/-)	(93)	103
3. Reduction in current taxes (+)	1,740	208
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(45,438)	(37,349)
5. Change in deferred tax liabilities (+/-)	(338)	1,209
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(99,525)	(47,184)

This item came in at 99.525 million euro, showing an increase of 110.93%. The tax rate, intended as a simple comparison between income taxes and the result of current operations, stood at 26.57% compared with 30.07%.

21.2 Reconciliation between the theoretical and current tax burden

Taxes are calculated for each company based on the specific legislation of the country of residence.

The total tax charge for the year is reconciled as follows:

Profit before tax	**374,545**
Direct taxes	
Theoretical taxation	100,211
Dividends (–)	(4,459)
Gains/losses on sale of equity investments (PEX) (+/–)	-
Maxi depreciation	(356)
ACE	(7,272)
Administrative expenses (partially deductible)	374
Other changes (+/–)	(4,627)
Total direct taxes	**83,871**

IRAP (Regional business tax)	
Theoretical taxation	19,039
Dividends	(522)
Personnel expenses	1,445
Administrative expenses	1,613
Depreciation and amortisation	270
Other operating income/expense	(838)
Other items	(5,353)
Total IRAP	**15,654**
Total taxes	**99,525**

Section 23 *Profit (Loss) for the year attributable to non-controlling interests – Item 340*

23.1 Details of item 3030 «Profit (Loss) for the year attributable to non-controlling interests»

Company names	31/12/2021	31/12/2020
Equity investments in consolidated companies with significant non-controlling interests		
FACTORIT SPA	(6,386)	(3,146)
Total	**(6,386)**	**(3,146)**

Section 25 *Earnings per share*

25.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2021	31/12/2020
Number of shares	453,385,777	453,385,777

This is the weighted average used as the denominator in the calculation of basic earnings per share.

25.2 Other information

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

	31/12/2021	**31/12/2020**
Basic EPS – €	0.593	0.235
Diluted EPS – €	0.593	0.235

PART D Consolidated statement of other comprehensive income

Analysis of consolidated statement of other comprehensive income

Items	31/12/2021	31/12/2020
10. **Profit (loss) for the year**	**275,020**	**109,743**
Other items of comprehensive income that will not be reclassified to profit or loss	13,989	22,964
20. **Equity securities measured at fair value through other comprehensive income:**	**617**	**32,570**
a) change in fair value	3,791	48,123
b) transfer to other components of equity	(3,174)	(15,553)
30. **Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness):**	**–**	**–**
a) change in fair value	–	–
b) transfer to other components of equity	–	–
40. **Hedges of equity securities measured at fair value through other comprehensive income:**	**–**	**–**
a) change in fair value (hedged instrument)	–	–
b) change in fair value (hedging instrument)	–	–
50. **Property, equipment and investment property**	**14,669**	**–**
60. **Intangible assets**	**–**	**–**
70. **Defined-benefit plans**	**3,657**	**(9,844)**
80. **Non-current assets and groups of assets held for sale**	**–**	**–**
90. **Share of valuation reserves of equity investments valued at net equity**	**1,614**	**(59)**
100. **Income taxes on other items of comprehensive income that will not be reclassified to profit or loss**	**(6,568)**	**297**
Other items of comprehensive income that may be reclassified subsequently to profit or loss	(9,297)	11,676
110. **Hedges of foreign investments:**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
120. **Exchange differences:**	**1,276**	**(584)**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	1,276	(584)
130. **Cash-flow hedges:**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
of which: result of net positions	–	–
140. **Hedging instruments (non-designated elements):**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
150. **Financial assets (other than equity securities) measured at fair value through other comprehensive income:**	**(17,778)**	**18,785**
a) changes in fair value	(1,901)	30,473
b) transfer to income statement	(15,877)	(11,688)
– adjustments for credit risk	(1,009)	856
– gains/losses on disposals	(14,868)	(12,544)
c) other changes	–	–
160. **Non-current assets and disposal groups held for sale:**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
170. **Share of valuation reserves of equity investments valued at net equity:**	**2,289**	**(822)**
a) changes in fair value	2,289	(822)
b) transfer to income statement	–	–
– adjustments for impairment	–	–
– gains/losses on disposals	–	–
c) other changes	–	–
180. **Income taxes on other items of comprehensive income that may be reclassified subsequently to profit or loss**	**4,916**	**(5,703)**
190. **Total other income items**	**4,692**	**34,640**
200. **Other comprehensive income (Item 10+190)**	**279,712**	**144,383**
210. **Consolidated other comprehensive income attributable to non-controlling interests**	**6,481**	**3,062**
220. **Consolidated other comprehensive income attributable to the Parent Company**	**273,231**	**141,321**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from as reported in sections B and C of these notes, except where the carrying amount specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) no. 575/2013 is provided by the required deadlines in the «Investor relations» section of the Parent Company's website.

Introduction

The Parent Company has the task of ensuring effective risk management through proper articulation of the roles and responsibilities of key decision-making departments, as well as the integrity and completeness of the Group's system of controls. This principle involves the centralisation of essential choices in terms of risk management, in order to ensure the harmonisation of all systems of risk assessment and control developed within the Group and to implement a risk management policy that is as integrated and consistent as possible.

The strategic guidelines for risk exposure are established by the governing bodies of the Parent Company, evaluating the overall operations of the Group and the actual risks it runs, based on the specific type of operations and risk profiles of each company. The decisions are supported by mechanisms for monitoring and control inherent in the evolution of the various risks assumed within the perimeter of the Group and their compatibility with respect to the pursuit of sound and prudent management.

The governing bodies of subsidiaries, according to each one's powers, are responsible for implementing the risk management policies defined by the Parent Company in a manner that is consistent with their company's situation, ensuring the functioning of suitable internal control procedures and a constant flow of information to the Parent Company on individual cases of significant risk.

It should be noted that, where necessary, the 2020 data in the following quantitative tables have been made homogeneous following the 7th update of Bank of Italy Circular 262/2005.

Section 1 *Risks of accounting consolidation*

QUANTITATIVE INFORMATION

A. Loan quality

A.1 Non-performing and performing loans: balance, impairment, developments, dynamics and business distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (carrying amounts)

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Non-performing past due exposures	Performing past due exposures	Other performing exposures	**Total**
1. Financial assets measured at amortised cost	192,290	571,204	54,202	429,954	41,470,024	42,717,674
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	3,001,447	3,001,447
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	17,962	1,153	10,902	444,701	474,718
5. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2021	**192,290**	**589,166**	**55,355**	**440,856**	**44,916,172**	**46,193,839**
Total 31/12/2020	**345,812**	**694,656**	**51,642**	**100,949**	**40,642,725**	**41,835,784**

A.1.2 Distribution of financial assets by portfolio and asset quality (gross and net values)

	Non-performing				Performing			
Portfolio/quality	Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	**Total net exposure**
1. Financial assets measured at amortised cost	1,844,447	1,026,751	817,696	136,527	42,025,938	125,960	41,899,978	42,717,674
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	3,002,405	958	3,001,447	3,001,447
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	31,526	12,411	19,115	–	–	–	455,603	474,718
5. Financial assets being sold	–	–	–	–	–	–	–	–
Total 31/12/2021	**1,875,973**	**1,039,162**	**836,811**	**136,527**	**45,028,343**	**126,918**	**45,357,028**	**46,193,839**
Total 31/12/2020	**2,292,320**	**1,200,210**	**1,092,110**	**195,724**	**40,536,199**	**187,739**	**40,743,674**	**41,835,784**

* amount to be shown for information purposes

The word exposures is understood as excluding equity securities and mutual funds.

The gross carrying amount of financial assets measured at fair value is exposed at the value resulting from the evaluation at year end.

Partial write-offs recorded over the years in relation to the above portfolios total 136.527 million euro, reflecting the bad loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» shows the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the remaining financial assets.

	Assets obviously of poor quality		Other assets
Portfolio/quality	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	36	122	51,531
2. Hedging derivatives	–	–	–
Total 31/12/2021	**36**	**122**	**51,531**
Total 31/12/2020	**16**	**331**	**57,222**

B. Disclosure of structured entities (other than SPV companies)

The Group has no structured entities for which this information is applicable.

B.1 Consolidated structured entities

At 31 December 2021, there are no structured entities consolidated in the accounts, as defined by IFRS 12, other than the securitised companies, falling within the scope of the Banca Popolare di Sondrio Group.

B.2 Structured entities not consolidated in the accounts

B.2.1 Prudentially consolidated structured entities

At 31 December 2021, there are no prudentially consolidated structured entities falling within the scope of the Banca Popolare di Sondrio Group.

B.2.2 Other structured entities

The Banca Popolare di Sondrio Group holds interests in UCITs (mutual funds and SICAVs) for long-term investment purposes or for trading purposes, which include the units of funds held following multi-originator sales of non-performing credit exposures of the Group.

For further information, please refer to what is indicated below in the section D.3 «Consolidation for supervisory purposes - Disposals with recourse limited solely to the assets sold and not derecognised: fair value» and the information provided for the tables in Section 2: «Financial assets measured at fair value through profit or loss - item 20», in part B of these explanatory notes.

Section 2 *Risks of consolidation for supervisory purposes*

1.1 Credit risk

QUALITATIVE INFORMATION

1. General aspects

As part of its functions of strategic guidance and coordination of the subsidiaries, the Parent Company ensures that uniform credit policies are adopted at Group level and a standard approach taken to risk assessment and monitoring.

As outlined in the equivalent section of the notes to the Parent Company's separate financial statement, the lines of strategy that are followed are geared to sustaining local economies, in particular small and medium-sized businesses and households, maintaining low levels of risk and concentration. These policies are applied by the subsidiaries in ways that respect the peculiarities of their counterparties and the particular types of products being offered, as well as the characteristics of the market in question.

2. Credit risk management policies

2.1 Organisational aspects

The process of credit risk management adopted by the Parent Company and the organisational structure set up to implement it are explained in detail in the corresponding section of the notes relating to the Bank.

The organisational structure of the subsidiaries complies with that of the Parent Company, allowing for differences in size and the area in which they operate.

2.2 Management, measurement and control systems

As part of its coordination activities, the Parent Company requires the subsidiaries to apply the control methodology already discussed in detail in the corresponding section of the notes relating to the Bank.

In this regard, it is worth pointing out that the Swiss subsidiary has its own rating system which it applies to customer loans. This system is based entirely on the subjective assessment and discretion of the credit and loans department: this approach involves gathering various set indicators and information of a financial and qualitative nature, depending on the type of customer. The combined evaluation of these elements results in a score, which is used by the person making the final evaluation to assign a rating. This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed. Factorit, on the other hand, does not have its own rating system. The company does however make reference to the ratings assigned by the Parent Company to common customers and, for these, can check their risk status and trends at any time.

2.3 Methods for measuring expected losses

The methodological framework implemented by Banca Popolare di Sondrio to calculate the Expected Credit Loss (ECL) on its loan portfolio, in accordance with the requirements of IFRS 9 that came into force on 1 January 2018, is explained in the notes to the financial statements.

As part of its coordination activities, the Parent Company requires the subsidiaries to apply consistent methodology, also by using the same IT tools. At subsidiaries, the models developed to calculate writedowns applied logic that, while consistent with the methodological framework developed by the Parent Company to comply with the key aspects of the new standard (e.g. estimation of risk parameters over long-term time horizons considering different scenarios, with writedown time horizon dependent on the staging of the position), takes account of their specific characteristics, such as the geographical and economic context in which they operate, the nature and level of diversification of their core businesses, and the complexity and scale of their control structures.

In order to quantify the variability to which the final write-downs are subject, given all the scenario -dependent factors considered explicitly in the methodological framework, the Group has carried out specific sensitivity analyses in accordance with sector best practices and the most recent recommendations issued by the Supervisory Authorities (paper ESMA32 - 63 - 791 of 22 October 2019).

Given the importance that the Parent Company has to the Group numbers (the Parent Company's loss forecasts represent more than 90% of the Group's overall figures), please refer to the information already presented with reference to the separate financial statements.

As regards the other relevant subsidiaries, also in consideration of the characteristics of their credit portfolios and the reference geographical contexts, the analyses carried out do not show different results from those shown for the Parent Company.

See «Part A – Accounting policies» for information about the determination of expected losses on stage 3 exposures i.e. non-performing loans. More specifically, the expected losses on non-performing loans at 31 December 2021 are determined analytically with reference to expected recoveries, which are discounted using the original effective interest rates over the collection period. Given that the expected recoveries are determined with reference to the specific circumstances of each debtor, it is not considered meaningful to analyse the sensitivity of the ECL identified.

2.4 Credit risk mitigation techniques

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to adopt credit risk mitigation techniques able to ensure efficient management and prudent valuation of the guarantees obtained.

As part of its functions of coordination and control, the subsidiary Banca Popolare di Sondrio (SUISSE) adopts credit risk mitigation techniques substantially in line with those of the Parent Company, that are explained in detail in the corresponding Section of these notes. In particular, it is standard practice to provide loans secured by real estate or financial guarantees: this is confirmed by the fact that more than 80% of loans to customers granted by the subsidiary have a mortgage component, almost exclusively relating to residential building.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other persons or entities, a typical approach in operations of this kind. The shorter average maturity and, therefore, faster turnover of factoring loans with respect to normal banking transactions ensures a certain flexibility in the recovery of the resources invested.

3. Non-performing exposures

3.1 Strategies and operational policies

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their loans classification criteria and management methods into line with those of the Parent Company, as explained in the corresponding Section of the notes on the Bank.

3.2 Write-off

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their write-off classification and management criteria into line with those of the Parent Company, as explained in the corresponding Section of the notes on the Bank.

3.3 Financial assets impaired purchased or originated

Also in this area, the Parent Company requires that the subsidiaries comply with the principles adopted by the Parent Company, which are adequately described in the corresponding Section of the notes on the Bank.

4. Financial assets subject to commercial renegotiation and exposures subject to forbearance

Please refer to the corresponding Section of the notes on the Bank, which explain the specific management and monitoring policies for these exposures that the Parent Company has extended to the subsidiaries.

5. Impacts resulting from the COVID-19 pandemic

Please refer to the corresponding Section of these explanatory notes relating to the company.

QUANTITATIVE INFORMATION

A. Loan quality

A.1 Non-performing and performing loans: balance, impairment, developments, dynamics, business distribution

A.1.1 Consolidation for supervisory purposes Distribution of financial assets by past due bands (carrying amounts)

Portfolios/stages of risk	First stage			Second stage		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	351,909	65	–	53,250	18,394	4,649
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2021	**351,909**	**65**	**–**	**53,250**	**18,394**	**4,649**
Total 31/12/2020	**32,120**	**3,960**	**4,469**	**14,311**	**23,761**	**20,123**

A.1.2 Consolidation for supervisory purposes - Financial assets, commitments to disburse funds and financial guarantees issued: analysis of total impairment and total provisions

	Total write-downs											
	First stage activities						Second stage activities					
Reasons/stages of risk	Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual write-downs	of which: collective write-downs	Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual write-downs	of which: collective write-downs
Total opening adjustments	**1,058**	**65,529**	**1,427**	**-**	**-**	**68,014**	**34**	**117,359**	**540**	**-**	**-**	**117,933**
Increases in financial assets purchased or originated	-	14,375	-	-	-	14,375	-	6,559	-	-	-	6,559
Derecognition other than write-offs	(483)	(14,685)	-	-	-	(15,168)	-	(13,842)	(28)	-	-	(13,870)
Net adjustments/writebacks for credit risk	(412)	(6,964)	(981)	-	-	(8,357)	(25)	(46,362)	-	-	-	(46,387)
Contractual amendments without derecognition	-	50	-	-	-	50	-	14	-	-	-	14
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	1,241	512	-	-	1,753	-	232	(512)	-	-	(280)
Total closing adjustments	**163**	**59,546**	**958**	**-**	**-**	**60,667**	**9**	**63,960**	**-**	**-**	**-**	**63,969**
Recoveries on financial assets subject to write-offs	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-

Third stage			Impaired purchased or originated		
From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
66,669	30,455	357,660	3,177	197	37,985
–	–	–	–	–	–
–	–	–	–	–	–
66,669	**30,455**	**357,660**	**3,177**	**197**	**37,985**
36,424	**15,934**	**617,375**	**1,074**	**555**	**54,714**

Third stage activities						Financial assets impaired acquired or originated					Total provisions for commitments to grant loans and financial guarantees given				
Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual write-downs	of which: collective write-downs	First stage	Second stage	Third stage	Commitments to grant funds and fin. guarantees given impaired acquired or originated	**Total 31/12/2021**
-	**1,086,057**	**-**	**-**	**1,086,057**	**-**	**102,653**	**-**	**-**	**99,742**	**2,911**	**20,415**	**9,428**	**9,883**	**-**	**1,414,383**
-	28,361	-	-	28,361	-	-	-	-	-	-	-	-	-	29	49,324
-	(321,710)	-	-	(321,710)	-	(5,834)	-	-	(5,722)	(112)	(1)	-	-	-	(356,583)
-	142,996	-	-	142,996	-	15,341	-	-	17,858	(2,517)	(8,076)	(4,830)	160	(1)	90,846
-	(1,685)	-	-	(1,685)	-	4	-	-	4	-	146	18	-	-	(1,453)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	(21,933)	-	-	(21,933)	-	(3,383)	-	-	(3,383)	-	-	-	-	-	(25,316)
-	8,435	-	-	8,435	-	(95)	-	-	(95)	-	15	-	-	-	9,828
-	**920,521**	**-**	**-**	**920,521**	**-**	**108,686**	**-**	**-**	**108,404**	**282**	**12,499**	**4,616**	**10,043**	**28**	**1,181,029**
-	13,797	-	-	13,797	-	-	-	-	-	-	-	-	-	-	13,797
-	(44,229)	-	-	(44,229)	-	(1,873)	-	-	(1,873)	-	-	-	-	-	(46,102)

A.1.3 Consolidation for supervisory purposes - Financial assets, commitments to grant funds and financial guarantees given: transfers between the various stages of credit risk (gross and nominal values)

	Gross exposure/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolios/stages of risk	First stage to second stage	Second stage to first stage	Second stage to third stage	Third stage to second stage	First stage to third stage	Third stage to first stage
1. Financial assets measured at amortised cost	871,291	1,752,867	148,650	37,891	98,541	11,289
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Financial assets being sold	–	–	–	–	–	–
4. Commitments to grant loans and financial guarantees given	59,956	220,322	1,954	1,587	13,674	1,432
Total 31/12/2021	**931,247**	**1,973,189**	**150,604**	**39,478**	**112,215**	**12,721**
Total 31/12/2020	**3,152,936**	**1,128,179**	**113,357**	**58,099**	**252,350**	**24,584**

A.1.3a Loans subject to Covid-19 support measures: transfers between the various stages of credit risk (gross values)

	Gross amounts/nominal amounts					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolio/quality	First stage to second stage	Second stage to first stage	Second stage to third stage	Third stage to second stage	First stage to third stage	Third stage to first stage
A. **Loans measured at amortised cost**	**119,396**	**93,093**	**10,393**	**189**	**15,077**	**1,218**
A.1 subject to forbearance compliant with GLs	731	–	–	–	–	–
A.2 subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–	–
A.3 subject to other forbearance measures	30,927	–	3,752	131	1,006	–
A.4 new loans	87,738	93,093	6,641	58	14,071	1,218
B. **Loans measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 subject to forbearance compliant with GLs	–	–	–	–	–	–
B.2 subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–	–
B.3 subject to other forbearance measures	–	–	–	–	–	–
B.4 new loans	–	–	–	–	–	–
Total 31/12/2021	**119,396**	**93,093**	**10,393**	**189**	**15,077**	**1,218**
Total 31/12/2020	**855,175**	**226,566**	**21,503**	**11,205**	**17,238**	**29**

A.1.4 Prudential consolidation - On- and off-balance-sheet exposures to banks: gross and net values

		Gross exposure			
Type of exposure/amounts		First stage	Second stage	Third stage	Impaired purchased or originated
A. **ON-BALANCE SHEET CREDIT EXPOSURES**					
A.1 **ON DEMAND**	**5,515,579**	**5,515,115**	**464**	**–**	**–**
a) Non-performing	–	–	–	–	–
b) Performing	5,515,579	5,515,115	464	–	–
A.2 **OTHER**	**3,622,308**	**3,581,834**	**40,474**	**–**	**–**
a) Bad loans	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
c) Non-performing past due exposures	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	1,350	1,005	345	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	3,620,958	3,580,829	40,129	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**9,137,887**	**9,096,949**	**40,937**	**–**	**–**
B. **OFF-BALANCE SHEET CREDIT EXPOSURES**					
a) Non-performing	–	–	–	–	–
b) Performing	688,474	688,204	270	–	–
Total (B)	**688,474**	**688,204**	**270**	**–**	**–**
Total (A+B)	**9,826,361**	**9,785,153**	**41,208**	**–**	**–**

* amount to be shown for information purposes

Cash exposures include loans and receivables with banks shown in item 40a and item 10 as well as other financial assets represented by bank securities included in items 20 c), 30 and 40 of the assets side of the balance sheet, excluding equities. The off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to equity securities).

