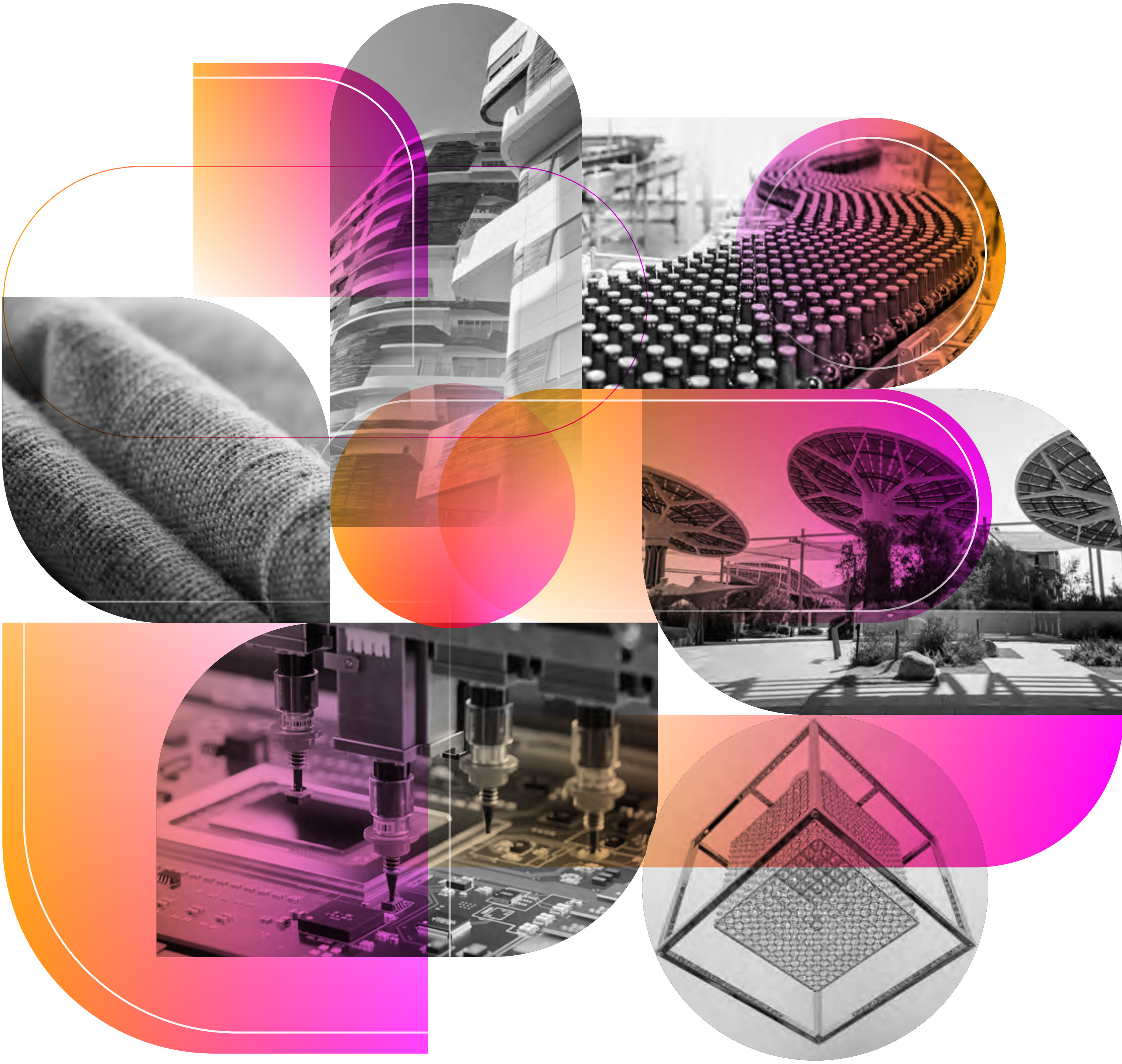
Financial Statements and Annual Report 2023



illimity
BANCA OLTRE LA FORMA

illimity for SMEs

We are a bank with a new paradigm that is completely innovative, has no existing legacy and uses the latest technologies, so that we can go beyond the limits of the traditional systems.

We were set up to discover and develop the potential of businesses, people and families through a business model designed not only to make profits, but also to be useful to the community, of which we genuinely feel part.

We want to be a long-term partner for Italian small and medium-sized enterprises (SMEs), going beyond financial support to forge pathways for development and growth.

Our support for companies is what drives us, every day, to always do more and better.

Highlights

All data as of 31.12.2023

7.3
billion euros
of assets thanks to the growth of net loans to customers and investments year on year

4.1
billion euros
including customer loans and investments

4.3
billion euros
direct total funding from retail and corporate

921
illimiters
from 350 different companies, 18 sectors and 25 countries

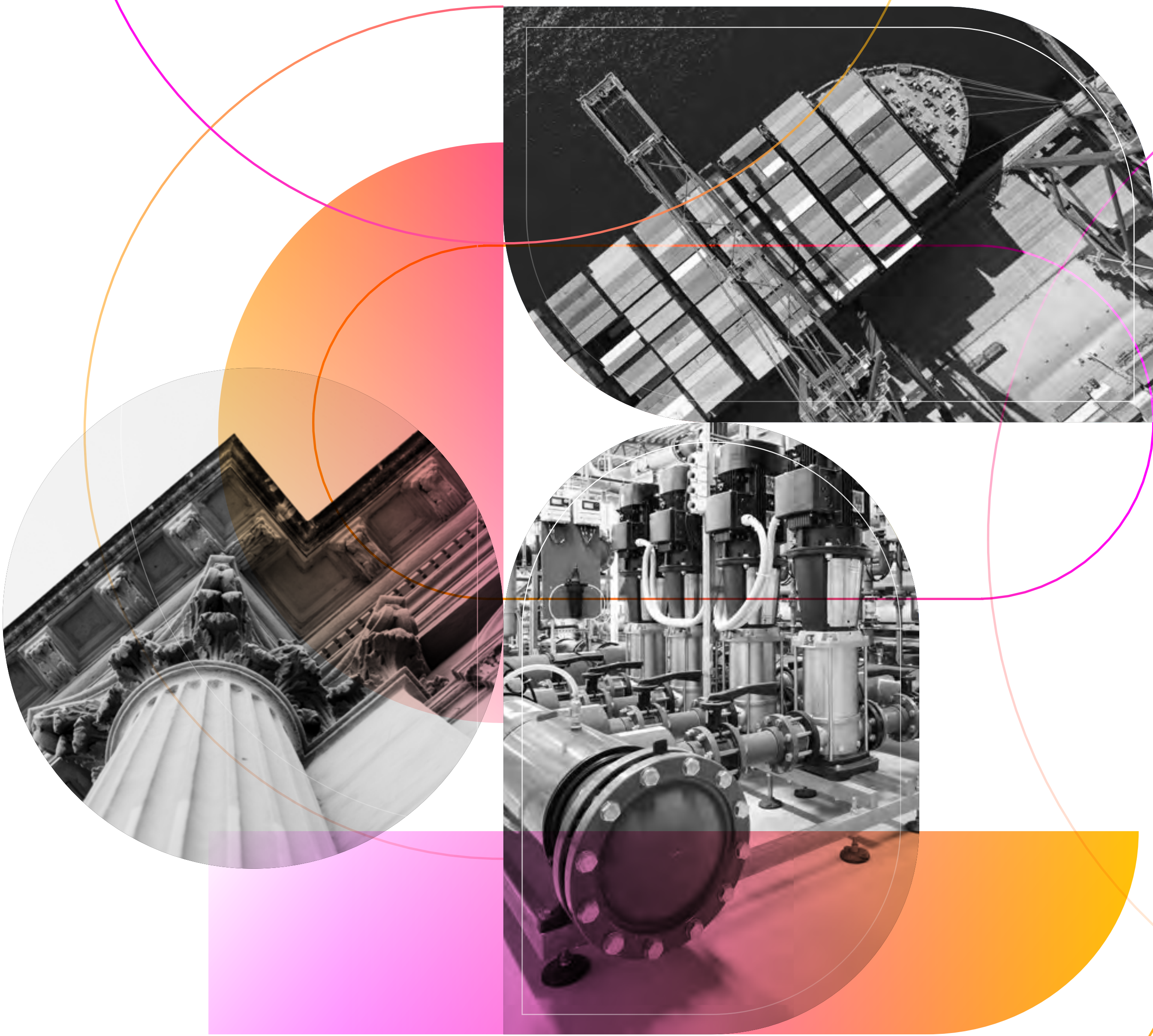
14.7%
CET1 ratio*
confirming the bank's soundness

104.4
million euros
net profit up by 39% on 31.12.2022

All data as of 31.12.2023

*Phased-in

2023 Financial Statements and Report



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Message from the Chair and Chief Executive Officer

Dear friends of illimity,

2023 is the fifth year of operation of our Bank.