A.1.5 Prudential consolidation - On- and off-balance-sheet exposures to customers: gross and net values

		Gross exposure			
Type of exposure/amounts		First stage	Second stage	Third stage	Impaired purchased or originated
A. **ON-BALANCE SHEET CREDIT EXPOSURES**					
a) Bad loans	736,657	–	–	690,851	45,806
- of which: forborne exposures	194,408	–	–	169,698	24,710
b) Unlikely-to-pay loans	1,074,758	–	–	928,426	146,332
- of which: forborne exposures	636,818	–	–	556,453	80,365
c) Non-performing past due exposures	64,555	–	–	64,491	64
- of which: forborne exposures	22,491	–	–	22,435	56
d) Performing past due exposures	444,495	358,538	84,217	–	1,740
- of which: forborne exposures	17,215	–	17,123	–	92
e) Other performing exposures	41,441,397	39,283,125	2,111,791	–	46,481
- of which: forborne exposures	680,065	5,600	657,184	–	17,281
Total (A)	**43,761,862**	**39,641,663**	**2,196,008**	**1,683,768**	**240,423**
B. **OFF-BALANCE SHEET CREDIT EXPOSURES**					
a) Non-performing	215,166	–	–	210,590	4,576
b) Performing	20,137,114	19,257,836	875,596	–	3,682
Total (B)	**20,352,280**	**19,257,836**	**875,596**	**210,590**	**8,258**
Total (A+B)	**64,114,142**	**58,899,499**	**3,071,604**	**1,894,358**	**248,681**

* amount to be shown for information purposes

Total adjustments and provisions						
	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Total partial write-offs*
172	**163**	**9**	**–**	**–**	**5,515,407**	**–**
–	–	–	–	–	–	–
172	163	9	–	–	5,515,407	–
5,510	**1,043**	**4,467**	**–**	**–**	**3,616,798**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
2	–	2	–	–	1,348	–
–	–	–	–	–	–	–
5,508	1,043	4,465	–	–	3,615,450	–
–	–	–	–	–	–	–
5,682	**1,206**	**4,476**	**–**	**–**	**9,132,205**	**–**
–	–	–	–	–	–	–
192	189	3	–	–	688,282	–
192	**189**	**3**	**–**	**–**	**688,282**	**–**
5,874	**1,395**	**4,479**	**–**	**–**	**9,820,487**	**–**

Total adjustments and provisions						
	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Total partial write-offs*
544,367	–	–	512,971	31,396	192,290	116,565
140,560	–	–	123,352	17,208	53,848	9,746
485,595	–	–	410,761	74,834	589,163	20,026
280,446	–	–	246,639	33,807	356,372	–
9,200	–	–	9,198	2	55,355	–
3,557	–	–	3,556	1	18,934	–
4,987	1,966	2,969	–	52	439,508	–
908	–	901	–	7	16,307	–
116,417	57,497	56,518	–	2,402	41,324,980	2
26,507	24	25,931	–	552	653,558	–
1,160,566	**59,463**	**59,487**	**932,930**	**108,686**	**42,601,296**	**136,593**
24,900	–	–	24,901	–	190,266	–
18,135	13,045	5,060	–	29	20,118,979	–
43,035	**13,045**	**5,060**	**24,901**	**29**	**20,309,245**	**–**
1,203,601	**72,508**	**64,547**	**957,831**	**108,715**	**62,910,541**	**136,593**

Cash exposures include the customer loans shown in item 40b as well as other financial assets represented by non-bank securities included in items 20c, 30 and 40 of the assets side of the balance sheet, excluding equity securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to equity securities and mutual funds).

A.1.5a On-balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net values

	Gross exposure				
Type of exposure/amounts		First stage	Second stage	Third stage	Impaired purchased or originated
A. **NON-PERFORMING LOANS**	**–**	**–**	**–**	**–**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–
c) Subject to other forbearance measures	–	–	–	–	–
d) New loans	–	–	–	–	–
B. **UNLIKELY-TO-PAY LOANS**	**47,415**	**–**	**–**	**41,540**	**5,875**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	68	–	–	68	–
c) Subject to other forbearance measures	16,711	–	–	15,712	999
d) New loans	30,636	–	–	25,760	4,876
C. **NON-PERFORMING PAST DUE LOANS**	**2,341**	**–**	**–**	**2,285**	**56**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–
c) Subject to other forbearance measures	115	–	–	115	–
d) New loans	2,226	–	–	2,170	56
D. **PERFORMING PAST DUE LOANS**	**1,833**	**–**	**1,833**	**–**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	–	–	–	–	–
c) Subject to other forbearance measures	–	–	–	–	–
d) New loans	1,833	–	1,833	–	–
E. **OTHER PERFORMING LOANS**	**2,639,565**	**2,434,657**	**204,277**	**–**	**630**
a) Subject to forbearance compliant with GLs	731	–	731	–	–
b) Subject to moratorium measures no longer in compliance with GL and not evaluated as granted	11,147	1,312	9,835	–	–
c) Subject to other forbearance measures	51,767	94	51,672	–	–
d) New loans	2,575,920	2,433,251	142,039	–	630
Total (A+B+C+D+E)	**2,691,154**	**2,434,657**	**206,110**	**43,825**	**6,562**

* amount to be shown for information purposes

Total adjustments and provisions						
	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Total partial write-offs*
–	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
13,934	**–**	**–**	**12,303**	**1,631**	**33,481**	**–**
–	–	–	–	–	–	–
29	–	–	29	–	39	–
4,849	–	–	4,567	282	11,862	–
9,056	–	–	7,707	1,349	21,580	–
74	**–**	**–**	**73**	**1**	**2,267**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
11	–	–	11	–	104	–
63	–	–	62	1	2,163	–
19	**–**	**19**	**–**	**–**	**1,814**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
19	–	19	–	–	1,814	–
4,808	**561**	**4,242**	**–**	**5**	**2,634,757**	**–**
12	–	12	–	–	719	–
245	3	242	–	–	10,902	–
2,764	–	2,764	–	–	49,003	–
1,787	558	1,224	–	5	2,574,133	–
18,835	**561**	**4,261**	**12,376**	**1,637**	**2,672,319**	**–**

A.1.7 Consolidation for supervisory purposes - On-balance sheet credit exposures to customers: analysis of gross impaired exposures

Reasons/Categories	Non-performing loans	Unlikely-to-pay loans	Non-performing past due exposures
A. **Opening gross exposure**	**1,078,268**	**1,154,067**	**59,985**
- of which: exposures sold not derecognised	–	6,623	79
B. **Increases**	**191,067**	**331,183**	**49,015**
B.1 transfers from performing loans	14,768	215,625	44,409
B.2 transfers from financial assets impaired purchased or originated	2,973	11,140	56
B.3 transfers from other categories of impaired exposures	96,622	21,086	1,310
B.4 contractual amendments without derecognition	1	1,347	1
B.5 other increases	76,703	81,985	3,239
C. **Decreases**	**532,678**	**410,491**	**44,445**
C.1 transfers to performing loans	–	54,591	11,567
C.2 write-offs	49,488	22,087	–
C.3 collections	99,113	208,231	8,000
C.4 proceeds from disposals	85,009	17,529	–
C.5 losses on disposal	63,345	2,831	–
C.6 transfers to other categories of non-performing exposures	9,110	97,373	12,536
C.7 contractual amendments not resulting in derecognition	–	241	–
C.8 other decreases	226,613	7,608	12,342
D. **Closing gross exposure**	**736,657**	**1,074,759**	**64,555**
- of which: exposures sold not derecognised	–	11,476	3,063

A.1.7bis Consolidation for supervisory purposes - On-balance sheet credit exposures to customers: changes in gross exposures granted by credit quality

Reasons/Quality	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. **Opening gross exposure**	**926,468**	**710,023**
- of which: exposures sold not derecognised	3,073	29,937
B. **Increases**	**247,345**	**373,265**
B.1 transfers from performing loans not subject to forbearance	27,915	247,359
B.2 transfers from performing loans subject to forbearance	77,513	–
B.3 transfers from exposures subject to forbearance and non-performing	–	47,507
B.4 transfers from non-performing exposures not subject to forbearance	71,521	191
B.5 other increases	70,396	78,208
C. **Decreases**	**320,096**	**386,007**
C.1 transfers to performing loans not subject to forbearance	–	143,268
C.2 transfers to performing loans subject to forbearance	47,507	–
C.3 transfers to loans subject to forbearance and non-performing	–	77,513
C.4 write-offs	31,490	–
C.5 collections	134,233	163,914
C.6 proceeds from disposals	36,873	–
C.7 losses on disposal	9,403	–
C.8 other decreases	60,590	1,312
D. **Closing gross exposure**	**853,717**	**697,281**
- of which: exposures sold not derecognised	6,712	34,862

A.1.9 Consolidation for supervisory purposes - Impaired on-balance sheet credit exposures to customers: analysis of total impairment

Reasons/Categories	Non-performing loans		Unlikely-to-pay loans		Non-performing past due exposures	
	Total	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance
A. **Total opening adjustments**	**732,457**	**162,260**	**459,410**	**253,509**	**8,344**	**2,468**
– of which: exposures sold not derecognised	–	–	2,201	950	7	–
B. **Increases**	**221,161**	**50,240**	**208,841**	**127,917**	**6,614**	**2,488**
B.1 adjustments to financial assets impaired purchased or originated	2,059	–	3,657	–	1	–
B.2 other adjustments	113,446	23,194	190,023	100,587	4,891	1,866
B.3 losses on disposal	63,345	8,656	2,831	746	–	–
B.4 transfers from other categories of impaired exposures	40,692	18,390	2,750	362	199	55
B.5 contractual amendments without derecognition	–	–	452	–	–	–
B.6 other increases	1,619	–	9,128	26,222	1,523	567
C. **Decreases**	**409,251**	**71,940**	**182,656**	**100,980**	**5,758**	**1,399**
C.1 writebacks on valuation	9,001	2,729	52,594	28,544	339	20
C.2 writebacks due to collections	27,609	11,106	46,994	23,110	896	84
C.3 gains on disposal	20,694	4,781	5,736	3,607	–	–
C.4 write-offs	49,488	12,396	22,087	19,094	–	–
C.5 transfers to other categories of impaired exposure	14	–	40,052	18,330	3,574	477
C.6 contractual amendments without derecognition	–	–	54	–	–	–
C.7 other decreases	302,445	40,928	15,139	8,295	949	818
D. **Total closing adjustments**	**544,367**	**140,560**	**485,595**	**280,446**	**9,200**	**3,557**
– of which: exposures sold not derecognised	–	–	3,906	2,312	305	23

A.2 Classification of exposures based on external and internal ratings

A.2.1 Consolidation for supervisory purposes - Distribution of financial assets, commitments to grant funds and financial guarantees given by external rating classes (gross amounts)

	External rating classes							
Exposures	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	**Total**
A. **Financial assets measured at amortised cost**	**6,936,000**	**1,562,772**	**1,738,126**	**464,760**	**26,319**	**–**	**33,142,402**	**43,870,379**
– First stage	6,936,000	1,562,772	1,738,126	414,273	7,071	–	29,169,073	39,827,315
– Second stage	–	–	–	50,487	19,248	–	2,080,668	2,150,403
– Third stage	–	–	–	–	–	–	1,652,240	1,652,240
– Impaired purchased or originated	–	–	–	–	–	–	240,421	240,421
B. **Financial assets measured at fair value through other comprehensive income**	**2,189,730**	**407,647**	**311,318**	**75,575**	**8,014**	**–**	**10,121**	**3,002,405**
– First stage	2,189,730	407,647	311,318	75,575	8,014	–	10,121	3,002,405
– Second stage	–	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–	–
– Impaired purchased or originated	–	–	–	–	–	–	–	–
C. **Financial assets being sold**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–	–
– Impaired purchased or originated	–	–	–	–	–	–	–	–
Total (A+B+C)	**9,125,730**	**1,970,419**	**2,049,444**	**540,335**	**34,333**	**–**	**33,152,523**	**46,872,784**
D. **Commitments to grant loans and financial guarantees given**	**49,283**	**43,237**	**205,242**	**90,687**	**2,823**	**886**	**13,499,281**	**13,891,439**
– First stage	49,283	43,237	205,242	90,687	2,410	–	12,977,296	13,368,155
– Second stage	–	–	–	–	413	886	384,594	385,893
– Third stage	–	–	–	–	–	–	129,133	129,133
– Impaired purchased or originated	–	–	–	–	–	–	8,258	8,258
Total (D)	**49,283**	**43,237**	**205,242**	**90,687**	**2,823**	**886**	**13,499,281**	**13,891,439**
Total (A+B+C+D)	**9,175,013**	**2,013,656**	**2,254,686**	**631,022**	**37,156**	**886**	**46,651,804**	**60,764,223**

The distribution of exposures other than those in equity securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the banking group's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	from AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard &Poor's Rating Services	from AAA to AA–	from A+ to A–	from BBB+ to BBB–	from BB+ to BB	from B+ to B–	from CCC+ down–
FitchRatings	from AAA to AA–	from A+ to A–	from BBB+ to BBB–	from BB+ to BB–	from B+ to B–	from CCC+ down–

A.2.2 Distribution of cash loans and off-balance sheet items by internal rating class

Tables analysing the distribution of the cash and «off-balance sheet» exposures of Banca Popolare di Sondrio by internal rating class are presented in the corresponding section of the notes to the financial statements of the Parent Company.

Banca Popolare di Sondrio (Suisse) SA has its own customer rating system, which it only applies to customer loans. This system splits the loan book into 11 different risk categories. The first category identifies customers with the lowest risk, while the categories from R6 to R8 indicate various levels of insolvency, depending on how serious it is.

Customers - Exposures	Rating 1	Rating 2	Rating 3	Rating 3G	Rating 4
A. **Financial assets measured at amortised cost**	**–**	**762**	**794,970**	**696,590**	**2,307,301**
– First stage	–	762	794,970	696,590	2,305,610
– Second stage	–	–	–	–	1,691
– Third stage	–	–	–	–	–
B. **Financial assets measured at fair value through consolidated income**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–
– Second stage	–	–	–	–	–
– Third stage	–	–	–	–	–
Total (A+B)	**–**	**762**	**794,970**	**696,590**	**2,307,301**
Of which: financial assets impaired acquired or originated	–	–	–	–	–
C. **Commitments to grant loans and financial guarantees given**	**–**	**–**	**261**	**6**	**201,789**
– First stage	–	–	261	6	201,789
– Second stage	–	–	–	–	–
– Third stage	–	–	–	–	–
Total (C)	**–**	**–**	**261**	**6**	**201,789**
Total (A+B+C)	**–**	**762**	**795,231**	**696,596**	**2,509,090**

The Parent Company uses internal ratings to calculate the capital requirements in relation to it corporate and retail portfolios, for which the related IRB models have been validated.

A.3 Distribution of secured exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in the «guarantees» columns refer to the actual value of the guarantee («fair value»), with an upper limit represented by the book value of the guaranteed exposure: this means that the actual value of the guarantee may be higher than that shown in the table.

Internal rating classes							Total
Rating 4G	Rating 5	Rating 6	Rating 6G	Rating 7	Rating 8	Unrated	**31/12/2021**
964,416	**112,218**	**33,124**	**8,945**	**22,013**	**14,830**	**97,605**	**5,052,774**
964,416	–	–	–	–	–	97,605	4,859,953
–	112,218	–	–	–	–	–	113,909
–	–	33,124	8,945	22,013	14,830	–	78,912
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
964,416	**112,218**	**33,124**	**8,945**	**22,013**	**14,830**	**97,605**	**5,052,774**
–	–	–	–	–	–	–	–
2,045	**150**	**–**	**–**	**–**	**–**	**196,278**	**400,529**
2,045	–	–	–	–	–	196,278	400,379
–	150	–	–	–	–	–	150
–	–	–	–	–	–	–	–
2,045	**150**	**–**	**–**	**–**	**–**	**196,278**	**400,529**
966,461	**112,368**	**33,124**	**8,945**	**22,013**	**14,830**	**293,883**	**5,453,154**

A.3.1 Consolidation for supervisory purposes – Guaranteed on- and off-balance sheet exposures to banks

	Gross exposure	Net exposure	Secured guarantees (1) Buildings mortgaged	Buildings Leases	Securities	Other Collateral
1. **Guaranteed cash exposures**:	**39,785**	**39,758**	**–**	**–**	**–**	**–**
1.1. fully guaranteed	35,690	35,666	–	–	–	–
– of which: non-performing	–	–	–	–	–	–
1.2. partially guaranteed	4,095	4,092	–	–	–	–
– of which: non-performing	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures**:	**19,263**	**19,263**	**–**	**–**	**5,524**	**4,275**
2.1. fully guaranteed	8,905	8,905	–	–	4,447	3,782
– of which: non-performing	–	–	–	–	–	–
2.2. partially guaranteed	10,358	10,358	–	–	1,077	493
– of which: non-performing	–	–	–	–	–	–

A.3.2 Consolidation for supervisory purposes - Guaranteed on- and off-balance sheet exposures to customers

	Gross exposure	Net exposure	Secured guarantees (1) Buildings mortgaged	Buildings Leases	Securities	Other Collateral
1. **Guaranteed cash exposures**:	**22,758,413**	**21,860,785**	**13,182,381**	**–**	**792,121**	**2,112,146**
1.1. fully guaranteed	19,922,222	19,105,592	13,181,112	–	724,865	2,014,168
– of which: non-performing	1,469,710	733,772	617,291	–	7,800	8,177
1.2. partially guaranteed	2,836,191	2,755,193	1,269	–	67,256	97,978
– of which: non-performing	104,007	30,299	337	–	1,119	245
2. **Guaranteed off-balance sheet exposures**:	**4,079,878**	**4,062,899**	**604,926**	**–**	**153,727**	**145,668**
2.1. fully guaranteed	3,319,731	3,305,730	604,735	–	124,747	120,161
– of which: non-performing	75,311	65,100	8,651	–	559	1,460
2.2. partially guaranteed	760,147	757,169	191	–	28,980	25,507
– of which: non-performing	11,098	9,215	149	–	68	710

Personal guarantees (2)									
Derivatives on loans									
Other derivatives					Endorsement loans				
CLN	Central counterparties	Banks	Other financial corporations	Other parties	General governments	Banks	Other financial corporations	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**2,045**	**37,334**	**33**	**–**	**39,412**
–	–	–	–	–	1,809	33,825	33	–	35,667
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	236	3,509	–	–	3,745
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**1,066**	**6,161**	**–**	**–**	**17,026**
–	–	–	–	–	100	577	–	–	8,906
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	966	5,584	–	–	8,120
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Derivatives on loans									
Other derivatives					Endorsement loans				
CLN	Central counterparties	Banks	Other financial corporations	Other parties	General governments	Banks	Other financial corporations	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**2,706,187**	**473,740**	**307,258**	**1,757,570**	**21,331,403**
–	–	–	–	–	924,587	427,392	246,355	1,572,163	19,090,642
–	–	–	–	–	18,417	642	14,116	63,613	730,056
–	–	–	–	–	1,781,600	46,348	60,903	185,407	2,240,761
–	–	–	–	–	10,844	–	3,845	11,301	27,691
–	**–**	**–**	**–**	**–**	**40,224**	**266,132**	**151,956**	**2,371,127**	**3,733,760**
–	–	–	–	–	3,298	259,546	125,144	2,017,342	3,254,973
–	–	–	–	–	145	–	872	51,224	62,911
–	–	–	–	–	36,926	6,586	26,812	353,785	478,787
–	–	–	–	–	320	–	41	6,905	8,193

A.4 Consolidation for supervisory purposes - Financial and non-financial assets obtained by enforcing guarantees received

	Credit exposure cancelled	Gross value	Total write-downs	Carrying amount	of which obtained during the year
A. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**
A.1. For business purposes	–	–	–	–	–
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	–	–	–	–
B. **Equity securities and fixed-yield securities**	**–**	**–**	**–**	**–**	**–**
C. **Other assets**	**81,552**	**41,621**	**3,396**	**38,225**	**35,396**
D. **Non-current assets and disposal groups held for sale**	**–**	**–**	**–**	**–**	**–**
D.1. Property, equipment and investment property	–	–	–	–	–
D.2. Other assets	–	–	–	–	–
Total 31/12/2021	**81,552**	**41,621**	**3,396**	**38,225**	**35,396**
Total 31/12/2020	**169,723**	**70,004**	**2,789**	**67,215**	**63,388**

B. Distribution and concentration of loans

Preparation of this section has excluded in the exposures reported in tables A.1.4. and A.1.5., exposures to counterparty risk relating to loans of securities or goods, granted or received.

B.1 Consolidation for supervisory purposes - Distribution by sector of the on- and off-balance sheet exposures to customers

	General governments		Financial companies	
Exposures/Counterparties	Net exposure	Total write-downs	Net exposure	Total write-downs
A. **On-balance sheet credit exposures**				
A.1 Non-performing	–	397	242	5,144
– of which exposures subject to forbearance	–	–	–	296
A.2 Unlikely-to-pay loans	16	11	5,305	13,672
– of which exposures subject to forbearance	–	–	3,963	10,582
A.3 Non-performing past due exposure	2	–	6,151	515
– of which exposures subject to forbearance	–	–	–	–
A.4 Performing exposures	11,140,927	3,953	3,775,483	19,381
– of which exposures subject to forbearance	19,648	259	619	27
Total (A)	**11,140,945**	**4,361**	**3,787,181**	**38,712**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	3	–	15,017	402
B.2 Performing exposures	772,369	320	1,305,263	3,179
Total (B)	**772,372**	**320**	**1,320,280**	**3,581**
Total (A+B) 31/12/2021	**11,913,317**	**4,681**	**5,107,461**	**42,293**
Total (A+B) 31/12/2020	**9,489,135**	**5,665**	**4,477,088**	**49,231**

Financial companies (of which: insurance companies)		Non-financial companies		Households	
Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
–	–	147,364	396,833	44,684	141,993
–	–	40,922	94,244	12,926	46,020
–	–	433,609	384,460	150,233	87,452
–	–	258,375	218,180	94,034	51,684
–	–	15,754	3,789	33,448	4,896
–	–	7,992	2,315	10,943	1,241
10,539	7	16,210,915	60,413	10,637,162	37,657
–	–	428,500	17,511	221,098	9,618
10,539	**7**	**16,807,642**	**845,495**	**10,865,527**	**271,998**
–	–	167,258	23,483	7,988	1,015
15,607	–	16,224,167	11,032	1,817,529	3,604
15,607	**–**	**16,391,425**	**34,515**	**1,825,517**	**4,619**
26,146	**7**	**33,199,067**	**880,010**	**12,691,044**	**276,617**
20,215	**259**	**32,041,885**	**1,008,995**	**11,408,516**	**374,405**

B.2 Consolidation for supervisory purposes - Territorial distribution of on- and off-balance sheet exposures to customers

Exposures/Geographical areas	ITALY Net exposure	ITALY Total write-downs	OTHER EU COUNTRIES Net exposure	OTHER EU COUNTRIES Total write-downs
A. **On-balance sheet credit exposures**				
A.1 Non-performing	188,874	521,082	3,415	23,281
A.2 Unlikely-to-pay loans	570,314	478,508	18,517	6,918
A.3 Non-performing past due exposure	18,964	2,694	36,385	6,505
A.4 Performing exposures	33,778,837	110,257	7,703,337	10,025
Total (A)	**34,556,989**	**1,112,541**	**7,761,654**	**46,729**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	190,241	24,900	25	–
B.2 Performing exposures	18,911,515	17,680	1,157,565	447
Total (B)	**19,101,756**	**42,580**	**1,157,590**	**447**
Total (A+B) 31/12/2021	**53,658,745**	**1,155,121**	**8,919,244**	**47,176**
Total (A+B) 31/12/2020	**49,510,201**	**1,385,696**	**7,688,204**	**52,032**

B.3 Consolidation for supervisory purposes - Territorial distribution of on- and off-balance sheet exposures to banks

Exposures/Geographical areas	ITALY Net exposure	ITALY Total write-downs	OTHER EU COUNTRIES Net exposure	OTHER EU COUNTRIES Total write-downs
A. **On-balance sheet credit exposures**				
A.1 Non-performing	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Non-performing past due exposure	–	–	–	–
A.4 Performing exposures	8,772,407	5,510	281,464	125
Total (A)	**8,772,407**	**5,510**	**281,464**	**125**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	–	–	–	–
B.2 Performing exposures	165,593	180	461,512	9
Total (B)	**165,593**	**180**	**461,512**	**9**
Total (A+B) 31/12/2021	**8,938,000**	**5,690**	**742,976**	**134**
Total (A+B) 31/12/2020	**8,550,409**	**9,003**	**690,448**	**247**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
–	4	–	–	1	–
45	30	287	139	–	–
4	1	1	–	1	–
203,188	117	64,093	994	15,032	11
203,237	**152**	**64,381**	**1,133**	**15,034**	**11**
–	–	–	–	–	–
27,336	4	3,493	3	19,419	1
27,336	**4**	**3,493**	**3**	**19,419**	**1**
230,573	**156**	**67,874**	**1,136**	**34,453**	**12**
131,630	**146**	**38,431**	**367**	**69,021**	**55**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
9,773	9	39,876	40	28,681	7
9,773	**9**	**39,876**	**40**	**28,681**	**7**
–	–	–	–	–	–
13,441	–	33,735	3	10,113	–
13,441	**–**	**33,735**	**3**	**10,113**	**–**
23,214	**9**	**73,611**	**43**	**38,794**	**7**
18,044	**10**	**32,831**	**8**	**34,408**	**12**

B.4 Large exposure

	31/12/2021	31/12/2020
Number of positions	20	17
Exposure	28,361,162	22,821,057
Risk position	6,890,064	6,199,279

The exposure limit of 10% of Tier 1 capital – the threshold for inclusion of a counterparty in the category of «Large exposure» – has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained. It should be noted that the positions shown above include the Italian Republic (nominal exposure, 12,051 million; risk position, 5.9 million), purely on the basis of sovereign securities held in proprietary portfolios, and the Bank of Italy (nominal exposure, 6,722 million; risk position, 6.8 million), mainly for term deposits and the compulsory reserve.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

C. Securitisations

QUALITATIVE INFORMATION

During FY2021, the Group continued to finalise securitisation transactions through the bulk sale of non-performing loans in line with the corporate objectives of derisking and improving asset quality. As explained in the report on operations, in the last quarter of 2021, the Group completed a securitisation transaction through the sale of non-performing loans called Luzzatti II.

Note that the carrying amount of the securitisations originated by third party companies, shown in the following table C.2, at 31 December 2021 amounts to 428 million euro.

New transactions during the year

Luzzatti II securitisation

In December 2021, the Group carried out the third securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 11 banks, for a total value of 789.2 million in terms of gross book value, of which 420.9 million attributable to Banca Popolare di Sondrio (made up 57% of secured loans).

The payment of the purchase price by the Vehicle Company, specifically established pursuant to Law 130 of 30 April 1999, called «POP NPLs 2021 Srl» (SPV) was financed by issuing asset-backed securities for a total nominal value of 226 million, split as follows:

- a Senior tranche (Class A) of 191 million, with investment grade ratings (BBB assigned by DBRS Morningstar and Arc Ratings) consistent with the requirements of the regulations for the issue of the government guarantee (GACS) by the Economic and Finance Ministry, pursuant to Decree Law 18/2016, for which the formal procedure has been started. These securities provide a yield equal to the 6-month Euribor plus an annual spread of 0.25%;
- a Mezzanine tranche (Class B) for 25 million, unrated, with a yield equal to the sum of an annual spread of 12% and the 6-month Euribor;
- a Junior tranche (Class J) for 10 million, unrated, with a yield equal to the 6-month Euribor plus an annual spread of 15% and any variable yield based on the performance of the securitisation.

On 23 December 2021, the issue date of the securities, the originating banks subscribed 100% of the Senior notes and in application of the retention rule provided for by Article 405 of the CRR, each of the originating banks maintained a stake of not less than 5% of the Mezzanine and Junior tranches. The rest of the Mezzanine and Junior securities were subscribed by third-party investors. On 23 December, an application was also submitted to the MEF to obtain the GaCS (state guarantee provided for by Law Decree 18 of 14/2/2016, as amended by conversion law 49 of 8/4/2016) on the Senior securities.

The SPV has entered into an Interest Rate Cap (IRC) type derivative contract in order to protect itself from interest rate risk. The originating banks are not a counterparty – neither «direct» nor «indirect» (through an investee) – of derivative instruments designed to attribute part of the risks assumed by the vehicle to the Originating Bank.

Consistently with the provisions of IFRS 9, due to the regulation of the sale of 95% of the said notes (Mezzanine and Junior), in compliance with the retention rule, pursuant to the provisions of Article 6, paragraph 4, of the Securitisation Regulation, the conditions for derecognition of the bad loans sold were met, as the related rights and benefits were substantially transferred.

The following table shows the securitisation positions held by Banca Popolare di Sondrio at the reporting date.

Seniority	Maturity	Nominal Amount	Rating DBRS Morningstar	Arc Ratings
Senior	October 2045	97,715,000	BBB	BBB
Mezzanine	October 2045	665,614	N/A	N/A
Junior	October 2045	266,246	N/A	N/A
TOTAL		**98,646,860**		

All of the Senior securities are classified as «Financial assets measured at amortised cost» for an amount net of expected losses on the basis of the IFRS 9 impairment model of 97.715 million euro; conversely, the portions owned of the mezzanine (fair value 79,607 euro) and junior (fair value 266 euro) securities have been classified as «Financial assets mandatorily measured at fair value through profit or loss».

The loss on disposal, equal to 2.7 million euro, is included in «Gains (losses) from the sale or repurchase of financial assets measured at amortised cost». In addition, other charges of 1.5 million euro connected with the sale are also added.

The credit management and recovery activity was entrusted by the Vehicle Company to Zenith Service S.p.A. and doValue S.p.A., servicers appointed in accordance with article 2, paragraphs 3 and 6-bis of Law 130/1999.

For the sake of completeness of information, it should be noted that as part of the transaction, the selling banks granted the vehicle POP NPLs 2021 S.r.l. a «Limited Recourse Loan» of 8.040 million euro, intended, on the date of issue of the securities, as a cash reserve available to the SPV to cover any misalignments between the recovery plan of the Portfolio Sold and the payments to be made to the security holders. The «Limited Recourse Loan» made by Banca Popolare di Sondrio is equal to 4.113 million and is recorded under «Financial assets measured at amortised cost»; it will be repaid based on the available liquidity of the SPV in the order of priority of payments and, in any case, prior to the repayment of the principal of the Senior securities, so it does not represent any form of credit support for the securitisation.

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	13/12/2021
Vehicle Company	POP NPLs 2021 S.r.l.
Servicers	Zenith Service S.p.A. and doValue S.p.A.
Securities issue date	23/12/2021
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	4.113 million
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Non-performing loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 374 million euro.
Sale price of the securitised assets	The sale price is 99.250 million euro
Organisational structure	Zenith Service S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

Securitisation transactions already in place

Securitisation transactions completed in 2020 included:

- subscription of the Senior securities issued by the vehicle company and sale of the Mezzanine and Junior tranches to third parties, in compliance with the requirements of prudential regulations. As a result of this holding, the receivables sold have been derecognised, as the Group has substantially transferred the rights and benefits of the financial assets sold;
- obtaining the State guarantee on the Senior securities (so-called Guarantee for Securitisation of Non-performing loans - GACS pursuant to Decree 18 of 14 February 2016 converted into Law no. 49 of 8 April 2016 and subsequent MEF decree of 3 August 2016).

A summary of the transactions completed in the previous year is provided below; for further information, please refer to the financial statements as at 31 December 2020.

Diana securitisation

Portfolio sale date	01/06/2020
Vehicle Company	Diana S.P.V. S.r.l.
Servicers	Prelios Credit Servicing S.p.A.
Securities issue date	17/06/2020
Type of transaction	Traditional with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers

Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	10.925 million original, 7.966 million residual as at 31/12/2021
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Non-performing loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 872 million euro.
Sale price of the securitised assets	The sale price is 274 million euro.
Organisational structure	Prelios Credit Servicing S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The vehicle company has issued the following securities:

Seniority	Maturity	Issue amount	Rating DBRS Morningstar	Rating Moody's	Rating Scope Ratings
Senior	December 2038	235,000,000	BBB	Baa2	BBB
Mezzanine	December 2038	35,000,000	N/A	N/A	N/A
Junior	December 2038	3,651,000	N/A	N/A	N/A
TOTAL		**273,651,000**			

All Senior securities are classified in the portfolio of «Financial assets valued at amortised cost», based on the reimbursements received in 2020 and 2021 million, and the expected losses recognised on the basis of the IFRS 9 impairment model, the net carrying amount at the end of the year, amounts to 134.392 million. The units of mezzanine (fair value 667,368 euro) and Junior (fair value 527 euro) securities owned by the Company have instead been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

Luzzatti securitisation

In December 2020, Banca Popolare di Sondrio carried out the second securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 15 banks, for a total value of 919.9 million in terms of gross book value, of which 371.8 million attributable to Banca Popolare di Sondrio.

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	03/12/2020
Vehicle Company	POP NPLs 2020 S.r.l.
Servicers	Credito Fondiario S.p.A. and Fire S.p.A.
Securities issue date	23/12/2020
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	The portfolio being sold is made up principally of corporate debtors.
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.

Subordinated loan (Cash reserve)	4.505 million original, 3.808 million residual as at 31/12/2021
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Non-performing loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 345 million euro.
Sale price of the securitised assets	The sale price is 112 million euro
Organisational structure	Credito Fondiario S.p.a. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The following table shows the securitisation positions held by Banca Popolare di Sondrio:

Seniority	Maturity	Issue amount	Rating DBRS Morningstar	Rating Scope Ratings
Senior	November 2045	109,783,000	BBB	BBB
Mezzanine	November 2045	568,250	CCC	CC
Junior	November 2045	227,400	N/A	N/A
TOTAL		**110,578,650**		

All Senior securities are classified in the portfolio of «Financial assets valued at amortised cost», based on the reimbursements received in 2020 and 2021, and the expected losses recognised on the basis of the IFRS 9 impairment model, the net carrying amount at the end of the year, amounts to 87.706 million. The units of mezzanine (fair value 90,693 euro) and Junior (fair value 227 euro) securities owned by the Company have been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

QUANTITATIVE INFORMATION

C.1 Consolidation for supervisory purposes - Exposures deriving from the main «own» securitisation transactions broken down by type of securitised assets and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
Type of underlying assets/Exposures	Book value	Adjustment/ Rev.	Book value	Adjustment/ Rev.	Book value	Adjustment/ Rev.
A. **Fully derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
Non-performing loans	319,784	163	838	–	1	–
B. **Partially derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
C. **Not derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**

The table shows the on-balance sheet exposures assumed by the Banca Popolare di Sondrio Group in relation to its Diana, Luzzatti and Luzzatti II securitisations. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.2 Consolidation for supervisory purposes - Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
Type of underlying assets/Exposures	Book value	Adjustment/ Rev.	Book value	Adjustment/ Rev.	Book value	Adjustment/ Rev.
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042						
Mortgage loans	28,651	–	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045						
Lease contracts	399,905	123	–	–	–	–

The note linked with the securitisation by Bnt Portfolio Spv Srl is classified among the financial assets mandatorily measured at fair value through profit or loss. That fair value is indicated in the «Carrying amount» column. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.3 Consolidation for supervisory purposes – Interests in special purpose securitisation vehicles

			Assets			Liabilities		
Company Name	Registered office	Consolidation	Loans	Fixed-yield securities	Other	Senior	Mezzanine	Junior
Alba 6 Spv Srl	Conegliano (TV)	NO	623,928	–	29,441	400,031	–	126,626
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	146,703	–	14,039	158,441	–	-
Diana SPV	Conegliano (TV)	NO	160,811	–	11,870	134,484	35,009	3,654
Pop Npls 2020 Srl	Rome (RM)	NO	194,215	–	51,633	194,966	25,000	10,000
Pop Npls 2021 Srl	Milan (MI)	NO	176,389	–	29,625	191,000	25,072	10,038

C.4 Consolidation for supervisory purposes – Non-consolidated special purpose vehicle for securitisation

The vehicle companies Alba 6 Spv Srl, BNT Porfolio Spv Srl, Diana SPV Srl, Pop Npls 2020 Srl and Pop Npls 2021 Srl have not been consolidated as there is no control as defined by IFRS 10. Reference should be made to Part A of these notes.

As part of the Diana and Luzzatti I and II operations, the Group issued limited-recourse loans to the vehicle companies, at 31 December 2021, for 15.886 million euro, intended at the issue date of the securities to constitute a cash reserve available to the SPV to cover any misalignments between the recovery plan of the portfolio sold to it and the payments to be made in favour of the security holders, shown under «Financial assets measured at amortised cost». The Banca Popolare di Sondrio Group's maximum exposure to the risk of loss is equal to the sum of the carrying amount of the notes (319.8 million euro) and the carrying amount of the limited-recourse loans. Taking into account that the government guarantee only covers the senior tranches, we believe that the exposure to the risk of loss is reduced to 16.724 million euro.

C.5 Consolidation for supervisory purposes – Servicer activities – own securitisations: collection of securitised loans and redemption of securities issued by the SPV for securitisation

At 31 December 2021, the Group does not perform any servicer activity for its own securitisations in which the assets sold have been derecognised in accordance with IFRS 9.

C.6 Consolidation for supervisory purposes - Consolidated special purpose vehicles for securitisation

At 31 December 2021, there were no transactions that use consolidated special vehicle companies for securitisation.

D. Disposals

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

Pursuant to IFRS 7, paragraph 42D, letters a), b) and c), the following table shows the carrying amount of repurchase agreements on securities owned (mainly classified in the portfolio of «Financial assets measured at amortised cost») which did not lead to derecognition of the underlying financial assets from the financial statements.

The non-derecognition of the securities, with reference to repurchase agreements, is linked to the Group retaining all the risks and benefits associated with the security, since there is an obligation to repurchase it forward at a contractually established price. Depending on the type of counterparty, the consideration for the sale is recognised under payables to banks or to customers, while the securities involved in the transaction remain recorded in their portfolios.

QUANTITATIVE INFORMATION

D.1 Consolidation for supervisory purposes - Financial assets sold recognised in full and associated financial liabilities: book values

	Financial assets sold and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to sales contracts with repurchase agreement	of which: non-performing	Carrying amount	of which: subject to securitisation transactions	of which: subject to sales contracts with repurchase agreement
A. **Financial assets held for trading**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	-	-	-
B. **Other financial assets mandatorily measured at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
C. **Financial assets designated at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
E. **Financial assets measured at amortised cost**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2020	**52,782**	**-**	**52,782**	**-**	**55,422**	**-**	**55,422**

D.2 Consolidation for supervisory purposes - Financial assets sold recognised partially and associated financial liabilities: book values

In both the current and the previous year, the Group has no financial assets sold but still partially recognised and associated financial liabilities.

D.3 Consolidation for supervisory purposes - Sale transactions with liabilities having recourse only to the assets sold and not derecognised in full: fair value

	Recognised in full	Recognised in part	**Total 31/12/2021**	**Total 31/12/2020**
A. **Financial assets held for trading**	**–**	**–**	**–**	**1,101**
1. Fixed-yield securities	–	–	–	1,101
2. Equity securities	–	–	–	–
3. Loans	–	–	–	–
4. Derivatives	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Equity securities	–	–	–	–
3. Loans	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Loans	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Equity securities	–	–	–	–
3. Loans	–	–	–	–
E. **Financial assets measured at amortised cost (fair value)**	**–**	**–**	**–**	**54,294**
1. Fixed-yield securities	–	–	–	54,294
2. Loans	–	–	–	–
Total financial assets	**–**	**–**	**–**	**55,395**
Total associated financial liabilities	**–**	**–**	**–**	**(55,422)**
Net carrying amount 31/12/2021	**–**	**–**	**–**	**–**
Net carrying amount 31/12/2020	**(27)**	**–**	**–**	**(27)**

B. Financial assets sold and fully derecognised with recognition of continued involvement

At 31 December 2021, there are no financial assets sold and fully derecognised with recognition of continued involvement.