These have been turbulent years, but illimity has never stopped growing: we **exceeded EUR 7 billion in assets and EUR 100 million in net profit**.

We have often had to adapt to unprecedented market conditions, but have always remained faithful to our founding mission: **to serve Small and Medium-Sized Enterprises operating in Italy**. Also in this last year, the volume of loans that we disbursed to this fundamental component of the Italian economy grew sharply, increasing by 24%, even though the market was declining on the whole.

The mix of our assets changed, and the performing and back to performing showed gradual growth. All forms of credit were significantly positive: Factoring, Structured Finance, Acquisition Finance, Special Situation & Turnaround and Asset Based Financing.

The sharp growth in assets and profits was achieved while maintaining a low risk profile, a sound capital position around 15% and a sound liquidity position that came to over EUR 1 billion.

All of these was achieved while continuously investing in our two fundamental strategic drivers: our people and our ongoing innovation.

Our people, **illimiters**: there are already over 900, from 25 countries, 300 organisations and more than 20 different sectors. With them, we have reached new milestones, in line with the values that have formed our identity since our beginning. Thanks to our people, the illimity Group was recognised as a **Great Place To Work** for the fifth year running, and was ranked as one of the Best Workplaces in Europe for the third time.

Ongoing innovation: the strategic driver that is part of our DNA and permeates our entire organisation. Our **next generation IT architecture**, unique and lacking a legacy, has become a revenue centre, confirming our medium-long term strategy. We are increasingly integrating the potential linked to artificial intelligence into our processes, to put it to work for our customers and favour the productivity of illimiters. In the last year, we managed to monetise our technology also through our agreement with Engineering, which transformed our IT architecture into a new source of revenues and business.

We continued to allocate a portion of our profits to business initiatives that leverage our expertise without losing the focus on our core business, but with the goal of creating equity in addition to that generated by operations, thereby favouring further growth and shareholder satisfaction. The development of our tech ventures has continued according to plan, and we believe they will generate value for the Group over the medium-term: **b-ilty** which provides digital banking services for the smallest enterprises; **Hype**, the leading platform in Italy for retail customers; and **Quimmo**, proptech and the leading Italian player in real estate brokerage on the judicial market, which opened to the free market through its partnership with Coima.

For us, sustainability has always been a value as fundamental as growth and profitability. This is clear from the fact that it has always been at the centre of our strategies, processes and governance, as illustrated in detail in the Sustainability

Report published along with the Consolidated Fi-

nancial Statements. We have renewed our full endorsement of the United Nations Global Compact, which, for illimity, is a commitment to contribute to promoting the Ten Principles, through cooperation and partnerships between varies stakeholders, in addition to our endorsement also of the **Principles for Responsible Banking**, (PRB), one of the most important sustainability frameworks in the financial sector, in November 2023.

Our commitment has remained the goal we set on our first day: “**earning profits while being useful**”. We are a business, and our mission is to make profit to remunerate capital, but we intend to do this with the utmost responsibility, being useful to all those who stand by us in this process, who will continue to trust in us.

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Rosalba Casiraghi Chairperson of illimity	Corrado Passera CEO of illimity

Composition of Corporate Bodies

BOARD OF DIRECTORS

We are continuing our commitment to generate benefits for all our stakeholders, by making strategic, responsible, inclusive choices with strong values shared at all levels of the organisation. The Board of Directors plays a key role in our corporate organisation. It is responsible for setting out strategic and organisational guidelines, as well as ensuring the existence of the necessary controls to monitor the progress of illimity and the Group companies.

The Shareholders' Meeting on 28 April 2022 resolved upon the new composition of the Group's strategic supervisory and control body following the adoption of the "monistic" governance model, approved by the Shareholders' Meeting on 21 February 2022.

The Board of Directors is therefore made up of 13 (thirteen) members, as listed below, including the members of the Audit and Internal Control Committee.

* On 22 February 2024, Director Patrizia Canziani resigned from her positions at illimity Bank S.p.A. She will remain in post until 31 March 2024 (inclusive).

AUDIT AND INTERNAL CONTROL COMMITTEE

Following the transition from the traditional form of governance to the "monistic" model, the role of control body is now carried out by the Audit and Internal Control Committee, whose members (who are also Directors) were appointed by the Shareholders' Meeting on 28 April 2022.

The Audit and Internal Control Committee performs the control functions provided for by the applicable supervisory and regulatory framework, and reports to the Supervisory Authority. It also carries out inspection and monitoring activities and requests updates from the other Directors on the progress of corporate operations or specific matters, including with regard to subsidiaries. Lastly, the Committee may exchange information with the corresponding bodies of subsidiaries with regard to administration and control systems and the general performance of corporate activities.

Chair	Members
Marco Bozzola	Stefano Caringi
	Nadia Fontana

COMMITTEES

illimity's governance structure includes six Committees, including the Audit and Internal Control Committee (as described above) and the following five Committees, which are appointed by the Board and whose function is to offer guidance, advice and suggestions:

Risk Committee
This Committee supports the Board of Directors with regard to risks and internal control systems so that the Board can correctly and effectively determine the RAF (Risk Appetite Framework) and the risk governance policies.
The Risks Committee and the Audit and Internal Control Committee promptly exchange information of mutual interest and coordinate on the performance of their respective duties.

Sustainability Committee
This Committee is tasked with assisting the Board of Directors, with guidance functions of a suggestion-making and advisory nature, in assessments and decisions relating to environmental, social and governance (ESG) issues and to technological innovation and artificial intelligence and, for the purposes of pursuing sustainable success, to the strategic plan of the Bank and the Group, as well as with regard to the relevant corporate governance matters (including in coordination with the Nominating Committee).

Remuneration Committee
This Committee is tasked with formulating suggestions to the Board of Directors in terms of remuneration and pay policies.

Nominating Committee
This Committee supports the Board of Directors in the nomination of Directors and the composition of the Board, the appointment of members of the corporate bodies of the main subsidiaries, and the appointment of the Bank's Top Management and identification of the Top Management of the main subsidiaries. The Committee also supports the Board with regard to the relevant Corporate Governance matters (in coordination with the Sustainability Committee).

Committee for Related Party Transactions
This Committee performs functions concerning related party transactions, in line with the provisions of Circular no. 285/2013 of the Bank of Italy, with regard to risks and conflicts of interests involving related parties, and in accordance with the applicable statutory, regulatory and By-laws provisions in force. The Committee also acts in accordance with provisions of the "Policy on Transactions with entities covered by the Single Perimeter of the illimity Banking Group" adopted pursuant to the applicable provisions of law.

SECRETARY OF THE BOARD OF DIRECTORS

Giovanni Lombardi

FINANCIAL REPORTING OFFICER

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

illimity stages

2018

January
Establishment of **SPAXS**, Italy's first Special Purpose Acquisition Company, with the aim of creating a new banking operator

April
The **Business Combination of SPAXS with Banca Interprovinciale** is announced

August
The SPAXS Shareholders' Meeting approves the Business Combination and **announces the name of the new bank: illimity**

2019

March
illimity Bank S.p.A. is created on 5 March, with its concurrent listing on the MTA of Borsa Italiana (Italian stock exchange)

April
neprix, the servicer specialising in the management of distressed corporate loans, is presented

June
A contract is signed for the **acquisition of IT Auction** which, together with neprix, creates the first end-to-end servicer specialising in distressed corporate credit

September
illimitybank.com is established, offering direct digital banking services to retail customers

2020

February
illimity SGR is authorised to establish and manage Alternative Investment Funds

May
Acquisition of 100% of **IT Auction**

September
- **Admission to the STAR segment of Borsa Italiana**
- An **agreement is signed with Fabrick** (Sella Group) for the joint venture in the fintech HYPE

2021

March
Qualification as a **Euronext Growth advisor** on the Euronext Growth Milan market, expanding illimity's offering to SMEs

April
iCCT is created, illimity SGR's first fund dedicated to investments in "UTP" loans to SMEs with the potential for restructuring and relaunch

May
Carbon Neutrality (Scope 1 and Scope 2) achieved

June
- **Fondazione illimity** is established to promote innovative projects in the social regeneration of property assets and in impact financing
- Approval of the **2021-25 Strategic Plan**

December
Endorsement of the **United Nations Global Compact**

2022

February

Launch of **b-ilty**, the first Digital Business Store for financial and credit services for SMEs

April

Launch of **Quimmo**, the Italian **prop-tech** platform created to meet the needs of both property buyers and sellers

May

An agreement is reached for the **acquisition of AREC,** which, integrated into neprix, creates a leading operator in the **servicing** of **Unlikely-to-Pay** ("UTP") loans

September

iREC, the second fund of illimity SGR, is launched, dedicated to **investments in distressed real estate loans**

October

Fondazione illimity presents its first projects: **Albergo Etico Cesenatico and (RE)GENERATION CAMP**

November

Gender equality certification obtained.