C. Financial assets sold and not fully derecognised

Pursuant to the provisions of the Communication of the Bank of Italy of 23 December 2019, the following section provides the qualitative and quantitative information regarding the only sale of non-performing loans, classified as «Unlikely to pay», carried out during the course of the two-year period 2020-2021 of a multi-originator type in favour of a mutual investment fund with simultaneous subscription of units issued by the fund.

During 2021, two sale transactions were completed with counterparty illimity Credit & Corporate Turnaround Fund.

On 31 March 2021, the first transaction was completed involving the sale of loans, qualified with the status of «probable defaults» by Banca Popolare di Sondrio. This deal was carried out through the contribution of non-performing loans at the price of 5.305 million, offsetting the sale price with the subscription price, for the same amount, of 5,304.771 class A units, of the «illimity Credit & Corporate Turnaround Fund». Taking into account the carrying amount of the loans at 1 January 2021, the sale transaction resulted in the recognition of a negative economic effect of 0.3 million.

The second was completed on 21 October and also involved the sale of receivables with the status of «probable defaults». This deal was carried out through the contribution of non-performing loans at the price of 11,668.905 million, offsetting the sale price with the subscription price, for the same amount, of 11,668.905 class A units, of the «illimity Credit & Corporate Turnaround Fund». Taking into account the carrying amount of the loans at 1 January 2021, the sale transaction resulted in the recognition of a positive economic effect of 5.65 million.

The «illimity Credit & Corporate Turnaround Fund» is an Italian alternative investment fund (AIF) of a closed-end, single-sub-fund type reserved for qualified investors, established and managed by illimity SGR S.p.A.

The Fund's management policies are focused on maximising the recovery rate of the receivables acquired and the return on the financial instruments invested in, and on providing new finance as part of the restructuring plans of the companies in the portfolio, through instruments that allow a higher degree of priority in repayment than the financial debt already in place (Debtor-in-Possession Financing).

The structure and functioning of the transaction are governed, also in terms of governance, by the Fund Regulations.

The body responsible for managing the Fund is the Board of Directors, which makes use of an Advisory Board that can express a binding opinion to the Board of Directors only in the event of any investment or divestment or contract or other act in conflict of interest, actual or potential, between related parties and with other funds managed by the AMC. There is also a third decision-making body, namely the Fund Meeting, in which all unit-holders of the Fund's Sub-Funds participate.

From an accounting point of view, in line with the provisions of IFRS 9, the aforementioned sale operation involved derecognition of the loans sold, as a counter-entry to the recognition of the shares attributed to the ICCT fund, as Banca Popolare di Sondrio substantially transferred all the risks and benefits deriving from the possession of the assets being sold and, moreover, did not retain any power of management over the fund, which was taken on by the fund management company.

For further details on the determination of the fair value of the units, please refer to part A.4 of these notes.

The shares of the fund, with reference to the first and second sale, were recognised in the accounting portfolio of «Financial assets mandatorily valued at fair value through profit or loss», the fair value as at 31 December 2021 was equal to 16 million euro.

Multi-originator assignment of receivables to mutual funds completed in 2020

IDEA CCR Corporate Credit Recovery II Fund - Credit Section

On 7 October 2020, the DeA Capital deal was completed with the transfer of loans with the status of «unlikely to pay» by Banca Popolare di Sondrio to the Italian alternative mutual investment fund (FIA) of the closed-end multi-sector type reserved for qualified investors, called «IDEA CCR (Corporate Credit Recovery) II» (hereinafter IDEA CCR II), managed by DeA Capital Alternative Funds SGR, which aims to contribute to the relaunch of Italian companies under financial stress, but with solid industrial foundations.

The fund units have been booked to the portfolio of «Financial assets mandatorily valued at fair value through profit or loss», with a fair value of 9 million euro at 31 December 2021. Refer to the financial statements as of 31/12/2020 for further details.

D. Covered bond transactions

On 6 November 2013, the Board of Directors of the Parent Company authorised a covered bond programme for a maximum amount of 5 billion euro, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 1 June 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling 802 million euro was sold without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for 500 million euro.

A second sale of performing loans totalling 202 million euro took place on 5 December 2015, under the same contract.

An additional 2 disposals were made during 2016. The first, on 1 February 2016, of a portfolio of a total of 576 million euro of performing loans in connection with the issuance of the second series of covered bonds totalling 500 million euro on 4 April 2016. The second, on 1 November 2016, of a portfolio of performing loans totalling 226 million euro.

During 2017, a fifth sale of performing loans for a total of 307 million euro took place on 1 October 2017 under the same contract.

Likewise, during 2018, a sixth sale of performing loans for a total of 323 million euro took place on 1 October 2018.

During 2019, a seventh sale of performing loans for a total of 352 million euro took place on 1 December 2019, under the same contract.

These securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as a non-recourse sale pursuant to IFRS 9. These loans were not therefore derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparties involved for various reasons, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bond issued by Banca Popolare di Sondrio S.p.A. for which the vehicle company, Popso Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Currency	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Coupon	Annual
Applicable law	Italian

The first series of bonds, with ISIN Code IT0005039711, was repaid in full on 5 August 2019.

E. Consolidation for supervisory purposes - models for the measurement of credit risk

The Group does not use internal portfolio models for the assessment of credit risk (VaR methodology).

1.2 Banking group - Market risk

1.2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

Factorit s.p.a., Sinergia Seconda S.r.l. and Banca della Nuova Terra s.p.a. are not exposed to rate and price risk inherent to the trading portfolio, whereas Popso Covered Bond s.r.l., which is consolidated synthetically with the Parent Company, is included in the analysis carried out for the separate financial statements.

The interest rate risk deriving from Banca Popolare di Sondrio (SUISSE) SA's trading portfolio relates to investments in forward contracts on exchange rates. As regards the transactions in derivative instruments (derivatives in the strictest sense), the offices occasionally arrange interest rate options and interest rate swaps in order to satisfy the hedging needs of customers; these are then matched with operations of opposite sign arranged with leading financial counterparties. Consequently, such transactions do not generate any risk.

The Swiss investee is not exposed to the price risk deriving from the trading book.

A1. Impacts resulting from the Covid-19 pandemic

For the impacts deriving from the pandemic, please refer to what is indicated for the Parent Company in the corresponding section of the Company's notes, given that the subsidiaries' contributions are not material.

B. Management processes and measurement methods of interest rate risk and price risk

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

At a consolidated level, as well as at a separate level, the internal processes for the measurement, control and management of trading portfolio interest rate risk use two separate monitoring systems that are based respectively on:

- an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- an analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 1.2.2 below (interest rate risk and price risk of the bank book).

As regards the model based on the calculation of VaR, the Bank adopts an overall system of limits on the exposure to risks from financial assets at a consolidated level similar to what was explained in the notes to the separate financial statements, to which reference should be made also for the characteristics of the internal model used for calculating Value at Risk (VaR).

In particular, in addition to the financial instruments exposed to interest rate risk and price risk included in the Parent Company's trading portfolio for supervisory purposes, the model used covers forward exchange rate contracts and derivatives in the strict sense (foreign exchange and commodity options) of the Subsidiary.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

As regards the second methodology, based on sensitivity analyses carried out through an Asset & Liability Management (ALM) procedure, please refer to the notes to the separate financial statements of the Company, where the «stress testing» activities are also explained. With regard to the results, please refer to the contents of the following paragraph (Quantitative information).

B1. Impacts resulting from the Covid-19 pandemic

Similarly to what has been stated in the corresponding section of the company's notes, the absence of situations of strong market disturbance allowed for a gradual return of VaR measures, with a slight upturn during the last month of the year due to fears linked to the spread of the South African variant of Covid-19. With the exception of sporadic episodes of limited entity relating to the more detailed limits of potential exposure in terms of Value at Risk (VaR) on a particular type of risk factor, there were no significant violations during the year in the system of limits to risk exposure insisting on the set of instruments held for trading purposes («trading portfolio»).

QUANTITATIVE INFORMATION

1. Regulatory trading portfolio: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**4,013**	**20,218**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	4,013	20,218	–	–	–
– with early repayment option	–	–	–	–	–	–	–	–
– other	–	–	–	4,013	20,218	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**4,064,034**	**835,340**	**1,205,206**	**1,276,696**	**367,978**	**96,076**	**–**
3.1 With underlying securities	–	95,785	85,089	–	11,218	–	–	–
– Options	–	–	–	–	603	–	–	–
+ Long positions	–	–	–	–	603	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– other	–	95,785	85,089	–	10,615	–	–	–
+ Long positions	–	50,440	45,293	–	–	–	–	–
+ Short positions	–	45,345	39,796	–	10,615	–	–	–
3.2 Without underlying securities	–	3,968,249	750,251	1,205,206	1,265,478	367,978	96,076	–
– Options	–	14,942	32,168	51,652	289,328	328,700	96,076	–
+ Long positions	–	7,471	16,088	25,826	144,664	164,350	48,038	–
+ Short positions	–	7,471	16,080	25,826	144,664	164,350	48,038	–
– Other derivatives	–	3,953,307	718,083	1,153,554	976,150	39,278	–	–
+ Long positions	–	2,391,751	516,463	1,035,060	495,337	19,639	–	–
+ Short positions	–	1,561,556	201,620	118,494	480,813	19,639	–	–

1. Regulatory trading portfolio: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 months to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
– with early repayment option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,108,253**	**603,664**	**1,165,537**	**9,290**	**1**	**–**	**–**
3.1 With underlying securities	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying securities	–	3,108,253	603,664	1,165,537	9,290	1	–	–
– Options	–	15,348	30,556	42,536	3,594	–	–	–
+ Long positions	–	7,674	15,274	21,268	1,797	–	–	–
+ Short positions	–	7,674	15,282	21,268	1,797	–	–	–
– Other derivatives	–	3,092,905	573,108	1,123,001	5,696	1	–	–
+ Long positions	–	1,115,322	112,351	89,171	2,848	–	–	–
+ Short positions	–	1,977,583	460,757	1,033,830	2,848	1	–	–

2. Regulatory trading portfolio: distribution of exposures in equity securities and equity indices for the main countries of the listing market

Type of transactions/Listing index	Listed						Unlisted
	ITALY	FRANCE	SPAIN	NETHERLANDS	GERMANY	OTHER COUNTRIES	
A. **Equity securities**							
– long positions	46,951	5,736	4,273	2,158	4,930	1,329	–
– short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in equity securities**							
– long positions	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–
C. **Other derivatives on equity securities**							
– long positions	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	1,726
D. **Derivatives on stock indices**							
– long positions	–	–	–	–	–	–	–
– short positions	4,652	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes – internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of period

	(thousands of euro)
1. **Cash assets**	**27**
1.1 Fixed-yield securities	27
1.2 Other assets	–
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**83**
3.1 With underlying securities	6
– Options (on equity securities)	6
+ Long positions	–
+ Short positions	6
– Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying securities	82
– Options	–
+ Long positions	13
+ Short positions	16
– Other derivatives	82
+ Long positions	109
+ Short positions	17
Total interest rate risk	**114**
A. **Equity securities**	**2,519**
– Long positions	2,519
– Short positions	–
B. **Purchase/sale transactions not yet settled in equity securities**	–
– Long positions	–
– Short positions	–
C. **Other derivatives on equity securities**	**195**
– Long positions	–
– Short positions	195
D. **Derivatives on stock indices**	**–**
– Long positions	–
– Short positions	–
Total Price risk transactions tab.2	**2,111**
Mutual funds	**1,779**
Total Price risk	**3,890**
Global trading (net of exchange)	**4,028**

Interest-rate risk

Information on average, minimum and maximum VaR is provided below.

Global Value at Risk (VaR)

	(thousands of euro)
average	105
minimum	47
maximum	256

With regard to the distribution of VaR during the year, the average, total, general and specific interest rate VaR for each of the twelve months in 2021 is shown below.

January	221
February	202
March	160
April	125
May	86
June	69
July	67
August	70
September	64
October	55
November	57
December	104

With reference to fixed-yield securities included in the trading book, the number of days in which actual losses exceeded the VaR was 4 out of 257 total observations, the number of days in which theoretical losses exceeded the VaR was 4 out of 257 total observations, the number of days in which theoretical losses according to the model exceeded the VaR was 2 out of 257 total observations.

With regard to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates, interest rate swaps, the following information is taken from the ALM procedure, consistent with that provided in section 1.2.2 below in relation to the bank book. Please note that the outcomes below refer to the hypothetical rate movement scenarios in use for the monthly risk analyses, including:

– the six scenarios described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority;
– two new hypothetical scenarios for the shift of rates, introduced on the survey at the end of 2021, aimed respectively at capturing future market expectations («ongoing») and specific particularly adverse situations that have occurred in the past («historical»).

On the recognition at the end of the period of 31/12/2021, following the relevant resolution by the Board of Directors on 22 December 2021, the recognition perimeter was expanded to include all active and passive repurchase agreements in the banking book. An updated version was also adopted, following a thorough review, of the behavioural models relating to asset and liability items repayable on demand.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

The figures given below do not include the effects generated by forward contracts on exchange rates.

Figures in thousands of euro Exposure to risk	Change in net interest income from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	31/12/2020
positive parallel shift	36	13,589	36	18,666	1,401
negative parallel shift	-8	-3,029	-4,127	-8	-303
shock up parallel shift	36	13,589	36	18,666	1,401
shock down parallel shift	-8	-3,029	-4,127	-8	-303
steepener shock shift	-8	-3,028	-4,127	-8	-303
flattener shock shift	12	9,389	12	12,917	948
short shock up shift	24	12,945	24	17,797	1,312
short shock down shift	-8	-3,029	-4,127	-8	-303
ongoing shift	4	4	4	4	n.d.
historical shift	-4	-4	-4	-4	n.d.
worst-case scenario	-8	-3,029	-4,127	-8	-303

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

The figures given below do not include the effects generated by forward contracts on exchange rates.

Figures in thousands of euro Exposure to risk	Change in profit from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	31/12/2020
positive parallel shift	-680	12,669	-680	17,625	299
negative parallel shift	194	-2,815	-3,895	194	-93
shock up parallel shift	-680	12,669	-680	17,625	299
shock down parallel shift	194	-2,815	-3,895	194	-93
steepener shock shift	194	-2,815	-3,895	194	-93
flattener shock shift	-406	8,939	-406	12,437	504
short shock up shift	-582	12,248	-582	17,036	568
short shock down shift	194	-2,815	-3,895	194	-93
ongoing shift	-136	-136	-136	-136	n.d.
historical shift	143	143	143	143	n.d.
worst-case scenario	-680	-2,815	-3,895	-136	-93

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

Figures in thousands of euro Risk exposure	Change in equity value from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	31/12/2020
positive parallel shift	-458	-1,051	-1,515	-458	-1,216
negative parallel shift	175	1,256	170	2,837	2,187
shock up parallel shift	-472	-5,249	-11,470	-472	-9,538
shock down parallel shift	175	1,256	170	2,837	2,186
steepener shock shift	330	1,297	217	2,890	2,245
flattener shock shift	-505	-3,577	-8,047	-505	-6,520
short shock up shift	-652	-4,578	-10,191	-652	-8,243
short shock down shift	201	1,258	170	2,837	2,186
ongoing shift	-171	-171	-171	-171	n.d.
historical shift	80	80	80	80	n.d.
worst-case scenario	-652	-5,249	-11,740	-652	-9,538

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(thousands of euro)
average	2,411
minimum	1,389
maximum	4,383

With regard to the distribution of VaR during the year, the average VaR for each month in 2021 is presented below.

January	2,995
February	2,880
March	2,562
April	2,145
May	1,688
June	1,556
July	2,034
August	2,363
September	2,043
October	1,973
November	2,495
December	4,166

With reference to equity securities and mutual funds forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded the VaR was 1 out of 257 observations, the number of days on which theoretical losses exceeded the VaR was 1 out of 257 observations, the number of days on which theoretical losses according to the model exceeded the VaR was 2 out of 257 observations.

1.2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

For Factorit S.p.a., interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions.

Banca della Nuova Terra s.p.a. is exposed to interest rate risk linked to its lending operations to customers and to its limited investment in securities, partially offset by fixed-term deposits with the Parent Company.

Sinergia Seconda S.r.l. is not exposed to interest rate risk, whereas Popso Covered Bond s.r.l., which is consolidated synthetically with the Parent Company, is included, although with a minimal part, in the analysis carried out for the separate financial statements.

The principal sources of interest rate risk for Banca Popolare di Sondrio (SUISSE) SA are fixed-interest mortgage loans, fixed-term deposits from banks and sight deposits from customers with appropriate modelling of maturities.

From a Group perspective, the internal processes for measuring, controlling and managing the interest rate risk of the banking portfolio make use of two separate monitoring systems managed by the Parent Company, using an integrated database at consolidated level, based respectively on:

– an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;

– an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

The daily calculation of VaR is used to monitor the consolidated financial assets classified as «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding the investments made by the pension funds; the internal process for the control and management of interest rate and price risk, as well as the related methodology, are much the same as those detailed in the company's notes. As already indicated in the corresponding section of the Notes, for «financial assets measured at amortised cost», a risk metric is now in force that is more representative of the typical risk profile of this type of investment.

The analysis of sensitivity using strategic ALM methodologies read the corresponding section of the explanatory notes. Similarly, the internal management and control processes of interest rate risk adopt a system of indicators that hinges on a first group of summary metrics consisting of seven risk indicators called «complementary» whose respective threshold systems are defined by the Board of management within the Risk Appetite Framework on a consolidated basis and on a second group of metrics consisting of four risk indicators called «operational» whose limits are established by the Risk Committee, in harmony with the risk appetite established by the board. The first pair of indicators in the first set of metrics monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total own funds. The numerator of the quotient is obtained for both indicators using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating parallel shifts in the benchmark rate curves of +/- 200 basis points. The second pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator of the quotient is obtained using the «Interactive Simulation» method under static conditions with constant volumes, simulating parallel shifts in the benchmark curves of +/- 200 basis points. The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book calculating the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, to the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from a parallel movement of the reference curves alternatively equal to +/- 200 basis points, to which is added the variation in the value of instruments through profit or loss or the balance sheet – securities classified as «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) – calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. The other indicator of the first set of metrics is represented by the «Supervisory Outlier Test» described in paragraphs 113, 115 and 116 of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The first indicator of the second set of metrics is calculated as the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total Tier 1 capital. The numerator of the indicator is obtained using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The second «operational» indicator is calculated as the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator is obtained using the «Interactive Simulation» method under static conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority; the denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third «operational» indicator is calculated as the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, and the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from the movements of the reference curves contained in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority, to which is added the change in the value of instruments through profit or loss or the balance sheet - securities classified in «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) - calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. These indicators are monitored monthly in the current rates scenario. The third «operating» indicator is represented by the «Supervisory Outlier Test» described in paragraphs 114, 115 and 116 of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

These indicators are monitored monthly, with the exception of the two indicators relating to the «Supervisory Outlier Test» for which monitoring is quarterly.

The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

With regard to the activity of «stress testing» reference should be made to the corresponding section of the company's notes to the financial statements.

The source of price risk for Banca Popolare di Sondrio (SUISSE) SA lies in equity securities and mutual funds shown under «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income».

The measurement and control of price risk essentially involves application of a Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in corresponding section of the notes.

With regard to the monitoring of investments, the model used covers the equity investments of the Parent Company, excluding investments in Banca Popolare di Sondrio (SUISSE) SA, Factorit s.p.a., Popso Covered Bond s.r.l., Sinergia Seconda s.r.l. and Banca della Nuova Terra s.p.a.; there is also the equity security owned by the Swiss subsidiary classified as «Equity investments».

A1. Impacts resulting from the Covid-19 pandemic

Similarly to what has been stated in the corresponding section of the company's notes, the absence of situations of major market disruption led to a return to VaR measures, with a slight increase in risk in the latter part of the year due to fears linked to the spread of the Omicron variant. The related system of limits on consolidated financial assets classified as «other financial assets mandatorily measured at fair value» and «financial assets measured at fair value through other comprehensive income» did not, therefore, record any violations linked to the effects of the pandemic.