2023

January

ARECneprix, an asset management and structuring company, is created, through the merger of AREC into neprix

March

- fondazione illimity presents its new projects: **Barrio21**
- **iSC**, the third fund of illimity SGR dedicated to unlisted performing Italian SMEs is created
- illimity SGR endorses the **Principles for Responsible Investment**

April

illimity enters into a **long-term industrial partnership** with the **Engineering Group** to market and further develop the Bank's IT platform

May

COIMA invests in **Abilio**

October

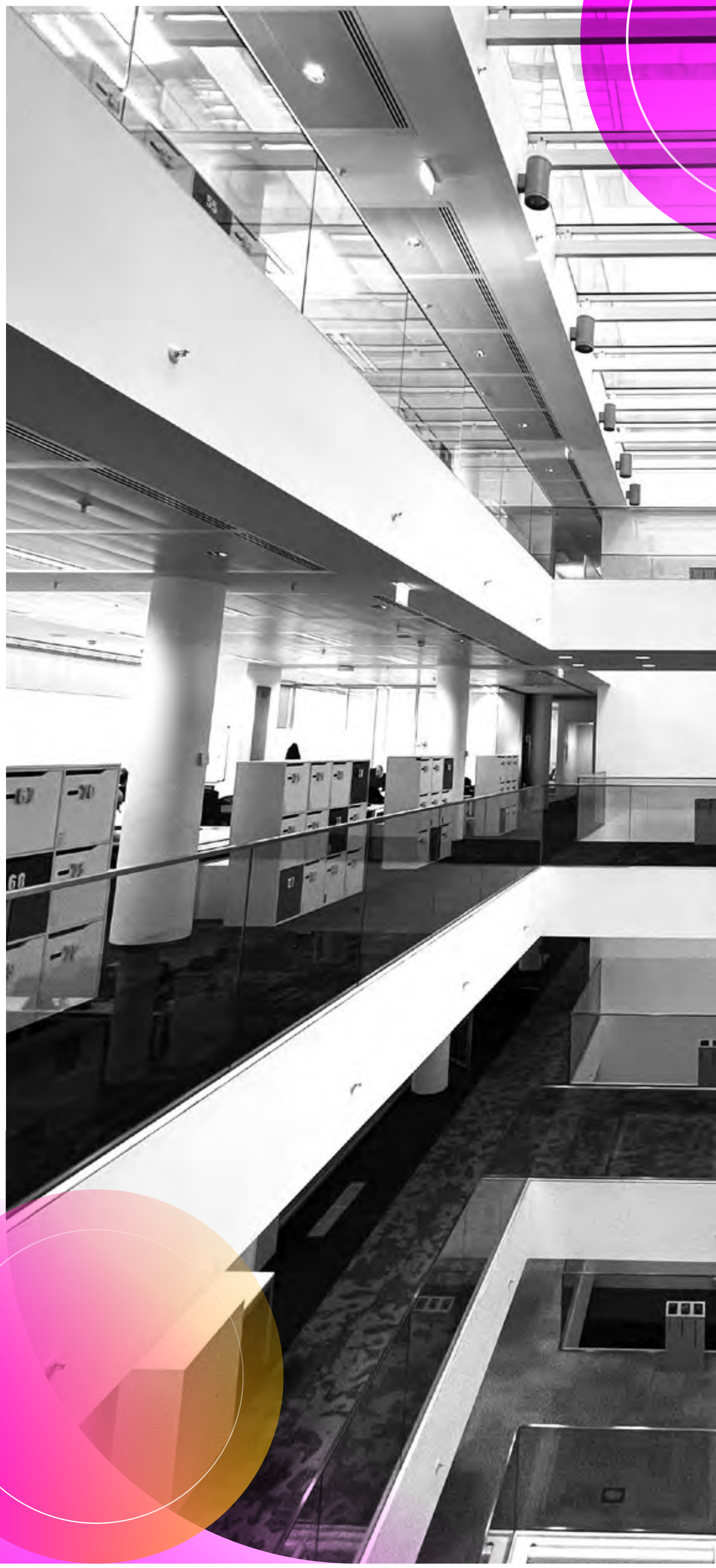
ARECneprix and **Finint Investments** announce the launch of a new real estate contribution fund called **Olympus Fund**

December

- The partnership with **SACE** is signed to accelerate the sustainable transition of Italian businesses thanks to the **Green Guarantee**
- illimity endorses the **Principles for Responsible Banking** of the UNEP FI

The illimity Group

The story begins in January 2018 with the launch of SPAXS, Italy's largest SPAC (special purpose acquisition company) and one of the largest in Europe, with the aim of acquiring and capitalising a company in the banking industry, closing with funding of EUR 600 million. With the 2018 acquisition of Banca Interprovinciale and the completion of the merger with SPAXS, illimity Bank was formed. It was listed on the MTA of the Italian stock exchange on 5 March 2019, and in the STAR segment from 10 September 2020. illimity is a new-paradigm bank, specialised in financing for small and medium-sized enterprises (SMEs), with a business model that is extremely innovative and highly technological. illimity provides credit to businesses that have great potential but as yet a low rating or no rating, and also covers the segment of non-performing (Unlikely-to-Pay) SMEs and offers various solutions for accessing capital markets via the creation of made-to-measure solutions aimed at development, organic and non-organic growth and financial structure optimisation. illimity acquires and manages Unlikely-to-Pay and non-performing corporate loans through its proprietary servicing platform, ARECneprix. Lastly, it offers innovative direct digital banking services for retail customers through illimitybank.com and for small businesses through b-ilty. In September 2020 it announced HYPE, a fintech joint venture with Fabrick.



The illimity Group is formed of the following companies:

Arec neprix S.p.A. was born out of the merger of neprix, a servicer that is wholly owned by illimity and specialises in the management of (primarily secured) distressed corporate loans, and AREC, which specialises in the management of UTP loans with a focus on the corporate real estate segment. The merger of these two players created an asset management and structuring company with a highly innovative and distinctive business model that covers the entire value chain of the credit management process.

illimity SGR S.p.A., the asset management arm of the illimity Group, was formed in order to set up and manage alternative investment funds, with a primary focus on corporate credit investments. It was licensed by the Bank of Italy in February 2020.

Abilio S.p.A., wholly owned by the Bank, whose purpose is to execute real estate operations and develop and organise sales through online and offline public auctions.

Quimmo Agency S.r.l., wholly owned by Abilio, is the real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties thanks to the *Quimmo* platform, which also includes a selection dedicated to luxury properties named *Quimmo Prestige*.

The Group also includes a number of securitisation vehicles, which are used for the acquisition of portfolios of distressed loans.

Management Team

At illimity, it's the people who make the difference: our men and women are motivated, determined and open to change. Each day, they work to multiply the potential of our customers, by going beyond the established models and practices.

Corrado Passera
CEO

Silvia Benzi
Chief Financial Officer

Andrea Clamer
Head of Distressed Credit Division

Enrico Fagioli
Head of Growth Credit Division

Claudio Nordio
Chief Risk Officer

Marco Russomando
Chief HR & Organization Officer

Filipe Teixeira
Chief Information Officer

Francesco Martiniello
Chief Compliance & AFC Officer

Sergio Fagioli
Head of Administration, Accounting & Control

Vittoria La Porta
Chief Communication & Marketing Officer

Giovanni Lombardi
General Counsel

Fabio Marchesi
Head of Internal Audit (Permanent Guest)

Fabio Bianchini
Head of b-ilty Division (*)

Renato Ciccarelli
CEO of Abilio

Andrea Battisti
CEO of AREC neprix

Paolo Piovini
Chief Lending Officer (*)

Fabiano Lionetti
Head of Investment Banking Division

NB: (*) Nomination received by the Board of Directors on 17 May 2023

The illimiters

There are more than
921
illimiters

18
sectors

from more than
350
organisations

and
25
different countries

We cover a wide range of professional skills and experience, and we are united by strong values that guide us every day in the construction of our bank: entrepreneurship, independence, innovation, responsibility and sustainability.

Development projects

illimity academy

This cutting-edge programme aims to consolidate crossover competencies typical of future professions, with high-level training courses combining learning and on-the-job training.

2023 saw the introduction of a new programme, the **Future Asset Manager Program** (FAMP), a six-month work placement that enables participants to improve their knowledge of the credit sector and develop key skills as the future asset managers and real estate valuers of ARECneprix.

For further details:
Discover the first FAMP placement

illimity w.o.w.

illimity proposes a free, responsible approach to work, in which what counts is the “how”, not the “where” or the “when”. The **illimity way of working** programme makes it possible to work remotely for up to 14 days a month, depending on employees’ individual preferences and in agreement with their manager.

Great Place To Work

illimity appeared in the **Best Workplaces Italy** ranking for the fifth year running, and in the **Best Workplaces Europe** list for **2023**, for the third year in a row. These two important milestones are proof of the bank's commitment and attention to fostering and guaranteeing an inclusive and dynamic working environment in which the illimiters are listened to and valued.