B. Fair value hedging

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

For the subsidiary Banca Popolare di Sondrio (SUISSE) SA, a limited portion of loans granted with similar characteristics are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Company.

C. Cash-flow hedges

The Group has not carried out cash flow hedging operations.

1. Banking portfolio: distribution by residual maturity (by repricing date) of financial assets and liabilities

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 months to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**–**	**70,681**	**118,497**	**46,618**	**48,882**	**3,000**	**–**	**–**
3.1 With underlying securities	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying securities	–	70,681	118,497	46,618	48,882	3,000	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	70,681	118,497	46,618	48,882	3,000	–	–
+ Long positions	–	46,762	97,077	–	–	–	–	–
+ Short positions	–	23,919	21,420	46,618	48,882	3,000	–	–
4. **Other off-balance sheet transactions**	**71,348**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	35,674	–	–	–	–	–	–	–
+ Short positions	35,674	–	–	–	–	–	–	–

This table only shows financial derivatives as an interest rate risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Banking portfolio: internal models and other sensitivity analysis methods

Interest-rate risk

With reference to the assets and liabilities that generate the net interest income – except for the fixed-yield securities held in the trading book for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading book for supervisory purposes), forward contracts on exchange rates, options on interest rates and interest rate swaps, as the information on these is disclosed in the section on the trading book for supervisory purposes – as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Please note that the outcomes below refer to the hypothetical rate movement scenarios in use for the monthly risk exposure analyses, including:

- the six scenarios described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority;
- two new hypothetical scenarios for the shift of rates, introduced on the survey at the end of 2021, aimed respectively at capturing future market expectations («ongoing») and specific particularly adverse situations that have occurred in the past («historical»).

On the recognition at the end of the period of 31/12/2021, following the relevant resolution by the Board of Directors on 22 December 2021, the recognition perimeter was expanded to include all active and passive repurchase agreements in the banking book. An updated version was also adopted, following a thorough review, of the behavioural models relating to asset and liability items repayable on demand.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

Figures in thousands of euro Risk exposure	Change in net interest income from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	**31/12/2020**
positive parallel shift	185,602	136,182	85,602	158,474	150,904
negative parallel shift	18,763	23,744	18,176	29,431	21,774
shock up parallel shift	64,805	119,429	64,805	142,064	135,922
shock down parallel shift	18,754	23,747	18,175	29,433	21,774
steepener shock shift	27,638	29,923	24,760	35,013	24,367
flattener shock shift	16,833	60,261	16,833	78,808	71,993
short shock up shift	41,752	99,698	41,752	123,955	117,347
short shock up shift	19,481	24,716	19,006	30,098	21,844
ongoing shift	3,021	3,021	3,021	3,021	n.d.
historical shift	16,365	16,365	16,365	16,365	n.d.
worst-case scenario	3,021	3,021	3,021	3,021	21,774

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

Figures in thousands of euro Risk exposure	Change in profit from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	**31/12/2020**
positive parallel shift	-4,473	9,318	-39,512	63,259	29,947
negative parallel shift	69,123	73,206	63,269	89,776	51,434
shock up parallel shift	-25,263	-7,428	-55,400	46,711	14,978
shock down parallel shift	69,114	73,209	63,269	89,784	51,434
steepener shock shift	42,158	37,519	20,519	50,526	26,855
flattener shock shift	-9,334	40,092	-9,334	65,173	58,792
short shock up shift	-10,065	39,253	-10,065	75,442	61,864
short shock up shift	67,718	72,124	63,139	87,201	51,435
ongoing shift	-8,846	-8,846	-8,846	-8,846	n.d.
historical shift	60,738	60,738	60,738	60,738	n.d.
worst-case scenario	-25,263	-8,846	-55,400	-8,846	14,978

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

Figures in thousands of euro Risk exposure	Change in equity value from 01/01/2021 to 31/12/2021 at period end	average	minimum	maximum	**31/12/2020**
positive parallel shift	-398,529	-409,957	-479,271	-344,017	-277,216
negative parallel shift	196,415	177,204	110,151	240,604	76,276
shock up parallel shift	-363,415	-358,314	-434,173	-296,619	-216,988
shock down parallel shift	196,416	177,195	110,143	240,591	76,272
steepener shock shift	29,394	21,185	-11,163	42,627	16,372
flattener shock shift	-36,522	2,987	-39,366	39,177	-2,231
short shock up shift	-150,024	-124,350	-168,748	-94,300	-89,127
short shock down shift	179,386	175,940	124,876	220,049	92,834
ongoing shift	-54,153	-54,153	-54,153	-54,153	n.d.
historical shift	202,378	202,378	202,378	202,378	n.d.
worst-case scenario	-398,529	-409,957	-479,271	-344,017	-277,216

With respect to fixed-yield securities classified as «financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(thousands of euro)
average	10,152
minimum	6,521
maximum	17,350

With regard to the distribution of VaR during the year, the average VaR for each month in 2021 is presented below.

January	16,102
February	15,596
March	12,242
April	10,529
May	9,285
June	8,275
July	7,096
August	7,453
September	7,103
October	7,195
November	12,459
December	9,569

Price risk

With reference to the closing date, we report above all the VaR figures of equity securities (shares and mutual funds) classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of period

	(thousands of euro)
Equity securities	2,752
Mutual funds	3,419
Total	**6,223**
Equity investments	**7,128**

The following information is provided about the average, minimum and maximum VaR regarding the equity securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(thousands of euro)
average	5,493
minimum	3,933
maximum	6,942

With regard to the distribution of VaR during the year, the average VaR for each month in 2021 is presented below.

January	6,772
February	6,487
March	4,982
April	4,324
May	4,333
June	4,142
July	4,964
August	5,747
September	5,289
October	6,521
November	6,162
December	6,385

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

Exchange risk is marginal for Factorit s.p.a., given the company's policy of systematic hedging of foreign currency amounts. This risk mainly exists, but for limited volumes, in: commissions and interest income not offset by interest expense expressed in currencies other than the euro, as well as guarantees in foreign currency for transactions in euro. Sinergia Seconda S.r.l., Popso Covered Bond S.r.l. and Banca della Nuova Terra S.p.a. are not exposed to exchange risk, as they do not have assets or liabilities in foreign currencies.

Except with regard to securities held in its proprietary portfolio, Banca Popolare di Sondrio (SUISSE) SA enters into currency transactions to satisfy customers' requirements and to cover transitory treasury mismatches.

The measurement and control of exchange risk at year-end essentially involves application of the Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the Company's explanatory notes.

In particular, the model used covers the financial instruments exposed to exchange risk included in the Parent Company's investment book and all assets and liabilities in foreign currency (excluding gold), on and off the balance sheet, pertaining to the subsidiaries, which are shown on table 1 below. Any intercompany relations are eliminated.

The forward contracts on exchange rates, financial derivatives (in a strict sense), fixed-yield securities and equity securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

A1. Impacts resulting from the Covid-19 pandemic

Given that the predominantly commercial nature of transactions in foreign currencies, the considerations set out in the corresponding section of the company's note apply.

At the level of risk, the limited impacts of the pandemic are confirmed, thanks to the policy to limit open positions in foreign currency, and there were no episodes of violation of the respective limit.

B. Hedging of exchange risk

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

For the Swiss subsidiary, operations are homogeneous with that carried out by the Parent Company. The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollar	Pound Sterling	Japanese yen	Swiss franc	Canadian dollars	Other currencies
A. **Financial assets**	**871,975**	**85,460**	**15,005**	**5,823,678**	**6,369**	**69,537**
A.1 Fixed-yield securities	35,934	–	–	499	–	–
A.2 Equity securities	51,661	1,213	1,460	13,853	–	689
A.3 Loans with banks	81,895	60,808	9,370	44	4,026	66,559
A.4 Loans with customers	692,452	22,291	4,037	4,920,443	2,097	1,552
A.5 Other financial assets	10,033	1,148	138	888,839	246	737
B. **Other assets**	**65,018**	**2,347**	**551**	**85,386**	**382**	**11,319**
C. **Financial liabilities**	**1,041,974**	**180,688**	**12,994**	**3,034,896**	**9,213**	**104,175**
C.1 Due to banks	530,024	16,854	227	748,131	3,510	32,726
C.2 Due to customers	511,950	163,834	12,767	2,235,699	5,703	71,449
C.3 Fixed-yield securities	–	–	–	26,598	–	–
C.4 Other financial liabilities	–	–	–	24,468	–	–
D. **Other liabilities**	**2,054**	**15**	**–**	**294,024**	**30**	**6**
E. **Financial derivatives**	**1,717,835**	**240,392**	**134,197**	**2,802,808**	**14,494**	**242,881**
– Options	92,600	–	–	74	–	–
+ Long positions	46,578	–	–	74	–	–
+ Short positions	46,022	–	–	–	–	–
– Other derivatives	1,625,235	240,392	134,197	2,802,734	14,494	242,881
+ Long positions	892,810	178,693	66,167	158,053	8,549	133,753
+ Short positions	732,425	61,699	68,030	2,644,681	5,945	109,128
Total assets	**1,876,381**	**266,500**	**81,723**	**6,067,191**	**15,300**	**214,609**
Total liabilities	**1,822,475**	**242,402**	**81,024**	**5,973,601**	**15,188**	**213,309**
Net balance (+/–)	**53,906**	**24,098**	**699**	**93,590**	**112**	**1,300**

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of period

	(thousands of euro)
Fixed-yield securities	593
Equity securities	468
Net balance between other assets and liabilities	14,473
Financial derivatives	19,999
– Options	–
+ Long positions	382
+ Short positions	429
– Other derivatives	19,999
+ Long positions	16,889
+ Short positions	4,995
Total transactions table 1	**1,834**
– Interest Rate Swap	13
+ Long positions	13
+ Short positions	–
Total	**1,828**

Details of the principal currencies

US Dollar	377
Pound Sterling	777
Japanese yen	9
Swiss francs	820
Canadian dollars	4
Other currencies	94
Total	**1,828**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(thousands of euro)
average	2,456
minimum	962
maximum	4,076

With regard to the distribution of VaR during the year, the average VaR for each month in 2021 is presented below.

January	4,034
February	3,853
March	3,199
April	2,832
May	2,702
June	2,602
July	2,457
August	2,440
September	1,339
October	1,318
November	1,300
December	1,720

1.3 Derivative instruments and related hedging policy

1.3.1. Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: period-end notional amounts

Underlying assets/Types of derivatives	Total 31/12/2021 – Over the counter – Central counterparties	Total 31/12/2021 – Over the counter – Without Central Counterparties – With settlement agreements	Total 31/12/2021 – Over the counter – Without Central Counterparties – Without settlement agreements	Total 31/12/2021 – Organised markets	Total 31/12/2020 – Over the counter – Central counterparties	Total 31/12/2020 – Over the counter – Without Central Counterparties – With settlement agreements	Total 31/12/2020 – Over the counter – Without Central Counterparties – Without settlement agreements	Total 31/12/2020 – Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**1,487,400**	**–**	**–**	**–**	**1,518,642**	**–**
a) Options	–	–	25,531	–	–	–	29,820	–
b) Swaps	–	–	1,461,869	–	–	–	1,488,822	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Equity securities and stock indices**	**–**	**–**	**36,313**	**–**	**–**	**–**	**26,500**	**–**
a) Options	–	–	36,313	–	–	–	26,500	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**4,421,638**	**–**	**–**	**–**	**3,971,643**	**–**
a) Options	–	–	186,014	–	–	–	45,503	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	4,235,624	–	–	–	3,926,140	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**89,593**	**–**	**–**	**–**	**34,196**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**6,034,944**	**–**	**–**	**–**	**5,550,981**	**–**

A.2 Trading financial derivatives: positive and negative gross fair value – analysis by type of product

Types of derivatives	Total 31/12/2021				Total 31/12/2020			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Positive fair value**								
a) Options	–	–	4,800	–	–	–	6,721	–
b) Interest rate swaps	–	–	6,663	–	–	–	11,605	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	14,469	–	–	–	40,097	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	3,348	–	–	–	1,319	–
Total	**–**	**–**	**29,280**	**–**	**–**	**–**	**59,742**	**–**
2. **Negative fair value**								
a) Options	–	–	2,323	–	–	–	1,679	–
b) Interest rate swaps	–	–	5,069	–	–	–	10,146	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	93,651	–	–	–	20,694	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	3,295	–	–	–	1,297	–
Total	**–**	**–**	**104,339**	**–**	**–**	**–**	**33,816**	**–**

A.3 OTC Financial trading derivatives – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial corporations	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	1,193,700	–	293,700
– fair value	–	5,124	–	1,654
– negative fair value	–	5,008	–	166
2) **Equity securities and stock indices**				
– notional value	–	33,813	–	2,500
– fair value	–	313	–	2,150
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	3,865,463	13,024	543,151
– fair value	–	12,931	355	3,405
– negative fair value	–	89,297	6	6,567
4) **Commodities**				
– notional value	–	45,658	–	43,935
– fair value	–	917	–	2,433
– negative fair value	–	2,441	–	854
5) **Other**				
– notional value	–	–	–	–
– fair value	–	–	–	–
– negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	–	–	–
– fair value	–	–	–	–
– negative fair value	–	–	–	–
2) **Equity securities and stock indices**				
– notional value	–	–	–	–
– fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	–	–	–
– fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**				
– notional value	–	–	–	–
– fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**				
– notional value	–	–	–	–
– fair value	–	–	–	–
– negative fair value	–	–	–	–

A.4 Residual life of OTC financial trading derivatives: notional values

Underlying/Residual life	Within 1 year	1 to 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	116,663	1,313,799	56,938	1,487,400
A.2 Financial derivatives on equity securities and stock indices	33,813	2,500	–	36,313
A.3 Financial derivatives on currency and gold	4,408,702	12,936	–	4,421,638
A.4 Financial derivatives on commodities	88,301	1,292	–	89,593
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2021	**4,647,479**	**1,330,527**	**56,938**	**6,034,944**
Total 31/12/2020	**4,144,128**	**1,319,702**	**87,151**	**5,550,981**

1.3.2 Accounting hedges

QUALITATIVE INFORMATION

A. Fair value hedging

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes. Significant loans with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (SUISSE) SA are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Company. The purpose of hedging the interest rate risk is to realign differences in the banking book caused by changes in the fair value of loans to customers due to changes in the interest rate curve (interest rate risk).

The derivatives are not listed on regulated markets, but traded in the context of OTC circuits.

It should be noted that the Group has opted to continue to apply IAS 39.

B. Cash flow hedging

The Group has not carried out cash flow hedging operations.

C. Hedges of foreign investments

The Group did not carry out hedging operations on foreign investments.

D. Hedging instruments

In general, on the assumption of a fair value hedge, the sources of the ineffectiveness of a hedging relationship during the period of validity are attributable to misalignments between the financial structure of the hedged instrument and the hedging instrument and the inclusion in the effectiveness test of the value of the variable leg of the hedging derivative.

During the year, no elements were found that might have caused the hedges to be ineffective, giving the possibility of continuing to apply the hedge accounting rules.

During the year the group did not use dynamic hedges, as defined by IFRS 7, paragraph 23C.

E. Hedging elements

The Banca Popolare di Sondrio Group currently has accounting hedges on fixed rate loans through the use of plain vanilla IRSs to hedge the interest rate risk for the entire duration of the underlying.

The effectiveness of the hedge is checked periodically throughout the life of the transaction by means of effectiveness tests, to verify that the relationship between the change in the fair value of the hedged item compared with the hedging instrument is within the 80%-125% range.

IBOR reform

As already highlighted in «Part A - Accounting policies» of these explanatory notes in relation to the IBOR reform, the Group has started the necessary activities to manage the transition for existing contracts that are affected by the reform.

Consistently with the requirements of IFRS 7, paragraph 24 H, a table containing the notional amount of the accounting hedges according to the reference index of interest rates is provided below. The exposure to interest rate risk, managed by the group through accounting hedges, can be correctly represented by hedging derivatives.

Type of instrument	Flow received	Paid Flow	Current notional (in thousands)	Average residual life (years)
Interest Rate Swaps	LIBOR CHF	Fixed rate	143,839	0.81

For further details, please refer to «Part A - Accounting policies», Other information.

QUANTITATIVE INFORMATION

A. Hedging financial derivatives

A.1 Hedging financial derivatives: period-end notional amounts

	Total 31/12/2021				Total 31/12/2020			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
Underlying assets/Types of derivatives	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**143,839**	**–**	**–**	**–**	**196,352**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	143,839	–	–	–	196,352	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Equity securities and stock indices**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	–	–	–	–	–	–	–	–
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**143,839**	**–**	**–**	**–**	**196,352**	**–**

A.2 Hedging financial derivatives: positive and negative gross fair value – analysis by type of product

	Positive and negative fair value							
	Total 31/12/2021				Total 31/12/2020			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
Types of derivatives	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
Positive fair value								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	–	–	–	–	–	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Negative fair value								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	2,446	–	–	–	6,271	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**2,446**	**–**	**–**	**–**	**6,271**	**–**

A.3 OTC hedging derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial corporations	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	143,839	–	–
– positive fair value	–	–	–	–
– negative fair value	–	2,446	–	–
2) **Equity securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
2) **Equity securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–

A.4 Residual life of OTC hedging financial derivatives: notional amounts

Underlying/Residual life	Within 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on fixed-yield securities and interest rates	91,956	48,882	3,001	143,839
A.2 Financial derivatives on equity securities and stock indices	–	–	–	–
A.3 Financial derivatives on currency and gold	–	–	–	–
A.4 Financial derivatives on commodities	–	–	–	–
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2021	**91,956**	**48,882**	**3,001**	**143,839**
Total 31/12/2020	**58,785**	**134,234**	**3,333**	**196,352**

1.3.3. Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial corporations	Other parties
A. **Financial derivatives**				
1) **Fixed-yield securities and interest rates**				
– notional value	–	1,337,539	–	293,700
– net positive fair value	–	5,124	–	1,654
– net negative fair value	–	7,454	–	166
2) **Equity securities and stock indices**				
– notional value	–	33,813	–	2,500
– net positive fair value	–	313	–	2,150
– net negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	3,865,463	13,024	543,151
– net positive fair value	–	12,931	355	3,405
– net negative fair value	–	89,297	6	6,567
4) **Commodities**				
– notional value	–	45,658	–	43,935
– net positive fair value	–	916	–	2,433
– net negative fair value	–	2,441	–	854
5) **Other**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–
B. **Credit derivatives**				
1) **Purchase of protection**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–
2) **Sale of protection**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–

1.4 Banking group - Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods of measuring liquidity risk

For the Parent Company, reference should be made to the corresponding section of the Company's notes.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, manifests itself in the decision to favour, from a prudential perspective, the balance of the structure by maturity of assets and liabilities over the pursuit of increasing levels of profitability.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and timely action is taken in the markets to ensure the appropriate availability of funds.

In this context, the Parent Company acts as the subsidiary's counterparty of choice in the raising of funds and in the investment of any cash surpluses.

The liquidity reserves in the form of assets eligible as collateral at the European Central Bank are mostly held by the Parent Company; the total value of the assets in question, net of haircuts, amounts to 16,361 million euro, 6,706 free and 9,655 used as collateral or pledges (including 4,907 million of A.Ba.Co. Loans).

As regards the Swiss subsidiary, it holds a bond portfolio mainly composed of securities eligible as collateral at the European Central Bank.

The Parent Company carries out daily monitoring of liquidity risk at a consolidated level. The subsidiaries oversee it through the use of monitoring tools suitable for detecting the operations performed; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority.