Gender equality certification

illimity has maintained its **Gender equality certification**, which confirms and highlights the bank's commitment and attention to issues and policies relating to inclusivity, diversity and gender equality. Specifically, the Bank stands out due to its culture and strategy, excellent HR processes and deep commitment to maintaining gender pay equity.

Valore D

During 2020, through the CEO, illimity signed the “**Manifesto for Women’s Employment**” of Valore D, a pioneer in dealing with the issue of the gender balance and dissemination of a culture of inclusion to support innovation, progress and growth of organisations and the country of Italy. In 2023 the Bank’s Chief HR & Organization Officer joined the Management Council of Valore D.

Memorandum of Understanding for the prevention of and opposition to violence against women and domestic violence

In 2023 the Group also signed the **Memorandum of Understanding for the prevention of and opposition to violence against women and domestic violence**, which has also been signed by the Ministry for the Family, Birth Rate and Equal Opportunities and the Chairman of the Italian Banking Association (ABI). The Memorandum is a tool for the development of interdisciplinary and organic measures in the context of policies aimed at preventing violence against women and domestic violence.

Growth Credit Division

Enrico Fagioli
Head of Growth Credit Division

2,524 gross loans to customers
million euros

+366 YoY
million euros

"2023 has been a year of significant results. The revenues of the Division currently account for 50% of the Group total, and grew by 50% compared with 2022. This result was driven by the significant increase in business volumes during the period, even net of the early repayments of operations that were a constant in 2023, proof of illimity's capacity to position itself as a leading operator in its market segments. We are very confident and can look ahead to a significant pipeline of operations throughout 2024."

Portfolio composition

973 million euros
Crossover and Acquisition Finance

860 million euros
Turnaround

586 million euros
Factoring

Al 31 dicembre 2023

We work alongside Italian businesses with a single objective: working together to fulfil their potential. We specialise in offering support to deserving businesses, even if they find themselves in complex situations or are experiencing times of discontinuity with limited access to credit. We have developed a deep knowledge of Italy's different industrial sectors and can back this up with innovative services: **Turnaround & Special Situations, Factoring, Crossover & Acquisition Finance.**

The solutions we develop to support small and medium-sized businesses to achieve their growth objectives are conceived to optimise their ecological transition from an environmental, social and corporate governance (ESG) perspective, and we can make use of strategic partnerships such as those with the European Investment Fund and the European Investment Bank, in addition to using government-backed guarantees such as the SACE Green Guarantees.
We have always incorporated ESG criteria into our credit analysis and, thanks to these solutions, we can monitor companies over time and assess whether they are still on the path they set for themselves at the time the financing was granted.

Development projects

Commitment to Itelyum's sustainable transition

Supporting Itelyum, a group that is active in the development of technologies for the transformation of waste into new resources, thanks to new financial instruments that are closely correlated to ESG goals.

Itelyum is a long-established company and a pioneer of the circular economy, with a decisive and strategic role in guaranteeing environmental sustainability. illimity has chosen to support its further development in line with its goal to bolster its support to companies that want to set themselves new sustainability goals.

Press Release

Micoperi's growth and development plan

A structured transaction with the aim of becoming the sole financial partner of Micoperi, a long-established company and Italy's leading private operator in services for the offshore oil and gas sector. Micoperi, which is active in a sector that is strategic for the country, can count on illimity's support to develop a significant growth plan under the leadership of the Bartolotti family, the company's long-time controlling shareholder, which will enable it to fulfil its potential.

Press Release

The growth of Jacob Cohen

A loan to facilitate Jacob Cohen's acquisition of JC Industry, which is responsible for the production and distribution of Jacob Cohen products. The loan will enable illimity to strengthen its partnership with the brand by supporting its growth plan, confirming the Bank's mission to support the development plans of leading "Made in Italy" brands with considerable potential.

Supporting SITE through Reverse Factoring

SITE, a leading company in the provision of turnkey system integration services in the creation of infrastructure and technological facilities for the development of telecommunication, energy and rail transportation networks, has signed a factoring partnership with illimity to support its supply chain. Businesses belonging to the supply chain will be able to collect, from illimity, receivables owed to them by SITE more quickly than through standard payment procedures. With this transaction, the Bank is facilitating the immediate injection of liquidity into the supply chains of three industries - telecommunications, energy and transport - thereby creating a virtuous circle, whilst also supporting a world-renowned leading Italian company.

Investment Banking Division

Fabiano Lionetti
Head of Investment Banking Division

"Despite the complex macroeconomic scenario, in 2023 the Division recorded a profit before taxes of more than EUR 9 million, with a cost/income ratio of 40%."

Capital Markets

9 IPOs
and numerous advisory mandates

Corporate Solutions

96
trades in derivatives with corporate clients

65
corporate clients

448
million euros
total volumes

Structuring

10
securitisation operations with underlying trade receivables or corporate loans

From the beginning of operations until 31 December 2023

The Investment Banking Division was established with the aim of supporting companies, financial companies and public institutions with innovative products. illimity supports its customers in structuring market and private operations to meet their needs for capital, debt and strategic growth, not only through IPOs, bond issues and securitisations, but also through consultancy on operations such as mergers, demergers, incorporations, acquisitions and corporate restructures. The Division incorporates the areas of **Capital Markets**, **Corporate Solutions**, **Structuring** and **Alternative Finance**.

Development projects

illimity NOVAS

The second Equity Conference promoted by illimity with the goal of favouring dialogue between the market and companies. The event was a good opportunity for companies to meet investors and engage in dialogue with institutional representatives about key issues related to the development of the capital market dedicated to small and medium-sized enterprises (Euronext Growth Market). During illimity NOVAS, 11 corporate customers were able to meet, in person, the most important Italian and foreign fund managers specialising in MicroCaps.

Supporting Reway Group with its admission to Euronext Growth Milan

In its role as global coordinator, the Bank contributed to the process of admission and subsequent listing on the Euronext Growth Milan market of Reway Group, a leading company in the restoration of concrete works of art of high strategic value. The placement amounted to around EUR 20 million (including a greenshoe option) with a free float of approximately 19.1% of the share capital.

Press Release

Supporting La Sia with its admission to Euronext Growth Milan

illimity acted as the Euronext Growth Advisor and Global Coordinator in the context of the process of admission and listing on the Euronext Growth Milan market of La SIA, an engineering firm that specialises in the design of critical infrastructure for strategic operators in the telecoms, mobility, civil and energy sectors.

Press Release

Structuring and investment in a securitisation of performing loans originated by Banca Popolare Valconca

The Bank structured the securitisation of a portfolio of performing loans– originated by Banca Popolare Valconca – with a value of around EUR 150 million: illimity acted as Co-Arranger, together with Banca Finanziaria Internazionale, and simultaneously underwrote senior ABS notes in the amount of EUR 90 million.

Press Release

Structuring of a programme of securitisation of performing loans to support Italian small and medium-sized enterprises

illimity, alongside CrescItalia, acted as Lead-Arranger in the structuring of a programme of securitisation of performing loans originated and guaranteed by Confidicoop Marche, Confeserfidi and Garanzia Etica, with the aim of creating a new model for integrating fintech into the Confidi (credit guarantee consortium) ecosystem in order to provide concrete support for the real needs of small and medium-sized enterprises. The Bank also committed to subscribe partly paid ABS notes in the amount of EUR 150 million.

Press Release

The first securitisation operation concerning trade receivables and inventory goods worth EUR 77 million

The Investment Banking Division played the roles of Arranger, Sponsor and Senior Investor in a securitisation operation concerning the trade receivables and inventories of two companies of the Trasteel Group: Tamac S.r.l. and Officine Tecnosider S.r.l. The Bank opted to use a non-possessory revolving pledge to guarantee the investment, becoming the first credit institution to adopt this innovative legal instrument in a securitisation operation.

This operation brought the structured securitisation programmes of illimity's Investment Banking Division to around EUR 1 billion.

Press Release

Co-Arranger in a new operation to fund Italian SMEs for EUR 300 million

illimity – alongside Opyn, Azimut and Natixis CIB – completed a securitisation operation dedicated to Italian small and medium-sized businesses worth EUR 300 million. The loans were originated by the Azimut Group through private debt funds. The disbursement and management of the loans and the guarantee will be wholly assigned to Opyn, which, as the technological facilitator, will be responsible for end-to-end oversight of the entire credit process, from origination to collection, and of the guarantee management process.

Press Release

b-ilty Division

Fabio Bianchini
Head of b-ilty Division

"b-ilty, the illimity group's lendtech platform for small corporates, has one mission: to serve small and medium-sized enterprises. These companies are the most exposed to the current credit squeeze and risk having to give up on their plans to invest in growth, innovation and security. b-ilty wants to be the specialist operator that gives credit to the future of our businesses."

309
million euros
of loans disbursed

2000
Customers

As of 31 December 2023

b-ilty was founded in 2022 with the aim of offering digital banking and digital lending products and services to Italian businesses with turnover of up to EUR 10 million that wish to improve their financial management or need loans to support their growth.

b-ilty's offering was further enriched in 2023. July saw the launch of b-start, the initiative designed to help start-ups, including those that have yet to be established, to tackle the challenges faced when launching a new business, also with the support of third-party partners: from the incorporation of the company and approval of the business plan, right through to development of the e-commerce site and day-to-day financial requirements.

The new package dedicated to start-ups joins the existing packages, b-innovative and b-green, which aim to support companies in the areas of digitisation and sustainability, respectively.

In December b-ilty also further expanded its target segment of customers served by offering its own transactional services - current account, cards and payments - to freelancers and sole traders.

Lastly, as regards the distribution channel, in the third quarter of 2023 an important partnership was activated with a leading insurance company, through which the branches can participate in a framework agreement which governs the suggestion and placement of b-ilty banking products and services, both credit and transactional.

Development projects

During 2023 b-ilty strengthened its presence in both physical and virtual territory by promoting and participating in several initiatives that established its reputation as the 100%-digital banking platform that helps businesses to grow.

Motore Italia

Listening, particularly to entrepreneurs, is one of the pillars on which b-ilty was founded. To that end, throughout the year, four cycles of meetings were organised throughout the country with the aim of continuing the ongoing dialogue already begun with businesses with a view to discussing issues of mutual interest.

b-ilty webinars

These in-person meetings were supported by a programme of five webinars in which b-ilty's experts presented the b-ilty products and services that can help make life easier for entrepreneurs.

Distressed Credit Division

Andrea Clamer
Head of Distressed Credit Division

"I imagine a future of extreme specialisation for the non-performing loans market. There will be fewer operators focused on large portfolios; instead, operators will concentrate much more on specific segments. The division will specialise in energy and real estate and will increasingly assume the role of an operator that can restructure positions, including through new finance. The bank's aim will be to manage positions to the best of its ability, thereby turning around as many companies as possible."

999 million euros of net loans to customers

237 million euros of new investments in 2023

233 million euros of new senior financing disbursements in 2023

10.7 billion euros of assets under management for ARECneprix

As of 31 December 2023

The Distressed Credit Division was created with the aim of supporting companies in difficulty and is therefore in a privileged position to understand developments in the NPE market. Its approach incorporates the value chain into the management of non-performing loans: **investment, financing, servicing and sale of real estate and securities**. In particular, it invests in non-performing loans to corporate customers classified as bad or unlikely-to-pay (UTP), through the purchase of loans sold by banks or other investors. Its aim is not just to buy the loans, but to regenerate them in order to create value for both the companies and the region, with a highly specialised approach and attention to the underlying, thanks to the distinctive expertise it has developed in the **Real Estate** and **Energy** segments.

Development projects

illimity was set up and has developed to promote the development of SMEs and their potential, and also supports them with restructuring and relaunch plans.

BELIEVE – GIVING ENERGY TO THE FUTURE

June saw the second edition of Believe – Giving Energy To The Future, the format conceived by illimity to promote dialogue between banking, finance and business. illimity, which has always supported businesses even at their most difficult times, aimed with this event to highlight once again a topical issue that is very relevant to the country's economic development and has companies at its heart: the energy transition and new models of sustainable growth. Out of this was born a discussion between financial operators, energy businesses and experts in geopolitics and macroeconomics, with the aim of identifying tools and actions that can make the support offered by banks and finance more effective.

Find out more about:
BELIEVE

ARECneprix

Andrea Battisti
CEO of ARECneprix

"One year on from the ARECneprix merger, the results have exceeded our expectations: EBITDA of EUR 16 million, EUR 10.7 billion of assets under management, and third-party mandates accounting for 68%. All this was possible thanks to a team of highly qualified professionals who work together in synergy. We are now a total asset management company that can identify solutions to complex situations that generate value for all parties involved, thanks to a unique and distinctive business model based on professionalism, specialisation and technology."

ARECneprix is the illimity Group company that is a leader in asset management involving complex operations, specialising in the management of assets and companies in difficulty. It focuses on Italian and international institutional players that invest in distressed loans, supporting them in the acquisition and management process, as well as on banks seeking a specialist partner in corporate credit management.

ARECneprix was created in January 2023 following illimity's acquisition of AREC, a company operating in UTP loan management with a focus on the corporate real estate segment, and its subsequent merger into neprix, the Group's servicer, established in April 2019. The combination of its professionals' real estate experience with a tailored approach to the valuation and management of each position, together with the use of cutting-edge technologies, enables ARECneprix to work on predictive models and anticipate market trends, meaning it can identify the best strategies for the management of loans and their underlying assets.

ARECneprix's areas of specialisation are:

Asset Management

As a Total Asset Management Company we offer comprehensive asset management services, in both distressed credit and real estate, ranging from underwriting to due diligence, and from turnaround to sale.

Structuring and financing

We design and implement complex, tailor-made financial structures to meet the needs of the actors involved, helping to align interests and the shared pursuit of the parties' goals.

Special servicing

We support banks and investors across the entire value chain right from origination, in order to extract value from the loan thanks to our specific expertise, particularly in the areas of corporate and large secured credit.

Real Estate

We manage, value and develop real estate assets covering all phases, from valuation to technical due diligence to project monitoring, playing an active role in defining and implementing the best development strategy.

Development projects

Gruppo Statuto develops real estate initiatives in the centre of Milan

In March 2023 a structured finance operation worth EUR 495 million was carried out between Gruppo Statuto and GWM Group. ARECneprix structured the agreement and assumed the role of Arranger and Special Servicer of the securitisation.

Press Release

Green light for the Olympus contribution fund

November 2023 saw the creation of Olympus Fund, one of the largest contribution funds, which manages loans, including leases, secured by property and real estate assets for an initial GBV of approximately EUR 2 billion. ARECneprix performed the role of Arranger, Advisor, Asset Manager and Special Servicer of the fund.

Press Release

illimity academy's Future Asset Manager Program

The FAMP is the illimity academy programme that was set up to train the asset managers who will join ARECneprix in the future. The programme involves a combination of theory lessons and on-the-job training to ensure that the students selected receive highly professional training, thanks in part to the presence of both internal and external teachers.

Discover:
the first FAMP placement

Abilio

Renato Ciccarelli
CEO of Abilio

"Abilio is the illimity Group company that specialises in the digital brokerage of property and capital goods from the judicial domain, leasing companies and voluntary sales. In 2023 Abilio expanded the Quimmo project by establishing Quimmo agency, the first Italian agency to specialise in the property market as a whole, and Quimmo Prestige agency, the go-to for purchases, sales and leases of luxury real estate in Milan. These new entities represent important steps that illustrate the network's desire to also position itself on the full-ownership market."

Quimmo

April 2022 saw the creation of Quimmo, the prop-tech platform that meets the needs of both private and institutional buyers and sellers. A cutting-edge platform created to simplify the purchase and sale of properties and cover the entire value chain. Quimmo puts property at the forefront and provides clear, complete assistance to support buyers and sellers throughout the entire process (regardless of the method of sale involved, from electronic auction to private negotiation) and at any stage (from the choice of property to the purchase).

Quimmo website >>

Quimmo Prestige agency

Quimmo Prestige agency is the go-to for luxury real estate in Milan, which was created in early June 2023 out of the strategic partnership in real estate brokerage between COIMA and Abilio. Following in the footsteps of Residenze Porta Nuova (RPN), which was founded in 2009, and continuing on the same path, it manages the most important and prestigious real estate operations in Milan thanks to a team made up of the brightest talents in the sector, and is now the city's most sought-after real estate operator.

Quimmo Prestige Agency >>

Quimmo agency

Established in June 2023, Quimmo agency is the first Italian agency to specialise in the property market as a whole, managing all types of assets in the residential and non-residential segments on the open and judicial markets. Through its direct, wide-reaching network of Quimmo Real Estate Managers located throughout Italy, it provides the best solution for any requirement, with "phygital" professional brokerage and consultancy services dedicated to the property market as a whole.

Quimmo Agency website >>

Development projects

Real Estate Observatory

Abilio and ARECneprix have developed the "Real Estate Observatory", a study that aims to examine the dynamics of judicial property sales in Italy, by analysing sales carried out as part of both foreclosure and insolvency proceedings, highlighting individual peculiarities, issues and current opportunities for growth.

Download the study

illimity SGR

illimity SGR (or "SGR") is the illimity Group's asset management company, which was established to set up and manage alternative investment funds (AIFs) specialising in loans to businesses.

The SGR was set up with the aim of operating and developing activities in the strategic areas indicated by its parent company illimity Bank S.p.A. and the banking group of which the latter is the parent, and is a professional operator for establishing, administering, managing, organising, promoting and selling closed-end reserved alternative collective investment undertakings ("AIFs"), established with both own funds and funds from third-party institutional investors.

In spring 2021 it launched its first fund, **"illimity Credit & Corporate Turnaround"** ("iCCT"), dedicated to investments in loans classified as UTP to SMEs with prospects for restructuring and relaunch, operating in a diverse range of sectors. This fund offers unitholder banks the chance to benefit from professional credit management and value maximisation thanks to the business and financial turnaround programme that the fund offers and promotes.