The following disclosures are provided in accordance with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	Over 1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**4,261,550**	**340,568**	**381,991**	**1,780,350**	**2,858,017**	**1,448,746**	**3,157,467**	**15,343,612**	**9,730,160**	**2,262,725**
A.1 Government securities	-	-	430	375	8,274	286,992	1,493,337	5,914,000	2,701,000	-
A.2 Other fixed-yield securities	825	-	135	4,897	51,560	63,604	69,847	996,266	1,788,370	-
A.3 Mutual funds	842,548	-	-	-	-	-	-	-	-	-
A.4 Loans	3,418,177	340,568	381,426	1,775,078	2,798,183	1,098,150	1,594,283	8,433,346	5,240,790	2,262,725
- Banks	67,372	648	346	3,323	3,975	2,807	4,510	-	-	2,231,679
- Customers	3,350,805	339,920	381,080	1,771,755	2,794,208	1,095,343	1,589,773	8,433,346	5,240,790	31,046
B. **Cash liabilities**	**32,534,552**	**25,322**	**30,950**	**329,380**	**434,050**	**261,697**	**449,960**	**10,799,715**	**1,169,800**	**-**
B.1 Deposits and current accounts	32,317,677	21,897	875	204,474	45,358	137,245	3,163	170,310	-	-
- Banks	340,462	21,011	-	-	-	15,012	-	170,000	-	-
- Customers	31,977,215	886	875	204,474	45,358	122,233	3,163	310	-	-
B.2 Fixed-yield securities	126,927	-	70	101,895	209,507	119,272	429,681	1,653,437	1,082,145	-
B.3 Other liabilities	89,948	3,425	30,005	23,011	179,185	5,180	17,116	8,975,968	87,655	-
C. **«Off-balance sheet» transactions**	**7,297,917**	**316,175**	**343,143**	**3,310,906**	**1,501,786**	**1,602,648**	**3,279,499**	**497,572**	**836,582**	**-**
C.1 Financial derivatives with exchange of capital	-	311,182	320,948	997,262	817,871	541,690	1,103,115	58,548	45,000	-
- Long positions	-	162,387	65,065	393,308	198,427	105,874	93,686	5,078	45,000	-
- Short positions	-	148,795	255,883	603,954	619,444	435,816	1,009,429	53,470	-	-
C.2 Financial derivatives without exchange of capital	17,983	-	-	-	-	-	-	-	-	-
- Long positions	9,974	-	-	-	-	-	-	-	-	-
- Short positions	8,009	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	7,279,934	4,993	22,195	2,313,644	683,915	1,060,958	2,176,384	439,024	791,582	-
- Long positions	33,946	2,480	11,105	2,252,242	598,789	990,368	2,164,890	368,720	791,582	-
- Short positions	7,245,988	2,513	11,090	61,402	85,126	70,590	11,494	70,304	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the reporting date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «on demand» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Non-performing loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statements purposes. Irrevocable commitments to grant loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

1. Distribution by residual duration of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	Sight	Over 1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**401,567**	**548,031**	**50,096**	**279,490**	**369,587**	**349,482**	**642,863**	**2,212,247**	**1,264,633**	**481**
A.1 Government securities	-	-	-	-	1,329	5,306	5,481	13,597	-	-
A.2 Other fixed-yield securities	-	-	1,325	-	3,586	-	-	5,809	-	-
A.3 Mutual funds	65,943	-	-	-	-	-	-	-	-	-
A.4 Loans	335,624	548,031	48,771	279,490	364,672	344,176	637,382	2,192,841	1,264,633	481
- Banks	144,044	119,898	19,591	23,294	4,607	10,534	45,287	-	-	-
- Customers	191,580	428,133	29,180	256,196	360,065	333,642	592,095	2,192,841	1,264,633	481
B. **Cash liabilities**	**2,999,378**	**310,790**	**5,402**	**138,723**	**284,272**	**18,548**	**20,417**	**197,638**	**363,045**	**-**
B.1 Deposits and current accounts	2,999,180	310,733	5,369	58,453	137,710	3,309	12,903	181,009	362,734	-
- Banks	138,955	280,561	5,122	51,750	59,736	-	12,681	180,846	362,734	-
- Customers	2,860,225	30,172	247	6,703	77,974	3,309	222	163	-	-
B.2 Fixed-yield securities	47	-	-	-	-	3,039	7,407	15,996	77	-
B.3 Other liabilities	151	57	33	80,270	146,562	12,200	107	633	234	-
C. **«Off-balance sheet» transactions**	**72,589**	**460,981**	**469,535**	**1,177,660**	**915,583**	**604,755**	**1,166,496**	**9,290**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	460,887	469,493	1,177,410	913,558	603,763	1,165,748	9,290	-	-
- Long positions	-	225,833	332,794	698,568	676,526	476,088	1,055,218	4,645	-	-
- Short positions	-	235,054	136,699	478,842	237,032	127,675	110,530	4,645	-	-
C.2 Financial derivatives without exchange of capital	925	-	-	-	-	953	748	-	-	-
- Long positions	465	-	-	-	-	-	-	-	-	-
- Short positions	460	-	-	-	-	953	748	-	-	-
C.3 Deposits and loans to be received	1,766	-	-	-	-	-	-	-	-	-
- Long positions	883	-	-	-	-	-	-	-	-	-
- Short positions	883	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	69,898	94	42	250	2,025	39	-	-	-	-
- Long positions	34,791	-	-	-	-	-	-	-	-	-
- Short positions	35,107	94	42	250	2,025	39	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 Banking group - Operational risks

QUALITATIVE INFORMATION

A. General aspects, operational risk measurement and management

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risk and IT risk, but excludes strategic and reputational risks.

«Section 5 - Operational Risks» in the Separate Financial Statements of the Parent Company Banca Popolare di Sondrio explains the system of operational risk management adopted at Group level, which is applied by the subsidiaries, each in proportion to the nature and size of its activity.

Impacts resulting from the Covid-19 pandemic

Reference should be made to the above mentioned Section of the Separate Financial Statements of the Parent Company Banca Popolare di Sondrio also as regards the measures implemented during the year for the purpose of managing operational risks attributable to the Covid-19 pandemic emergency.

QUANTITATIVE INFORMATION

The most significant impacts in absolute terms are also represented by manifestations of loss connected with the violation of information obligations provided for by the regulations and the adoption of improper commercial and market practices and by errors/shortcomings recorded within the framework of relations established with counterparties other than customers. These types of losses are mainly prudential provisions to the Provision for Risks and Charges for legal proceedings/compensation claims against Group companies.

The total amount of losses also includes disbursements deriving from phenomena of an exogenous nature, such as ATM robberies/crashing, the execution of fraudulent transfers and the theft/loss/cloning of payment cards, which are normally mitigated by means of dedicated insurance policies, as well as losses attributable to errors/delays in the performance of operations, in particular in the execution and completion of transactions and in the management of relations with third parties.

The following chart shows the operational losses recognised over the past five years (2017-2021) as part of the Loss Data Collection process, according to the regulatory classification for operational risk events (Event Type):

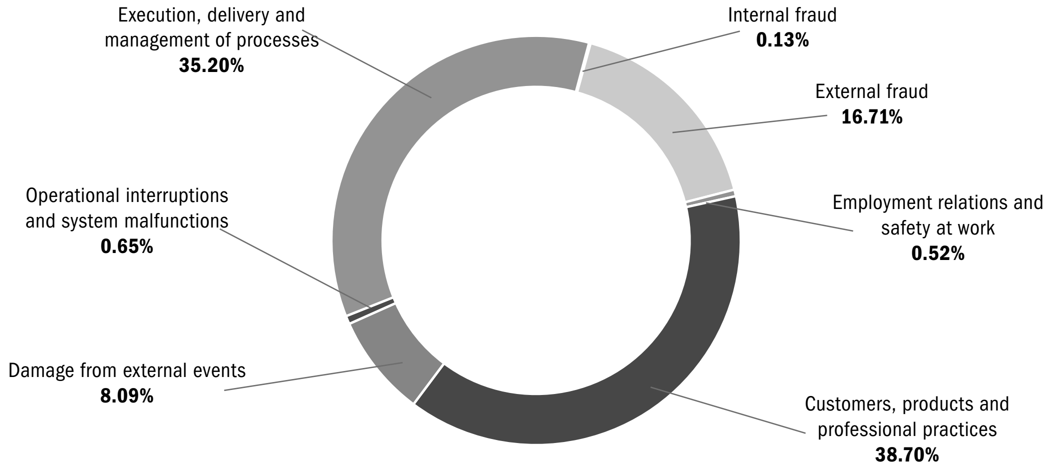
- *Internal fraud* - Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- *External fraud* - Events of fraud, embezzlement or circumvention of the law by external/ third parties to obtain personal benefits that involve damage to the Bank.
- *Employment and safety at work* - Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- *Customers, products and professional practices* - Events due to non-compliance/ negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- *Damage from external events* - Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.

- *Operational interruptions and system malfunctions* - Events attributable to interruption of business continuity and unavailability / malfunctioning of the information systems used to support company operations.
- *Execution, delivery and management of processes* - Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services).

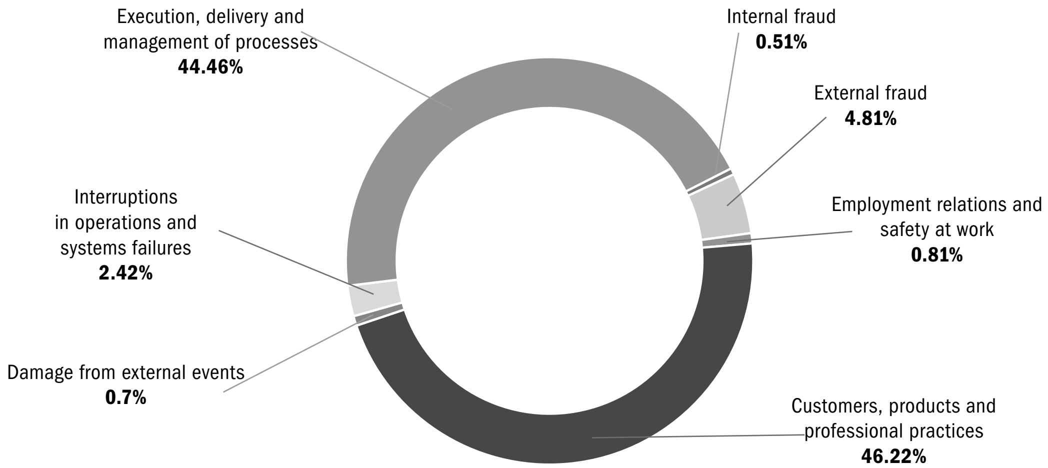
It should be noted that the total losses incurred by the Group in 2021 in the face of the Covid-19 pandemic emergency can be qualified as one-off costs attributable to one type of operational risk event: Operational interruptions and system malfunctions.

Banca Popolare di Sondrio Group – Sources of operational losses (accounting period: 01/01/2017 – 31/12/2021)

Number of operational loss events – breakdown by Event Type



Impact of the events of operational losses – Breakdown by Event Type



1.6 Banking group - Sovereign risk

Information on exposure to sovereign debt

Consob with communication no. DEM/11070007 of 5 August 2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard, the overall exposure of the banking group at 31 December 2021 amounted to 12,655 million and was structured as follows:

a) Italian government securities: 8,208 million;

b) Securities of other issuers: 3,030 million;

c) Loans to government departments: 81 million;

d) Loans to state-owned or local government-owned enterprises: 1,265 million;

e) Loans to other public administrations and miscellaneous entities: 71 million.

PART F *Information on consolidated equity*

Section 1 *Consolidated equity*

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for Group to absorb any losses without prejudicing the rights of depositors, bearing in mind that losses also affect the bank's reputation.

The need for adequate capital was made even more evident by the crisis of the last ten years and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis of the last ten years has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery. Supervisory Bodies are focusing more and more on the capital adequacy of banks, seeking to ensure that it is proportionate to the overall degree of risk accepted.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy of the Parent Company has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by management.

By resolution of the shareholders' meeting of 29 December 2021, the Bank, in accordance with the provisions of Law 33 of 24 March 2015, converted from a cooperative company limited by shares to a joint-stock company. The transformation into a joint-stock company will not undermine the founding principles that underpin the Bank's activities.

This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse. The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Group to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the bank to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity. It should be pointed out that the explosion of the crisis and the negative repercussions on bank financial statements have had a negative impact on self-financing, which in the past has always made a substantial contribution to the capitalisation of credit institutions. The ongoing tensions experienced in recent years that have affected various banks have not, in the last analysis, facilitated the projects to strengthen the capital adequacy of the bank, despite the growth in operations designed to add specialist instruments in support of the real economy. In this context, we have acquired Factorit Spa, Banca della Nuova Terra spa and Prestinuova spa in recent years, while also increasing the equity interests held in companies with complementary activities. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of 343 million euro.

With the transformation, the partners and shareholders who did not take part in the related resolution have the right of withdrawal pursuant to art. 2437 of the Italian Civil Code. The unit liquidation value, in accordance with the provisions of art. 2437-ter, paragraph 3, was determined to be 3.7548 euro per share. This right was exercised by 17 shareholders for a total of 12,676 shares, which were offered under option pursuant to art. 2437-quater of the Italian Civil Code.

The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

ESMA (European Securities and Markets Authority) with document 725/2012 of 12 November, noting that the market value of many companies listed on the markets, due to the current economic situation, is lower than the book value, recommended to perform impairment tests as required by IAS 36. The Parent Company decided to carry out a second-level impairment test, i.e. applied to the entire company rather than individual assets, comparing the Group's overall recoverable value with the book value of consolidated shareholders' equity at 31/12/2021. The method used to estimate the recoverable value is the Dividend Discount Model (DDM), which assumes that the economic value of the Group is equal to: the sum of the dividends distributable to shareholders over the chosen planning period (2022-2025), maintaining an adequate level of capitalisation to guarantee the expected future development, and assuming a dividend growth rate after the explicit planning period of 1.50% per annum and a cost of capital used to discount future dividends of 8.7%. The test carried out by the Planning and Investor Relations Department showed that the Group was worth more than its consolidated equity.

The value in use of the Group amounted to 3,929 million euro, with a surplus over consolidated equity of 659 million euro.

In line with the warnings issued by CONSOB, and with ESMA's statements, aimed at underlining the importance of providing updated information due to the complexity of the current situation, characterised by the presence of elements of uncertainty inherent in the duration and size of the negative impacts of the pandemic on the macro-economy, specific sensitivity analyses were carried out to assess the effects on the values in use and, consequently, on the results of the Impairment tests on the main parameters underlying the valuation model (cost of capital and medium-long term growth rate).

These analyses highlighted differences between the values in use during the year and the extreme values, that did not reveal any particular «prospective» critical issues regarding the successful outcome of the assessments.

In particular, the impacts on the values in use, namely +/- 25 and 50 basis points in the cost of capital and +/- 25 and 50 basis points in the medium/long term growth rate, were verified and for all the assumed combinations the values in use were higher than the comparative values.

In order not to jeopardise the positive outcome of these valuation exercises, the maximum sustainable level in terms of cost of capital (discount rate) was quantified. The tolerance margin on the cost of capital was approximately 2.4 percentage points.

B. QUANTITATIVE INFORMATION

In addition to as described below, for information on the component parts and size of the Group's capital and equity refer to Part B, Liabilities, sections 14 and 13 of these notes to the financial statements.

B.1 Analysis of consolidated equity by type of company

Items/Amounts	Consolidation for supervisory purposes	Insurance companies	Other companies	Eliminations and adjustments from consolidation	**Total**
1. **Share capital**	**1,393,736**	**–**	**–**	**–**	**1,393,736**
2. **Share premium reserve**	**83,363**	**–**	**–**	**–**	**83,363**
3. **Reserves**	**1,547,892**	**–**	**899**	**67,348**	**1,616,139**
4. **Equity instruments**	**–**	**–**	**–**	**–**	**–**
5. **(Treasury shares)**	**(25,457)**	**–**	**–**	**–**	**(25,457)**
6. **Valuation reserves**	**24,906**	**–**	**192**	**7,178**	**32,276**
– Equity securities measured at fair value through other comprehensive income	74,671	–	–	–	74,671
– Hedge of equity securities measured at fair value through other comprehensive income	–	–	–	–	–
– Financial assets (other than equity securities) measured at fair value through other comprehensive income	13,468	–	–	–	13,468
– Property, equipment and investment property	9,817	–	–	–	9,817
– Intangible assets	–	–	–	–	–
– Hedges of foreign investments	–	–	–	–	–
– Cash-flow hedges	–	–	–	–	–
– Hedging instruments (non-designated elements)	–	–	–	–	–
– Exchange differences	–	–	–	998	998
– Non-current assets and disposal groups held for sale	–	–	–	–	–
– Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)	–	–	–	–	–
– Actuarial profits (losses) related to defined-benefit pension plans	(73,050)	–	–	–	(73,050)
– Portions of valuation reserves related to subsidiaries carried at equity	–	–	–	6,180	6,180
– Special revaluation regulations	–	–	192	–	192
7. **Profit (Loss)**	**250,991**	**–**	**1,122**	**22,907**	**275,020**
Total	**3,275,431**	**–**	**2,213**	**97,433**	**3,375,077**

B.2 Valuation reserve of financial assets measured at fair value through other comprehensive income: breakdown

	Consolidation for supervisory purposes		Insurance companies		Other companies		Eliminations and adjustments from consolidation		**Total**	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	17,462	(3,994)	–	–	–	–	–	–	17,462	(3,994)
2. Equity securities	77,750	(3,079)	–	–	–	–	–	–	77,750	(3,079)
3. Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2021	**95,212**	**(7,073)**	**–**	**–**	**–**	**–**	**–**	**–**	**95,212**	**(7,073)**
Total 31/12/2020	**103,414**	**(3,550)**	**–**	**–**	**–**	**–**	**–**	**–**	**103,414**	**(3,550)**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes in the year

	Fixed-yield securities	Equity securities	Loans
1. **Opening balance**	**25,700**	**74,164**	**–**
2. **Positive changes**	**7,624**	**13,484**	**–**
2.1 Increases in fair value	7,622	13,046	–
2.2 Adjustments for credit risk	–	–	–
2.3 Transfer to income statement of negative reserves from disposals	2	–	–
2.4 Transfer to other components of equity (equity securities)	–	438	–
2.5 Other changes	–	–	–
3. **Negative changes**	**(19,856)**	**(12,977)**	**–**
3.1 Reductions in fair value	(9,902)	(9,586)	–
3.2 Writebacks for credit risk	–	–	–
3.3 Transfer to income statement from positive reserves: from disposals	(9,954)	–	–
3.4 Transfer to other components of equity (equity securities)	–	(3,391)	–
3.5 Other changes	–	–	–
4. **Closing balance**	**13,468**	**74,671**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes in the year

The valuation reserve relating to the defined-benefit plans is negative by 73.050 million euro.

This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 *Capital and banking capital adequacy ratios*

The disclosure on own funds and capital adequacy is represented in the document «Disclosure to the Public - Pillar 3 at 31 December 2021» prepared on the basis of the regulatory provisions established by Circular no. 285 of 17 December 2013 and subsequent updates, issued by the Bank of Italy, and by Regulation (EU) no. 575/2013 of the European Parliament and Council of 26 June 2013 (CRR). The document contains consolidated information and is published together with the financial statements on the Parent Company's website.