The second half of 2022 saw the launch of the second fund, **"illimity Real Estate Credit"** ("iREC"), which is dedicated to investments in non-performing loans – mainly UTPs – secured by real estate assets, in the form of both mortgage loans and lease agreements. Its aim is to pool the skills developed by illimity SGR in fund structuring and management with those of the illimity Group in the management and enhancement of non-performing loans secured by real estate assets, using the expertise of ARECneprix.

In March 2023 the SGR launched **illimity Selective Credit** (or "iSC"), a private-debt AIF that positions itself as a medium-to-long-term strategic partner for unlisted performing Italian SMEs, funding such companies through the use of a broad spectrum of financial instruments, ranging from senior loans to subordinated debt and/or quasi-equity instruments. iSC, a single-segment, closed-end fund registered under Italian law and reserved for professional investors, classifies as being PRI-compliant. Units of the AIF are paid for in cash. The iSC Fund promotes environmental and/or social characteristics pursuant to Article 8 of Regulation (EU) 2019/2088 (SFDR) and aims to increase the value of its assets in the medium/long term by investing in companies and activities that help to promote one or more environmental or social characteristics.

illimity SGR, in line with the policies of its parent company, illimity Bank, is guided in the investment choices of its Funds by consideration for environmental, social and governance (ESG) issues, with the intention of generating value sustainably over time and facilitating responsible development that is consistent with the needs of society. This commitment is manifested through:

- careful consideration, in its processes and operating mechanisms, of the provisions of the applicable regulations on "sustainable finance", which are set out, inter alia, in our ESG Investment Policy, adopted in December 2021;
- firm adherence to the Principles for Responsible Investment (PRI) launched by the United Nations in 2006, of which illimity SGR has been a signatory since February 2023.

ESG issues are of strategic importance to illimity SGR for the creation of shared value over the long term, taking into account the economic, social and environmental impact that the businesses in which we invest can generate in their respective contexts.

Corporate Center

The Corporate Center provides cross-sector support for all Business activities, from the IT architecture through to control systems, finance, HR management, communications and sustainability.

CFO

The CFO Competence Line is responsible for coordinating administration activities and the entire planning and control process, including with regard to optimising operating costs for the Bank.

RISK

The Risk Competence Line is responsible for guaranteeing the strategic oversight and definition of risk management policies, minimising the cost of risks in accordance with the risk/profitability goals assigned to the business areas and in line with the strategies, the Strategic Plan and the Bank's budget, and measuring risks and second-level controls.

HR & Organization

The HR & Organization Competence Line is responsible for the recruitment, management, remuneration and development of staff, as well as managing the organisational activities of supervision and transversal coordination and overseeing the expenditure process. The Chief HR & Organization Officer is assigned the role of Employer for the Bank, and is responsible for health and safety, as well as all facility management activities.

Legal & Corporate Affairs

The Legal & Corporate Affairs Competence Line is responsible for legal and corporate support and managing the corporate secretariat, as well as general affairs and relations with authorities.

Digital

The Digital Competence Line is responsible for managing the Bank's ICT services and setting the development strategy for its IT systems, as well as continually identifying the most innovative technologies to propose technologically advanced solutions to the competent Business units. It also coordinates the Demand Management process with the relevant units and is in charge of managing and optimising the efficiency of the funding platform. This Competence Line is also in charge of Digital Customer Operations. The CIO assumes the role of Business Continuity and Crisis Manager.

illimitybank.com

illimitybank.com is the illimity Group's direct bank for retail customers. Thanks to a latest-generation platform that combines specialist expertise with cutting-edge technology, it offers customers the products and services of an all-round bank, immediately and naturally, as only the most evolved user experience can guarantee. Designed with customers and for customers in order to promote well-informed money management, the platform combines integrated savings, payments, loans and insurance tools in a single ecosystem.

Lending

The Lending Competence Line is responsible for managing and coordinating Credit Underwriting activities (credit analysis, resolution and preparation of the relevant documentation for practices to be submitted to the competent decision-making Bodies) relating to the portfolios and operations of the Bank's Business Divisions. Its remit also includes disbursing, classifying, valuing and writing off loans in accordance with the applicable processes and the loan mandates granted.

Compliance & AFC

The Compliance & AFC Compliance Line is responsible for compliance risk management, oversight of money laundering and terrorist financing risk, and oversight of the risk of breach of financial sanctions.

Communication & Marketing

The Communication & Marketing Competence Line is responsible for promoting and supporting the development of a single, shared identity of the Group among the various stakeholders and formulating the Bank's communications plan, brand development strategy and marketing activities with a view to maximising acquisition and ensuring optimal customer management, in coordination with the Business Divisions.

Internal Audit

The Internal Audit Department is responsible for carrying out "third level" controls on the regular functioning of the Bank's operations and for assessing the completeness, adequacy, functionality and reliability of the internal control systems, bringing any possible improvements to the attention of the corporate bodies, particularly with regard to the risk management process and risk measurement and oversight tools.

fondazione illimity

For the Bank, generating value means not only earning profits, but also being useful. With this spirit, fondazione illimity was created in June 2021, with the goal of regenerating real estate assets for the purpose of creating new value for the local community.

fondazione illimity is a separate entity independent from the illimity Group, financed by the Bank to promote innovative projects of social regeneration of real estate assets and impact finance. The foundation plays a central role in forging partnerships between for-profit and not-for-profit entities and government and private bodies, with the ultimate aim of developing projects aimed at the creation of new spaces for inclusion, cohesion and shared wellbeing.

Due to partnerships with professionals in social planning and impact finance, as well as with research centres, institutes and universities, the foundation promotes an ecosystem of partnerships to create projects and initiatives of social impact, with a strong focus on ESG sustainability topics.

The projects are selected through two processes: a top-down process, which involves selecting assets starting from specific requests of non-profit entities, and a bottom-up process, which consists of scouting for cooperatives near the assets, also through the Italia Non Profit portal, to establish the possible projects together. illimity staff are also contributing to the project, through technical, administration and operational support, with the tools necessary to carry out the foundation's activities.

Moreover, the Bank promoted the **"Make It Double"** programme, which allows each employee of the Group to allocate a monthly amount from their salary through withholding in their payslips. Each month, illimity doubles the amount donated by the employees, and the amounts collected will be allocated to initiatives of the foundation.

Development projects

Albergo Etico Cesenatico

The project launched in October 2022, **Albergo Etico Cesenatico** (Cesenatico Ethical Hotel), is still ongoing, with the partner Albergo Etico, a social enterprise based on a tourism-hotel business model with a social impact, which inserts people with disabilities into the working world and offers them training and independence. The objective is to revolutionise the concept of the hotel business, focusing it on experiences and on the connection with people.

Albergo Etico Cesenatico has also promoted the employment of people with disabilities, to increase their personal autonomy, offering them social, training and work opportunities. Furthermore, with a view to enhancing all aspects of sustainability, some murals have been erected within the hotel featuring natural elements such as plants an animals, so as to remind all who visit of the importance of the environment. The local community was involved in the creation of these works, and in particular some children from the secondary schools in Cesenatico joined forces with the artist through dedicated workshops held to discuss issues related to social inclusion and inspire the creation of the murals.

Discover more

(RE)GENERATION CAMP

(RE)GENERATION CAMP is a project developed in Rome, in a renovated space in the Talenti Village Shopping Centre, with the goal of promoting the integration and socialisation of new generations and multiculturalism, in a space that is friendly, free and creative.

Thanks to synergies with local bodies, institutions, associations and schools, several social, educational and psychological workshops and services have been launched, including: the comics workshop, which helps participants to express themselves through the graphic arts, the reuse and recycle workshop, which is useful for improving understanding of the environment and developing creative thinking, and homework-help activities, to help children to improve the way they study.

Discover more

Barrio21

In March 2023, fondazione illimity, in partnership with the Catania-based “Il Nodo” consortium of social cooperatives, presented the **Barrio21** project, which aims to support care leavers, young adults from fragile backgrounds who have had to leave their nuclear family either following judicial provisions or because they arrived in Italy without any family support, and who must now leave their host houses without all the necessary tools to do so.

Fondazione illimity offers concrete help to these people, who will be supported by a network of experts and accompanied on their departure from the community, offering them assistance in achieving their goals and supporting them in their education and first experiences of work, in order to help them find their place within society.

The name Barrio21 comes from the Barriera district of Catania, where a structure has been provided that is divided into two specially regenerated apartments. This building has become a new home for these young adults, who will be able to continue to enjoy a co-housing experience based on sharing and solidarity.

Discover more

Sustainability Highlights

Strategic ESG objectives

In 2022 the bank deemed it necessary to develop the goals presented in the 2021-2025 Strategic Plan by integrating new goals that are more in line with best practices in the Italian banking sector and with the growing expectations of the market.

The **2023-2025 Sustainability Plan**, approved by the Board of Directors in February 2023, is the result of a detailed analysis within and outside the Bank and the Group's increased expertise in non-financial reporting. It enabled us to start from a solid baseline aimed at defining significant, ambitious targets that integrate with the various aspects of the Bank's business and meet the requests from the various stakeholders, on the one hand, and comply with regulatory expectations regarding sustainable finance and governance of climate-related and environmental risk, on the other.

As of 31 December 2023, 55% of the Plan had been completed, in line with expected progress. For a breakdown of the state of progress of the individual goals, please refer to the Group's Consolidated Non-Financial Statement.

ESG ratings and indices

The Bank is constantly interacting with institutional investors and ESG ratings agencies to ensure that environmental, social and governance issues are dealt with appropriately, in line with its commitment to providing the market with the utmost transparency.

		2023	2022
MSCI	**MSCI** Scale from CCC (laggard) to AAA (leader)	**AA**	**A**
ISS ESG	**ISS ESG** Scale from D- (Worst) to A+ (Best)	**C-**	**N/A**
SUSTAINALYTICS	**SUSTAINALYTICS** Scale from 40+ (Worst – High Risk) to 0 (Best – Negl. Risk)	**15.4 Low Risk**	**15.6 Low Risk**
S&P Global Ratings	**S&P Global** Scale from 0 (Worst) to 100 (Best)	**52**	**49**
CDP	**CDP** Scale from F (Worst) to A (Best)	**B**	**B**
standard ethics	**Standard Ethics** Scale from F (Worst) to EEE (Best)	**EE- Positive Outlook**	**EE-**
INTEGRATED GOVERNANCE INDEX	**Integrated Governance Index (IGI)** Scale from 0 (Worst) to 100 (Best)	**61**	**60.55**
REFINITIV	**Refinitiv** Scale from D- (Worst) to A+ (Best)	**A-**	**B**

Endorsements of international schemes

UN Global Compact

In 2021 illimity joined the United Nations Global Compact (UNGC), the world's biggest corporate sustainability initiative, in order to pursue its path of sustainable development. The programme requires endorsing companies and businesses to comply with 10 universally accepted principles in the areas of human rights, employment, the environment and the fight against corruption, and also act to support the UN's Sustainable Development Goals (SDGs).

WE SUPPORT UN GLOBAL COMPACT

Principles for Responsible Investment

The PRI - Principles for Responsible Investment were developed through the partnership between UNEP-FI and the Global Compact, with the intention of disseminating sustainable and responsible investments among institutional investors. The principles aim to provide a framework for integrating ESG issues into investment decision-making. The illimity Group endorsed the PRI as a signatory in January 2023, through illimity SGR.

PRI Principles for Responsible Investment

Principles for Responsible Banking

In 2023 illimity signed up to the Principles for Responsible Banking (PRB) framework, which was set up in 2019 by a partnership between the founding banks and the UN Environment Program Financial Institutions (UNEP FI) and aims to align banks' business strategy with the Sustainable Development Goals and the Paris Agreement. The objective of the framework is to inspire, inform and facilitate the banking world with a view to improving people's quality of life and to lay the foundations for improving the quality of life of future generations.

UN environment programme finance initiative
Principles for Responsible Banking

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Report and Consolidated Financial Statements of the illimity Group

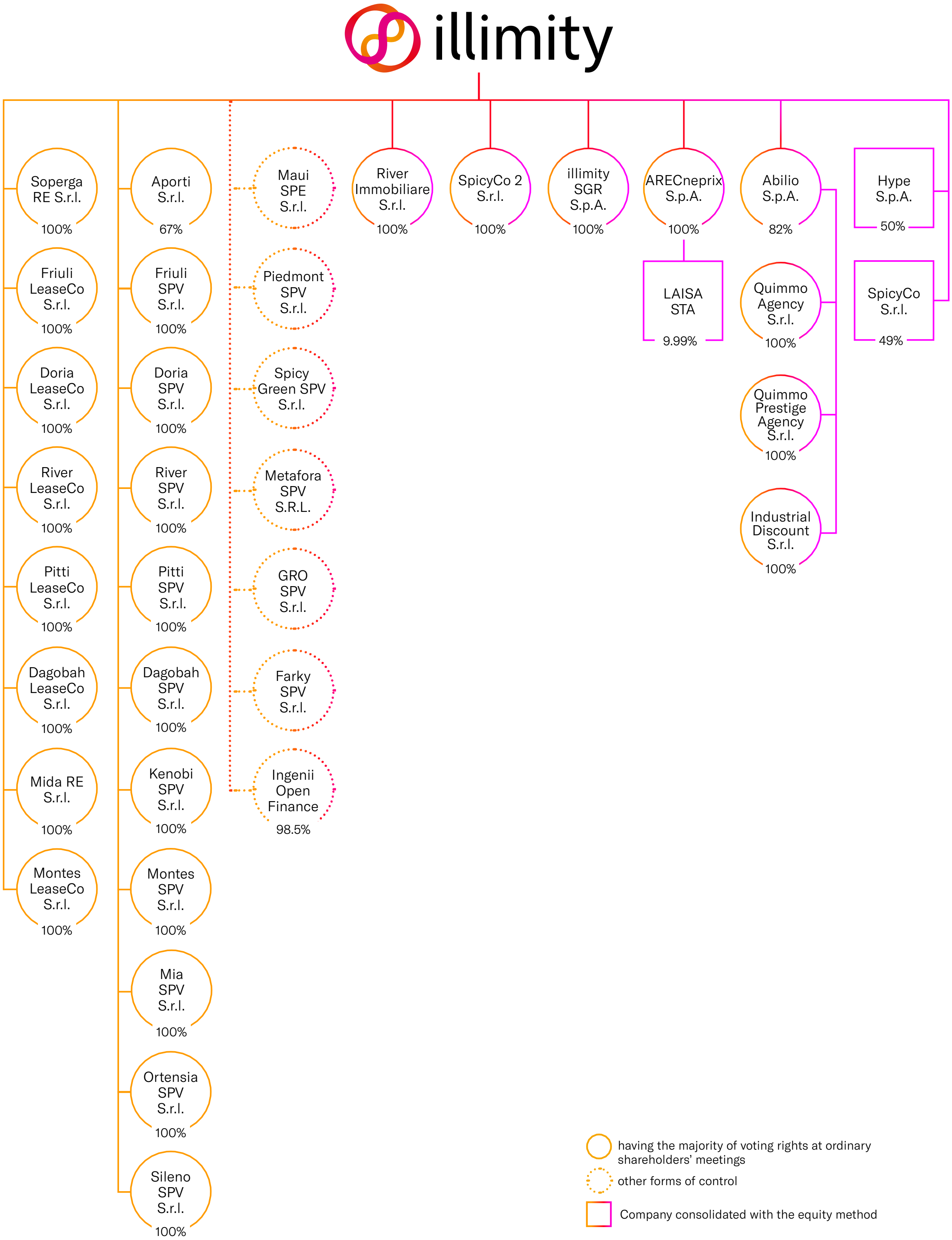
illimity

Report on Consolidated Operations

as of 31 December 2023

The illimity Group

This Report on Consolidated Operations illustrates the performance and the related data and results for the 2023 financial year of illimity Bank S.p.A. ("illimity" or the "Bank") and of the entities included in the scope of consolidation. illimity exercises the management and coordination of the Group and has its registered office in Milan, at Via Soperga 9[1].



1 The Bank also operates a branch office located in Modena, at F. Lamborghini 88/90.

The illimity Group is engaged in the provision and management of credit through the Distressed Credit, Growth Credit, b-ilty and Investment Banking Divisions. Specifically, illimity provides credit to high-potential SMEs, purchases distressed corporate credit and manages it through its own platform – ARECneprix S.p.A. – and offers direct digital banking services through illimitybank.com. Moreover, the Group includes illimity SGR, which sets up and manages Alternative Investment Funds.
illimity Bank's business also makes use of the operations of the other Group companies. The scope of the Group includes the LeaseCos, which support the bank in the management of lease operations, the ReoCos, which are active in the management of the properties linked to the acquired portfolios, and the Special Purpose Vehicles (SPVs) established to undertake securitisation operations.

Alternative performance measures as of 31 December 2023

The Group's main consolidated measures are set out below.
The figures presented, although not covered by IAS/IFRS, are provided in compliance with indications in CONSOB Communication No. 0092543 of 3 December 2015, and of the ESMA Recommendations on alternative performance measures (ESMA Guidance 2015/1415).