PART H *Related-party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and Surname	Office	Period in office	Expiry of office	Fees for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other remuneration
FRANCESCO VENOSTA	Chair	01/1/2021-31/12/2021	31/12/2021	254			49
LINO STOPPANI	Deputy Chair	01/1/2021-31/12/2021	31/12/2022	167			15
MARIO ALBERTO PEDRANZINI	Director	01/1/2021-31/12/2021	31/12/2022	205			135
PAOLO BIGLIOLI	Director	01/1/2021-31/12/2021	31/12/2022	49			-
ALESSANDRO CARRETTA	Director	01/1/2021-31/12/2021	31/12/2023	49			-
CECILIA CORRADINI	Director	01/1/2021-31/12/2021	31/12/2022	48			-
LORETTA CREDARO	Director	01/1/2021-31/12/2021	31/12/2023	53			-
DONATELLA DEPPERU	Director	01/1/2021-31/12/2021	31/12/2023	53			-
FEDERICO FALCK	Director	01/1/2021-31/12/2021	31/12/2021	47			-
ATTILIO PIERO FERRARI	Director	01/1/2021-11/05/2021	11/05/2021	19			-
LUCA FRIGERIO	Director	11/5/2021-05/10/2021	05/10/2021	20			-
CRISTINA GALBUSERA	Director	01/1/2021-31/12/2021	31/12/2021	50			-
PIERLUIGI MOLLA	Director	09/11/2021-31/12/2021	31/12/2023	12			-
ADRIANO PROPERSI	Director	01/1/2021-31/12/2021	31/12/2023	51			70
ANNALISA RAINOLDI	Director	01/1/2021-31/12/2021	31/12/2022	55			-
SERENELLA ROSSI	Director	01/1/2021-31/12/2021	31/12/2021	51			-
DOMENICO TRIACCA	Director	01/1/2021-31/12/2021	31/12/2021	79			2
PIERGIUSEPPE FORNI	Chair of the outgoing Board of Statutory Auditors	01/1/2021-11/05/2021	11/05/2021	39			11
LAURA VITALI	Statutory Auditor	01/1/2021-31/12/2021	31/12/2023	88			-
LUCA ZOANI	Statutory Auditor	01/1/2021-11/05/2021	11/05/2021	33			29
SERENELLA ROSSANO	Chair of the incoming Board of Statutory Auditors	11/05/2021-31/12/2021	31/12/2023	71			-
MASSIMO DE BUGLIO	Statutory Auditor	11/05/2021-31/12/2021	31/12/2023	56			-
MARIO ALBERTO PEDRANZINI (*)	General Manager	01/01/2021-31/12/2021		-	90	100	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		01/01/2021-31/12/2021		-	107	292	1,531

(*) also Managing Director

In accordance with the changes introduced by Consob resolution no. 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the «Remuneration Report» available both at its head office and on its website. This report provides details on the data summarised above. The «Remuneration Report» also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the reporting date, emoluments for 2.873 million euro have been paid. The column «Emoluments for the office» includes 0.108 million euro for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 22 and 38 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution no. 17221 of 12/3/2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the Directors and Statutory Auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

(thousands of euro)	Assets	Liabilities	Income	Charges	Guarantees given and commitments	Guarantees received
Directors	644	9,876	15	27	135	1,537
Statutory auditors	801	507	8	–	363	2,165
Management	–	817	–	10	620	–
Family members	1,825	15,375	35	59	889	12,610
Subsidiaries	4,553,898	146,111	6,639	249	1,884,722	13,637
Associated companies	1,015,025	183,602	2,594	24	262,746	1,202
Other	2,247	1,095	41	–	1,292	1,275

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit spa and Banca della Nuova Terra spa, while loans to associated companies relate for 434 million euro to Alba Leasing.

PART L *Segment information*

Segment information has been prepared in compliance with IFRS 8, the introduction of which did not involve significant changes in the identification of operating segments or in management reporting methods compared with IAS 14.

Given that the Group's benefits and risks are significantly influenced by differences in the various products and services and only marginally by the territorial distribution of the sales network, the primary segment comprises the Bank's business activities while the secondary segment relates to the geographical areas concerned.

Each sub-segment has been identified based on the nature of the products and services offered and on the type of customer concerned, so that the related risk profile and profitability are sufficiently similar.

Even though this classification reflects the lines of business envisaged under the Standardised Approach for calculating the minimum capital requirement for operational risk, it is based substantially on internal practice for the subdivision of activities used to apply corporate policies and to evaluate their results.

Geographical information is based on the distribution of branches throughout Italy and Switzerland.

A. Primary format

A.1 Distribution by activity sectors: economic data

The following sub-segments are discussed:

- *Corporate:* these comprise «non-financial companies» and «family»; the figures shown here relate to credit and loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- *Individuals and other customers:* these comprise «consumer households», «public administrations», «finance companies» and «non-profit organisations»; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- *Securities:* this sub-segment comprises the results of transactions with customers involving direct trading in, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- *Central functions:* this sub-segment reports the results deriving from the management of portfolio own securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant.

The following tables show the pre-tax results of the above sub-segments for 2021 and 2020.

Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment.

This aspect is managed by using a multiple internal transfer rate («treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements.

Items	Corporate	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2021**
Interest income	306,368	252,870	–	197,399	756,637	-114,569	642,068
Interest expense	-29,946	-93,218	–	-104,549	-227,713	114,569	-113,144
Net interest income	**276,422**	**159,652**	**–**	**92,850**	**528,924**	**–**	**528,924**
Fee and commission income	155,312	82,945	114,792	22,428	375,477	-675	374,802
Fee and commission expense	-5,270	-5,577	-6,482	451	–16,878	-270	-17,148
Dividends and similar income	–	–	–	5,208	5,208	–	5,208
Net trading income	–	–	–	63,650	63,650	–	63,650
Net hedging gains (losses)	–	462	–	–219	243	–	243
Gains/losses from sales or repurchases	7,020	-3,344	–	42,940	46,616	–	46,616
Net change in financial assets and liabilities measured at fair value	4,733	–535	–	22,528	26,726	–	26,726
Total income	**438,217**	**233,603**	**108,310**	**249,836**	**1,029,966**	**-945**	**1,029,021**
Net adjustments to financial assets	-116,070	-26,407	–	-2,808	-145,285	–	-145,285
Net financial income	**322,147**	**207,196**	**108,310**	**247,028**	**884,681**	**-945**	**883,736**
Administrative expenses	-125,359	–174,369	-55,198	-143,765	-498,691	-62,321	-561,012
Net accruals to provisions for risks and charges	5,109	–4,935	–	–1,022	–848	–	-848
Depreciation and net impairment losses on property, equipment and investment property	-10,184	-14,634	-4,872	-7,669	-37,359	–	-37,359
Amortisation and net impairment losses on intangible assets	-4,506	-6,267	-2,033	-3,869	-16,675	–	-16,675
Other operating income/expense	3,366	3,424	-58	1,302	8,034	63,266	71,300
Net gains (losses) on equity investments	–	–	–	35,901	35,901	–	35,901
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-882	-882	–	-882
Gains/losses on sale of investments	–	–	–	384	384	–	384
Gross profit	**190,573**	**10,415**	**46,149**	**127,408**	**374,545**	**–**	**374,545**

Items	Corporate	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2020**
Interest income	314,637	260,363	–	156,199	731,199	-136,799	594,400
Interest expense	-38,234	-95,355	–	-107,600	-241,189	136,799	-104,390
Net interest income	**276,403**	**165,008**	**–**	**48,599**	**490,010**	**–**	**490,010**
Fee and commission income	149,896	71,400	96,767	16,263	334,326	-829	333,497
Fee and commission expense	-5,571	-6,042	-5,550	240	-16,923	-158	-17,081
Dividends and similar income	–	–	–	4,375	4,375	–	4,375
Net trading income	–	–	–	12,473	12,473	–	12,473
Net hedging gains (losses)	–	290	–	-325	-35	–	-35
Gains/losses from sales or repurchases	-36,543	-4,528	–	40,354	-717	–	-717
Net change in financial assets and liabilities measured at fair value	-703	-1,249	–	-893	-2,845	–	-2,845
Total income	**383,482**	**224,879**	**91,217**	**121,086**	**820,664**	**-987**	**819,677**
Net adjustments to financial assets	-96,992	-37,730	–	-13,940	-148,662	–	-148,662
Net financial income	**286,490**	**187,149**	**91,217**	**107,146**	**672,002**	**-987**	**671,015**
Administrative expenses	-126,977	-166,977	-53,653	-129,925	-477,532	-52,294	-529,826
Net accruals to provisions for risks and charges	-6,744	-6,438	–	140	-13,042	–	-13,042
Depreciation and net impairment losses on property, equipment and investment property	-10,388	-15,003	-5,050	-13,574	-44,015	–	-44,015
Amortisation and net impairment losses on intangible assets	-4,296	-6,066	-1,999	-4,300	-16,661	–	-16,661
Other operating income/ expense	4,578	3,600	19	1,634	9,831	53,281	63,112
Net gains (losses) on equity investments	–	–	–	26,997	26,997	–	26,997
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-707	-707	–	-707
Gains/losses on sale of investments	–	–	–	54	54	–	54
Gross profit	**142,663**	**-3,735**	**30,534**	**-12,535**	**156,927**	**–**	**156,927**

A.2 Distribution by activity sector: financial data

Items	Corporate	Individuals and other customers	Sector securities	Functions central	**Total 31/12/2021**
Financial assets	18,968,148	13,821,782	–	14,801,411	47,591,341
Other assets	–	–	–	6,814,349	6,814,349
Property, equipment and investment property	124,220	174,347	56,989	223,890	579,446
Intangible assets	4,956	7,074	2,343	16,640	31,013
Financial liabilities	11,226,840	28,125,591	–	10,932,995	50,285,426
Other liabilities	12,906	5,799	–	1,007,689	1,026,394
Provisions	118,222	114,067	26,950	70,013	329,252
Guarantees given	3,807,439	445,424	–	157,955	4,410,818
Commitments	13,007,170	2,999,902	37,736	315,026	16,359,834

Items	Corporate	Individuals and other customers	Sector securities	Central functions	**Total 31/12/2020**
Financial assets	18,671,769	12,626,888	–	12,023,723	43,322,380
Other assets	–	–	–	5,889,090	5,889,090
Property, equipment and investment property	119,125	169,056	55,978	223,640	567,799
Intangible assets	4,043	5,749	1,907	16,629	28,328
Financial liabilities	9,551,698	26,035,239	–	9,839,297	45,426,234
Other liabilities	11,833	1,261	–	938,497	951,591
Provisions	123,289	111,805	26,900	72,104	334,098
Guarantees given	3,110,809	481,211	–	96,547	3,688,567
Commitments	13,068,801	2,891,244	37,018	237,641	16,234,704

Summary discussion of results

The results of the various sub-segments are discussed below.

Corporate: in particular, Factorit's contribution is appreciable, which in this context shows a positive result of 28,482 thousand euro, an increase compared with the previous year (+72.7%), mainly thanks to the significant reduction in adjustments to financial assets and the appreciable growth in net commissions, which amply offset the contraction in net interest income.

This segment contributes 50.9% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to 18,968 million euro and 11,227 million euro respectively.

With respect to total income, net adjustments for the impairment of financial assets represent 26.5% of the total, while administrative expenses absorb 28.6%.

Comparison with the prior year shows a significant increase in the segment result (+47,910 thousand euro), mainly because of the Parent Company's contribution with a rise of 37,555 thousand euro, attributable above all to a combination of the following factors:

- a slight increase in net interest income (+1.5%), in a general context of falling interest rates, both in terms of loans, where the largest volumes are recorded, and in particular in terms of deposits, where a significant increase in volumes was recorded, against which negative rates were applied to customers on deposits above a set threshold;
- significant increase in commission flows (+2.8%), where an appreciable upward trend is evident in all sectors;
- positive differential compared to the previous year of the contribution to the income statement (item «Gains/losses on sale») deriving from the disposal of impaired receivables;
- significant growth in value adjustments on financial assets (+23.5%), mainly due to the marked increase in provisions and losses, only partially offset by the growth in value recoveries;
- significant increase in administrative expenses (+2.1%, of which sundry costs -0.8%, personnel costs +5.0%);
- significant increase in net accruals and provisions for risks and charges.

Individuals and other customers: the contribution of the Swiss subsidiary was decisive, with a positive result of 33,710 thousand euro, up on the previous year (+7.1%), primarily due to the improvement in net interest income.

Also significant was the contribution made by BNT, which, thanks to the return on salary/pension-backed loans, achieved a positive result of 5,726 thousand euro (+25.0% compared to the previous year).

This segment contributes 2.8% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to 13,822 million euro and 28,126 million euro respectively.

Net adjustments for the impairment of financial assets represent 11.3% of the total income, while administrative expenses absorb 74.6%.

Comparison with the previous year shows a significant increase in the result of this segment (+14,150 thousand euro), mainly due to the performance of the Parent Company, which recorded an increase of 9,985 thousand euro, principally attributable to the joint effect of the following factors:

- significant reduction in net interest income (-7.2%), due to a general contraction in rates, which had a greater impact on deposits, where much higher volumes were recorded;
- marked increase in commission flows (+14.7%), where an appreciable upward trend is evident in all sectors;
- considerable reduction in value adjustments on financial assets (-27.5%), mainly due to the marked improvement in provisions and contingent assets, the overall effect of which far exceeded the significant increase in losses;
- significant increase in administrative expenses (+3.1%, of which sundry costs +1.8%, personnel costs +4.4%).

Securities: This segment contributes 12.3% of overall results.

Compared to the intermediation margin, administrative expenses affect the amount of 51.0%.

The comparison with the previous year highlights a marked improvement in the sector result (+51.1%), mainly due to the contribution of the parent company, where there was an increase of 11,636 thousand euro, mainly due to the significant increase of commission flows (+17.1%), mainly attributable to the significant growth recorded in particular in the segments relating to investment funds and insurance products.

A significant contribution was also made by the Swiss subsidiary undertaking, which reported net income of 4,599 thousand euro

Central functions: this segment contributes 34.0% of overall results.

The subsidiaries show a contribution of -24,817 thousand euro overall, a slight decrease on the y/y comparison (-1.0%).

The comparison with the previous year shows a significant increase in the result, mainly due to the contribution of the Parent Company, where an increase of 130,426 thousand euro was recorded, essentially due to the improvement in the result of financial activities (higher trading profits recorded), together with the positive annual trend of the interest income, which benefited in particular from funding from refinancing operations with the ECB (TLTRO III).

B. Secondary format

The following information refers to the location of branches.

An alternative analysis, based on the residence of counterparties, does not give significantly different results.

Branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In particular, in the North, the volume of business is principally generated by «non-financial companies» and «consumer households and family businesses», while in Central Italy the «public administrations» are especially significant.

There are differences between the Parent Company and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted. Accordingly, the analysis includes the «Swiss» area as well as the domestic market.

B.1 Distribution by geographical areas: economic data

Items	Northern Italy	Central- Southern Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2021**
Interest income	635,943	56,172	66,464	758,579	-116,511	642,068
Interest expense	-212,598	-6,983	-8,046	-227,627	114,483	-113,144
Net interest income	**423,345**	**49,189**	**58,418**	**530,952**	**-2,028**	**528,924**
Fee and commission income	300,541	47,976	29,393	377,910	-3,108	374,802
Fee and commission expense	-12,310	-3,727	-2,771	-18,808	1,660	-17,148
Dividends and similar income	22,299	–	36	22,335	-17,127	5,208
Net trading income	50,606	–	13,340	63,946	-296	63,650
Net hedging gains (losses)	–	–	462	462	-219	243
Gains/losses from sales or repurchases	47,603	–987	–	46,616	–	46,616
Net change in financial assets and liabilities measured at fair value	24,801	-1,048	2,922	26,675	51	26,726
Total income	**856,885**	**91,403**	**101,800**	**1,050,088**	**-21,067**	**1,029,021**
Net adjustments to financial assets	-136,469	-6,084	-2,452	-145,005	-280	-145,285
Net financial income	**720,416**	**85,319**	**99,348**	**905,083**	**-21,347**	**883,736**
Administrative expenses	-398,301	-39,038	-62,159	-499,498	-61,514	-561,012
Net allocations to provisions for risks and charges	2,853	-2,679	-853	-679	-169	-848
Depreciation and net impairment losses on property, equipment and investment property	-32,829	-2,982	-4,975	-40,786	3,427	-37,359
Amortisation and net impairment losses on intangible assets	-13,321	-1,345	-1,363	-16,029	-646	-16,675
Other operating income/expense	13,299	1,318	-1,604	13,013	58,287	71,300
Net gains (losses) on equity investments	-835	–	–	-835	36,736	35,901
Net result of fair value measurement of property, equipment and investment property and intangible assets	-882	–	–	-882	–	-882
Gains/losses on sale of investments	384	–	–	384	–	384
Gross profit	**290,784**	**40,593**	**28,394**	**359,771**	**14,774**	**374,545**

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2020**
Interest income	593,538	70,001	68,837	732,376	-137,976	594,400
Interest expense	-215,245	-13,637	-12,828	-241,710	137,320	-104,390
Net interest income	**378,293**	**56,364**	**56,009**	**490,666**	**-656**	**490,010**
Fee and commission income	265,341	46,476	24,431	336,248	-2,751	333,497
Fee and commission expense	-11,494	-4,523	-2,429	-18,446	1,365	-17,081
Dividends and similar income	21,120	–	11	21,131	-16,756	4,375
Net trading income	-6,575	–	19,119	12,544	-71	12,473
Net hedging gains (losses)	–	–	290	290	-325	-35
Gains/losses from sales or repurchases	-2,460	1,743	–	-717	–	-717
Net change in financial assets and liabilities measured at fair value	-2,095	296	-1,222	-3,021	176	-2,845
Total income	**642,130**	**100,356**	**96,209**	**838,695**	**-19,018**	**819,677**
Net adjustments to financial assets	-118,584	-27,324	-2,942	-148,850	188	-148,662
Net financial income	**523,546**	**73,032**	**93,267**	**689,845**	**-18,830**	**671,015**
Administrative expenses	-378,431	-39,263	-60,720	-478,414	-51,412	-529,826
Net allocations to provisions for risks and charges	-15,714	2,532	-103	-13,285	243	-13,042
Depreciation and net impairment losses on property, equipment and investment property	-39,461	-3,080	-4,972	-47,513	3,498	-44,015
Amortisation and net impairment losses on intangible assets	-12,595	-1,291	-1,483	-15,369	-1,292	-16,661
Other operating income/expense	13,458	1,621	188	15,267	47,845	63,112
Net gains (losses) on equity investments	-6,441	–	–	-6,441	33,438	26,997
Net result of fair value measurement of property, equipment and investment property and intangible assets	-707	–	–	-707	–	-707
Gains/losses on sale of investments	54	–	–	54	–	54
Gross profit	**83,709**	**33,551**	**26,177**	**143,437**	**13,490**	**156,927**

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 31/12/2021**
Financial assets	38,703,503	3,813,267	5,074,571	47,591,341
Other assets	5,845,428	–	968,921	6,814,349
Property, equipment and investment property	498,582	36,896	43,968	579,446
Intangible assets	27,324	1,457	2,232	31,013
Financial liabilities	34,944,115	9,707,784	5,633,527	50,285,426
Other liabilities	989,035	4,042	33,317	1,026,394
Provisions	264,796	36,576	27,880	329,252
Guarantees given	3,472,816	675,622	262,380	4,410,818
Commitments	13,771,756	2,276,309	311,769	16,359,834

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 31/12/2020**
Financial assets	34,807,750	3,895,072	4,619,558	43,322,380
Other assets	5,059,827	–	829,263	5,889,090
Property, equipment and investment property	487,395	35,692	44,712	567,799
Intangible assets	25,551	1,210	1,567	28,328
Financial liabilities	30,760,507	9,588,883	5,076,844	45,426,234
Other liabilities	921,326	2,906	27,359	951,591
Provisions	267,695	33,832	32,571	334,098
Guarantees given	2,888,268	671,496	128,803	3,688,567
Commitments	13,786,825	2,177,717	270,162	16,234,704

Disclosure of information State by State pursuant to Circular 285 of 17 December 2013 on «Supervisory provisions for Banks» 4th revision dated 17 June 2014

This information is available (in Italian) in the «Governance» section of the website www.popso.it.

PART M *Information on Leasing*

Section 1 *Lessee*

QUALITATIVE INFORMATION

Contracts that fall within the application of IFRS 16 can be grouped into three distinct categories:

a) buildings, which represent the most relevant cases and car parks with marginal;

b) cars;

c) other types, including the rental of IT equipment

In accordance with IFRS 16, the rights held under licence agreements have been excluded from the scope of application of the standard. They continue to be recognised under IAS 38 – Intangible assets.

The lease contracts mainly relate to buildings used as bank branches and generally have a duration of more than 48 months, typically 72 or 108 months, with automatic renewal options. The policy for contracts with an indefinite useful life is to align their useful life with the history of the contract at the FTA date. If the contract has no history, the useful life is aligned with that of the contract to which it is mostly functionally related or, failing that, with that of other contracts with similar characteristics. Lease instalments are revised annually from the second year of the contract to reflect 75% or 100% of the change in the consumer price index for the families of blue- and white-collar workers.

Lease contracts for cars and IT equipment usually have a duration of four years, without any renewal and/or purchase options and with monthly payments.

As indicated in para. 33 of IFRS 16 and considering that the contracts were arranged on market terms, no impairment has been identified with reference to the qualitative criteria applied by the group e.g. branch disposal or negotiation plans, out-of-use branches etc., that would require a reduction in the value of the related right-of-use assets.

In line with the disclosures required by paras. 51, 53 and 59 of IFRS 16, the following supplementary information is provided:

- variable lease payments: situations involving variable lease payments are marginal for disclosure purposes, as this practice is rare in contracts signed by the group;
- extension and termination options: contracts signed by the group generally envisage giving 6 months' notice of termination. Most contracts for the lease of branch premises require payment of the cost of restoring them to their original condition if the lease is terminated. This amount is negligible for disclosure purposes;
- guarantees on the residual value: the group does not provide guarantees on the residual value;
- leases not yet signed: the group has not made any lease commitments that might be considered material for disclosure purposes;
- sale and lease back transactions: the group is not party to transactions of this type.

Part B of the Notes to the financial statements provides information about leased right-to-use assets (Tables 9.1 - 9.6 Part B, Assets) and lease liabilities (Tables 1.1 - 1.6 Part B, Liabilities and equity). In particular, leased right-to-use assets total 181 million, while lease liabilities total 183 million euro.

Part C of the Notes to the financial statements contains the information required by para. 53 of IFRS 16 about the interest charged on lease liabilities and the income earned from sub-leasing transactions. See those sections for further details.

The Group applies the exemptions allowed by IFRS 16 for short-term leases and low-value leases, the costs of which amounted to 114,136 euro in 2020.

With Regulation (EU) 2021/1421 of 31 August 2021, the EU endorsed the IASB document «Concessions on royalties related to COVID-19 as of 30 June 2021 (Amendment to IFRS 16)». The amendment to the International Financial Reporting Standard (IFRS) 16 Leasing introduces as a practical expedient the possibility for the lessee not to treat the unpaid fees, as a direct consequence of Covid-19, as changes to the original contract and therefore do not imply a change of the amortisation plan of the lease, with consequent recalculation of the liability.

Taking the above into account, the Banca Popolare di Sondrio Group did not request any suspension of payment of the lease instalments to deal with the emergency; furthermore, no branch closure was carried out that could have revealed signs of impairment of the rights of use.

QUANTITATIVE INFORMATION

As required by para. 53 of IFRS 16, the following information is provided:

Carrying amount of right-to-use assets at the reporting date and the depreciation charge on right-to-use assets by category of underlying asset.

	2021				2020
Asset/Amount	Buildings*	Cars	Other	Total	Total
Initial right-of-use	198,629	365	173	199,167	222,814
Depreciation	(21,052)	(138)	(89)	(21,279)	(21,845)
Other changes	2,973	34	73	3,080	(1,802)
Closing carrying amount	**180,550**	**261**	**157**	**180,968**	**199,167**

* Including finance leases under IAS 17

As regards the Other changes during the year, the impact is due to recalculation of the right-of-use following the ISTAT changes and the opening/closing of contracts.

Section 2 *Lessor*

QUALITATIVE INFORMATION

The Group is party to operational leases on buildings. These operational lease contracts do not transfer to the lessee substantially all the risks and benefits deriving from ownership of the assets, which remain with the lessor. In the case of operational lease contracts, the lessor recognises the lease instalments in the income statement on an accruals basis.

QUANTITATIVE INFORMATION

1. Balance sheet and income statement information

Reference should be made to the contents of Part C - Income Statement, Table 16.2 (Other operating income: breakdown) for information on other income deriving from operating leases.

3. Operational leases

The maturities of the payments to be received are summarised below.

3.1 Maturities of payments to be received

	2021	2020
Time band	Lease payments to be received	Lease payments to be received
Within 12 months	119	154
From over 1 years to 2 years	110	140
From over 2 years to 3 years	101	128
From over 3 years to 4 years	93	117
From over 4 years to 5 years	85	107
Over 5 years	234	289
Total	**742**	**935**

3.2 Other information

No other information to be reported.

Attestation pursuant to art. 154-bis, para. 5, of Legislative Decree 58/98 on the consolidated financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.p.a., confirm:

– the adequacy in relation to the characteristics of the company and the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements for the period 1 January 2021 to 31 December 2021;
– the performance of analytical work with reference to the objectives identified for Company Level Controls valid for the entire scope of consolidation.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the consolidated financial statements are based on a model, defined by Banca Popolare di Sondrio Società per azioni, which makes reference to the principles of the «Internal Control - Integrated Framework (CoSO)», issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the consolidated financial statements at 31 December 2021:
– have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
– agree with the balances on the books of account and the accounting entries of Group companies;
– provide a true and fair representation of the equity, economic and financial situation of the Issuer and the whole of the companies included in the scope of consolidation.

The Report on Operations includes reliable analysis on the performance, result of operations and the business of the issuer and of all entities included in the consolidated financial statements as well as description of principal risks and uncertainties to which they are exposed.

Sondrio, 18 March 2022

The Managing Director

Mario Alberto Pedranzini

The Manager responsible for preparing the company's accounting documents

Maurizio Bertoletti

Banca Popolare di Sondrio S.p.A.

Consolidated financial statements at December 31, 2021

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Independent auditor's report In accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Sondrio S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca Popolare di Sondrio Group (the "Group"), which comprise the consolidated balance sheet at December 31, 2021, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the cash flow statement for the year then ended, and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at December 31, 2021 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n.136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Banca Popolare di Sondrio S.p.A. (the "Bank" or the "Parent Company") in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We identified the following key audit matter:

Key audit matter	Audit response
Classification and measurement of loans to customers ("Loans") Loans measured at amortised cost, presented in item 40 b) of the balance sheet, amount to approximately Euro 29,906 million and represent about 54% of total assets. The classification and valuation of Loans is relevant for the audit both as the value of Loans is significant for the consolidated financial statements as a whole and as the value of the related impairment losses is determined by the Directors through the use of estimates that have a high degree of complexity and subjectivity. In addition, these estimation processes have been updated to reflect the current context of uncertainty about the evolution of the macroeconomic framework due to the spread of the Covid-19 pandemic, as well as government measures to support the economy. Among these, the following matters are particularly relevant: • the identification and calibration of parameters for determining the significant increase in credit risk compared to the initial detection date, for the purpose of allocating exposures in Stage 1 and Stage 2 (performing loans); • the definition of probability of default (PD), loss given default (LGD) and exposure at default (EAD) models and parameters applied for the calculation of expected credit losses (ECL) to one year for stage 1 classified exposures and lifetime for stage 2 classified exposures based on historical observation of data for each risk class and forward looking factors , including those macroeconomic related; • the identification of evidences that may suggest that the Loan book value(impairment evidence) cannot be fully recoverable, with subsequent classification of exposures in Stage 3 (non-performing loans);	In relation to these aspects, our audit procedures included, among others: • updating the understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of Loans and performing compliance procedures on the key controls, including those relating to IT safeguards, in order to verify its operational effectiveness; • performing substantive procedures, on sample basis, aimed at verifying the proper classification and measurement of Loans; • understanding the methodology used for statistical assessments and the reasonableness of the assumptions adopted, including the new macroeconomic scenarios and their weighting; • performing compliance and substantive procedures, aimed at verifying the accurate determination of PD, LGD and EAD parameters relevant for the determination of expected credit loss adjustments; • performing of benchmarking procedures for the portfolio and its related coverage levels, with reference to the most significant deviations from the balances of the previous year; • the verification, through analysis of the supporting documentation, of the accounting of the disposal of non-performing loans carried out during the year, resulting from the fulfilment of the plan aimed at reducing the portfolio of non performing loans. The procedures described above have also been carried out with the support of experts from the EY network on models for the evaluation of financial instruments and IT systems.

- for Loans classified in Stage 3, the determination of the criteria used for estimating the expected cash flows according to the recovery strategy.

Information on the evolution of the quality, classification and measurement of Loans is provided within Part A - Accounting Policies, in Part B - Information on the balance sheet, in Part C - Information on the Income Statement and in Part E - Information on risks and related hedging policy of the notes to the financial statements.

Finally, we have analysed the adequacy of the disclosure provided in the notes to the consolidated financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38 dated February 28, 2005 and article 43 of Legislative Decree n.136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Board of statutory auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of the Bank (at the time Banca Popolare di Sondrio S.C.p.A), in the general meeting held on April 29, 2017, appointed us to perform the audits of the consolidated financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the Board of statutory auditors ("Collegio Sindacale") in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion on the compliance with the provisions of Delegated Regulation (EU) no. 815/2019

The Directors of Banca Popolare di Sondrio S.p.A. are responsible for applying the provisions of the European Commission Delegated Regulation (EU) no. 815/2019 for the regulatory technical standards on the specification of a single electronic reporting format (ESEF – European Single Electronic Format) to the consolidated financial statement, to be included in the annual financial report.

We have performed the procedures under the auditing standard SA Italia no. 700B, in order to express an opinion on the compliance of the consolidated financial statement with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in the XHTML-format and have been marked-up, in all material aspects, in compliance with the provisions of Delegated Regulation.

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The Directors of Banca Popolare di Sondrio S.p.A., are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of the Group at December 31, 2021 including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of the Group at December 31, 2021 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of the Group at December 31, 2021 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The Directors of Banca Popolare di Sondrio S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information has been approved by directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information is subject to a separate compliance report signed by us.

Milan, April 8, 2022

EY S.p.A.
Signed by: Davide Lisi, Auditor

This report has been translated into the English language solely for the convenience of international readers.

RESOLUTIONS OF THE ORDINARY SHAREHOLDERS' MEETING

Of 30 April 2022 (in a single call)

AGENDA

1) *Approval of the financial statements at 31 December 2021: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions; presentation of the consolidated financial statements as of 31 December 2021;*
2) *Resolutions on remuneration matters:*
   a) *Approval of the document entitled «Remuneration Policies of the Banca Popolare di Sondrio Banking Group»;*
   b) *Approval, pursuant to art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act), of the Report on Remuneration Policy and the Compensation Paid;*
   c) *Approval of the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Remuneration policies of the Banca Popolare di Sondrio Banking Group for 2022;*
3) *Authorisation to purchase and sell treasury shares pursuant to art. 8 of the Articles of Association and articles 2357 and 2357-ter of the Italian Civil Code, art. 132 of Legislative Decree 58/98, Consolidated Finance Act, and article 144-bis of Regulation no. 11971 approved by Consob resolution of 14 May 1999, and authorisation to use the treasury shares already held in service of the Compensation Plan in implementation of the Remuneration policies;*
4) *Determination of directors' emoluments;*
5) *Appointment of five Directors for the three-year period 2022-2024.*

Point 1) on the agenda

The Shareholders' Meeting, having heard the directors' report on operations during 2021 and the proposed allocation of the profit for the year; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary and associated companies,

approved:

– the directors' report on operations;
– the financial statements as of 31 December 2021 in the results shown in the balance sheet and income statement and the related notes; financial statements that show a profit for the year of 212,099,145 euro. The Shareholders' Meeting also approved the allocation of the profit for the year of 212,099,145 euro, as proposed by the Board of Directors in accordance with the provisions of the Law and the Articles of Association, and more specifically resolved:
  a) to pay a dividend of 0.20 euro to each of the 453,385,777 shares in circulation at 31/12/2021 with dividend rights as from 01/01/2021,

transferring to the legal reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of	euro	90,677,155.40
b) to allocate the residual profit:		
– to the charity fund	euro	300,000
– to the legal reserve	euro	121,121,989.60

In accordance with the Stock Exchange calendar, the dividend was paid from 25 May 2022, going ex-coupon no. 44 on 23 May 2022.

Point 2) on the agenda

Letter a)

The Shareholders' Meeting approved the document «Remuneration Policies of the Banca Popolare di Sondrio Banking Group» and took note of the report on remuneration and incentive policies and practices, as well as the report on the activities carried out by the Remuneration Committee.

Letter b)

The Shareholders' Meeting approved the first Section of the Report on Remuneration Policy and the Compensation Paid; it also approved the second Section of the Report on Remuneration Policy and the Compensation Paid.

Letter c)

The Shareholders' Meeting approved the Compensation Plan, pursuant to article 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group for 2022.

Point 3) on the agenda

The Shareholders' Meeting resolved:

– to authorise the Board of Directors to purchase and/or dispose of ordinary treasury shares and/or to cancel them, pursuant to current legislation and the Articles of Association, for the period of time between today's date and the date of the Shareholders' Meeting called to approve the 2022 financial statements, on the basis specified below, on condition that the start of the purchase programme, or its suspension and/or its termination is authorised by the Board of Directors, with the right to delegate to the Executive Committee, which will therefore publish the information required pursuant to art. 144-bis, para.3, Issuers' Regulation on the programme start date;

<u>Purchase of treasury shares:</u>

- purchases may be made up to a maximum amount of 30,000,000 (thirty million) euro without exceeding the available reserves, on condition in all cases that the number of shares held never exceeds 2% of the shares representing share capital;

- purchase transactions may be made at any time until the date of the Shareholders' Meeting called to approve the 2022 financial statements;
- the purchase price of the shares must not be more than 20% greater than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction;
- purchases must be made in one of the ways specified in para.1, letters a), b), c), d-bis), d-ter), or in para.1-bis of art. 144-bis of Regulation 11971 approved by Consob on 14 May 1999, as subsequently amended.

Trading and sale of treasury shares

- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be traded and disposed of and, therefore, assigned even prior to making the maximum purchase covered by this requested authorisation, on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Company;
- the disposals or dispositions may be made at any time prior to the Shareholders' Meeting called to approve the 2022 financial statements;
- the treasury shares purchased may be disposed of, on one or more occasions, even prior to making the maximum authorised purchase of treasury shares;
- the disposals may be made on the basis and with the timing deemed most appropriate in the interests of the Bank, in any manner considered suitable in relation to the objectives pursued, without prejudice in all cases to compliance with the authorisation conditions and the applicable regulations;
- the selling price of the shares – if sold in the market – must not be more than 20% lower than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction.

Maximum volumes

- the purchases and sales – in the latter case if made in the market – must not exceed 25% of the average daily volume of the shares traded on the market run by Borsa Italiana S.p.A., calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each transaction.

Cancellation of treasury shares

- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be cancelled on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank, without prejudice to compliance with the regulatory requirements and the Articles of Association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

– to grant the Board of Directors, and the Managing Director, on its behalf, all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market.

The Shareholders' Meeting authorised the Board of Directors to use, up to a maximum total amount of 490,000 euro, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2022 Compensation Plan based on financial instruments during the life of that plan. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The Board of Directors, and the Managing Director, on its behalf, was also granted all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market.

Point 4) on the agenda

The Shareholders' Meeting determined the remuneration of the directors in compliance with the current «Remuneration Policies of the Banca Popolare di Sondrio Banking Group».

Point 5) on the agenda

The Shareholders' Meeting appointed as directors for the three-year period 2022-2024, in accordance with the articles of association, Francesco Venosta, Federico Falck, Anna Doro (independent director), Nicola Cordone (independent director), Serenella Rossi, (independent director), taken from «List no. 1».

THE PROGRESS OF BANCA POPOLARE DI SONDRIO IN THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Equity (capital &reserves) euro	Profit for the year euro	Dividend euro
1871	26	93	37	47	1	0.001
1875	109	675	569	181	21	0.002
1880	46	1,024	777	360	33	0.002
1885	213	1,431	1,161	410	42	0.002
1890	459	1,805	1,646	457	49	0.002
1895	840	1,380	1,631	453	36	0.002
1900	860	1,627	1,987	465	43	0.002
1905	940	2,330	2,834	504	53	0.002
1910	1,460	3,717	4,738	563	68	0.003
1915	2,425	3,399	5,178	658	59	0.002
1920	7,906	9,100	22,320	1,232	186	0.005
1925	9,114	35,692	39,924	2,303	523	0.006
1930	12,899	43,587	54,759	3,230	561	0.006
1935	21,402	30,912	53,190	3,543	339	0.004
1940	24,397	32,808	57,064	3,091	312	0.002
1945	112,239	101,840	191,619	6,491	817	0.002
1950	608,460	892,440	1,359,864	50,496	10,834	0.041
1955	1,413,363	2,372,139	3,573,499	262,122	25,998	0.124
1960	3,474,898	5,864,314	9,124,181	495,960	45,997	0.150
1965	6,564,058	9,861,955	18,238,851	670,265	60,044	0.170
1970	11,228,709	21,140,462	34,440,002	1,577,469	86,800	0.196
1975	49,247,998	46,458,454	103,136,018	4,940,413	336,351	0.284
1980	248,877,713	135,350,391	386,128,259	44,618,760	2,298,768	0.620
1981	303,227,605	149,856,755	435,958,220	70,294,839	3,543,126	0.878
1982	434,505,499	168,991,589	564,440,308	93,988,765	5,876,973	0.930
1983	551,731,767	201,889,280	722,876,267	105,498,725	9,795,722	1.394
1984	657,323,707	244,311,938	885,640,690	117,286,747	11,754,271	1.911
1985	669,773,787	327,572,423	985,454,131	123,347,208	13,332,058	2.582
1986	854,978,708	381,346,894	1,108,118,326	129,106,270	13,582,958	2.169
1987	954,429,924	407,643,937	1,205,007,005	134,486,897	13,588,657	2.169
1988	950,465,324	510,164,638	1,285,408,512	139,730,318	13,665,548	2.272
1989	958,277,398	634,760,956	1,431,120,712	145,100,954	13,984,014	2.324
1990	919,261,388	819,877,375	1,567,539,101	170,006,961	14,919,668	1.653
1991	886,480,827	1,014,385,379	1,708,284,250	192,743,654	16,018,859	1.653
1992	1,162,262,510	1,202,265,949	2,151,786,340	198,979,714	16,304,997	1.704
1993	1,675,065,908	1,441,158,530	2,862,510,529	250,913,662	17,860,906	1.136
1994	1,438,251,891	1,701,208,296	2,922,731,483	258,100,923	16,976,601	1.136
1995	1,828,374,994	1,903,530,111	3,401,567,857	335,480,368	18,688,353	0.413
1996	1,817,497,737	2,120,842,006	3,590,238,215	345,127,951	20,685,619	0.439
1997	1,730,940,393	2,485,706,688	3,844,781,082	353,507,281	20,796,084	0.439
1998	2,005,202,039	2,990,333,100	4,343,203,973	535,162,454	24,784,724	0.196
1999	1,993,529,114	3,724,763,745	5,058,960,710	557,555,696	30,555,532	0.232
2000	2,043,141,602	4,443,945,484	5,829,901,035	576,036,331	38,428,768	0.300
2001	2,618,137,267	5,579,546,805	7,374,954,358	731,304,438	46,064,525	0.180
2002	3,218,789,508	6,246,734,925	8,626,473,276	752,369,741	46,703,800	0.190
2003	2,827,584,863	7,117,211,453	9,139,503,657	773,957,639	60,117,119	0.230
2004	3,492,730,224	8,078,424,234	10,498,481,204	1,031,391,991	73,210,556	0.170
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190
2006	4,216,404,673	10,560,504,042	13,316,179,364	1,231,012,722	107,113,135	0.230
2007	5,174,395,815	12,402,268,867	15,844,113,698	1,592,235,650	130,823,404	0.220
2008	5,260,646,663	14,936,103,083	18,469,073,506	1,492,021,195	13,735,247	0.030
2009	4,794,397,579	16,711,080,589	19,779,755,056	1,683,715,881	190,674,454	0.330
2010	5,063,550,816	18,247,861,145	21,243,136,724	1,722,830,035	133,319,754	0.210
2011	5,742,516,051	20,606,382,386	24,261,565,885	1,676,472,699	57,283,707	0.090
2012	7,098,208,844	22,390,051,929	27,490,789,964	1,711,323,846	25,822,369	0.033
2013	8,696,206,457	20,843,577,225	27,752,052,266	1,773,767,299	48,831,672	0.050
2014	11,078,365,152	20,535,826,086	29,329,977,518	2,221,418,922	97,552,111	0.060
2015	10,945,940,157	20,021,406,321	28,704,284,801	2,334,513,952	100,064,082	0.070
2016	11,185,303,807	21,331,910,550	30,252,182,840	2,334,785,742	80,047,620	0.060
2017	15,201,247,408	21,819,028,458	34,664,943,911	2,426,948,619	118,400,102	0.070
2018	14,716,303,975	21,483,735,791	33,770,793,630	2,366,819,712	83,623,117	0.050
2019	12,258,037,925	22,314,013,776	33,139,673,205	2,517,571,741	100,695,191	0.000
2020	15,725,255,450	24,097,378,444	41,392,257,234	2,641,048,692	75,045,078	0.060
2021	18,378,602,771	25,039,636,995	45,539,331,233	2,831,986,698	212,099,145	0.200

The figures for the years prior to 1993 have not been adjusted for consistency with those of sub-sequent years, which are aggregated with different criteria following the regulatory changes that have occurred.

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