(amounts in thousands of euros)

PERFORMANCE MEASURES	31/12/2023	31/12/2022	Chg.	Chg. (%)
Total net operating income	358,925	324,614	34,311	11%
Operating expenses	(227,006)	(193,588)	(33,418)	17%
Operating profit (loss)	131,919	131,026	893	1%
Total net adjustments/recoveries	35,735	(15,790)	51,525	N/A
Profit (loss) from operations before taxes	151,741	100,862	50,879	50%
Profit (loss) for the year	**104,400**	**75,326**	**29,074**	**39%**

(amounts in thousands of euros)

BALANCE SHEET MEASURES	31/12/2023	31/12/2022	Chg.	Chg. (%)
Net non-performing loans and investments - organic[2]	**157,441**	**44,636**	**112,805**	**>100%**
of which: Bad loans	*31,719*	*6,152*	*25,567*	*>100%*
of which: Unlikely-to-pay	*107,227*	*38,204*	*69,023*	*>100%*
of which: Past-due positions	*18,495*	*280*	*18,215*	*>100%*
Net non-performing loans and investments - inorganic (POCI)[3]	**828,259**	**1,231,239**	**(402,980)**	**(33%)**
of which: Bad loans	*318,840*	*618,740*	*(299,900)*	*(48%)*
of which: Unlikely-to-pay	*491,844*	*601,725*	*(109,881)*	*(18%)*
of which: Past-due positions	*17,575*	*10,774*	*6,801*	*63%*
Performing loans – inorganic (Public Procurement Claims)	**258**	**85,386**	**(85,128)**	**(100%)**
Net performing HTC securities - Government Bonds	**585,009**	**428,309**	**156,700**	**37%**
Net performing securities and loans to customers	**3,078,060**	**2,414,359**	**663,701**	**27%**
Financial instruments (HTCS + FV)	**984,483**	**496,753**	**487,730**	**98%**
Direct customer funding	**5,098,989**	**4,062,304**	**1,036,685**	**26%**
Total Assets	**7,259,047**	**6,355,125**	**903,922**	**14%**
Consolidated shareholders' equity	**956,102**	**841,322**	**114,780**	**14%**

2 The definition of organic receivables and securities (performing and non-performing) includes organic loans to customers on the factoring, cross-over, acquisition finance and turnaround segments and receivables acquired in investing in portfolios of distressed loans, which underwent a change in accounting status following the purchase or disbursement (excluding receivables acquired as bad loans), the loan portfolio of the former Banca Interprovinciale and senior financing to non-financial investors in distressed loans and loans deriving from operations of b-ilty.

3 POCI = Purchased or Originated Credit Impaired.

RISK RATIOS	31/12/2023	31/12/2022
Gross Organic NPE Ratio4[4]	5.8%	2.6%
Net Organic NPE Ratio5[5]	4.9%	1.8%
Coverage ratio for organic non-performing loans and investments6[6]	16.9%	31.2%
Coverage ratio for performing loans7[7]	0.49%	0.57%
Cost of risk for organic loans (bps)8[8]	43	30

STRUCTURAL RATIOS	31/12/2023	31/12/2022
Shareholders' equity/Total Liability	13.2%	13.2%
Interbank Funding/Total Funding	15.6%	22.9%
Liquidity Coverage Ratio	~298%	~317%
Net Stable Funding Ratio	>100%	>100%
Net loans with customers/Total assets[9]	64.0%	66.2%
Direct customer funding/Total Liability	70.2%	63.9%

PROFITABILITY INDICATORS	31/12/2023	31/12/2022
Cost/Income ratio (Operating expenses/Total net operating income)	63.2%	59.6%
ROAE[10] [Profit (Loss) for the period/Average Shareholders' equity]	11.7%	9.3%
Basic and diluted earnings (loss) per share	1.25	0.93

CAPITAL RATIOS	31/12/2023	31/12/2022
Tier I capital ratio (Tier I capital/Total weighted assets)	14.73%	15.77%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	18.69%	20.41%
Own Funds	949,406	883,659
of which: Tier I capital	748,269	682,872
Risk-weighted assets	5,079,714	4,329,921

4 Ratio of provisions for losses on loans to the gross value of organic loans to customers on the factoring, cross-over, Acquisition finance and turnaround segments and receivables acquired in investing in portfolios of distressed loans, which underwent a change in accounting status following the purchase or disbursement (excluding receivables acquired as bad loans), the loan portfolio of the former Banca Interprovinciale and senior financing to non-financial investors in distressed loans and loans deriving from operations of b-ilty.

5 Ratio of provisions for losses on loans to the net value of organic loans to customers on the factoring, cross-over, Acquisition finance and turnaround segments and receivables acquired in investing in portfolios of distressed loans, which underwent a change in accounting status following the purchase or disbursement (excluding receivables acquired as bad loans), the loan portfolio of the former Banca Interprovinciale and senior financing to non-financial investors in distressed loans and loans deriving from operations of b-ilty.

6 Ratio of write-downs/write-backs on organic non-performing loans and securities to gross exposure of organic non-performing loans and securities.

7 Ratio between write-downs on performing client loans and gross exposure of performing client loans.

8 Ratio of the sum of annualised losses on performing customer loans (net of investments with financial entities and government bonds), organic non-performing loans and HTC securities to net exposures of same at the end of the period.

9 Ratio of customer loan, government bonds and Distressed Credit, Growth Credit, Investment Banking and b-ilty securities at amortised cost to total assets.

10 The average shareholders' equity is calculated as the arithmetic average of the opening balance and the closing balance.

Composition and organisational structure

illimity operates in the banking sector and is authorised to provide private banking, investment and trading services. Illimity currently has four Business Divisions, in addition to the Digital Competence Line for the component regarding the management of retail customers:

- Distressed Credit
- Growth Credit
- Investment Banking
- b-ilty
- Digital.

There is also the Asset Management Company (illimity SGR), which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

The Bank’s organisational structure also comprises other units supporting the business and monitoring risks.

Below is a description of the Bank's organisational structure as of 31 December 2023.

Distressed Credit Division

The Distressed Credit Division is the business area operating in the following segments:

- purchase of secured and unsecured corporate distressed loans in competitive processes or off-market purchases, on both the primary and secondary markets;
- financing services, mainly in the form of senior financing, to investors in distressed loans;
- management (servicing) of corporate NPL portfolios and underlying assets, through a specialised servicing platform developed internally or under commercial agreements with specialised operators.

The Distressed Credit Division has the following structure:

1. Senior Financing, Special Situations – Real Estate and Special Situations – Energy and Unit Claims Solutions Areas, responsible for the origination of the investment opportunities in distressed loans, in the area of litigation (Public Procurement Claims) and in Senior Financing operations, as well as the coordination of the entire negotiation and bidding process, until the final closing phase;
2. The Portfolio & Asset Optimisation Area, which is responsible for optimising portfolio, single name and repossessed property management by identifying market opportunities for their sale (or redevelopment in the case of properties), in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase to post-sales;
3. The Pricing Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models of portfolios/single name (special situations)/ senior financing and the capital structure of all investments, as well as the activities of Due Diligence Coordination;
4. Monitoring & Analytics Area, responsible for governing and managing the cost monitoring process, the income statement and the portfolios/single names or the trend in performance of the Division;
5. The Operating Model & Servicing Coordination Area, tasked with coordinating and monitoring the Division’s activities, overseeing and coordinating the Servicing companies, relations with other Bank units and decision-making bodies and providing legal advice related to individual investment opportunities and initiatives.

In more detail, the “Investments” perimeter, which includes the two areas Special Situations – Real Estate and Special Situations – Energy, and the Claims Solutions unit, is responsible for overseeing the market for opportunities to acquire distressed credit assets (financial receivables classified as bad loans or unlikely-to-pay positions (“UTPs”) from corporate counterparties, partly backed by first-degree mortgage guarantees or leased assets (“secured”) and partly devoid of underlying real estate or secured by second-degree mortgages (“unsecured”), in addition to Public Procurement Claims). Credits are acquired both in the "primary" market, i.e. directly from the credit intermediaries that originally granted the credit to the counterparties, and in the "secondary" market, i.e. from other investors who in turn purchased the credits from the aforementioned credit intermediaries.

The Investments perimeter is divided into three organisational units, described below:

1. Special Situations – Real Estate, aimed at investment opportunities in "single name" real estate receivables, meaning exposures to a single borrower or, at most, a cluster of corporate counterparties, both secured and unsecured and, where existing, investments in portfolios of distressed loans, mainly or fully represented by corporate loans (any retail loans acquired are held for sale on the secondary market);
2. Special Situations – Energy, aimed at investment opportunities in single name loans involving corporate counterparties operating in the renewable energy sector;
3. Claims Solutions, aimed at seeking out, assessing, investing in and managing investment opportunities in the area of litigation (Public Procurement Claims) and at intervening in all the phases of the process of investment and management of disputes.

On the other hand, the Senior Financing Area is responsible for overseeing, both at the commercial and product level, the market of asset-backed financing opportunities to third-party investors who purchase or have purchased non-performing loans (bad loans/UTPs) and for monitoring the related operations in their structuring and throughout all phases until finalisation of the contractual documentation and disbursement.

At the organisational level, the aforementioned structures report to the Head of the Distressed Credit Division and interact with the other areas/units of the Division (Pricing, Operating Model & Servicing Coordination and Portfolio Monitoring & Analytics) and the Bank's structures (Legal & Corporate Affairs, Administration, Accounting & Control, Risk Compliance & AFC), acting as an interface between internal units and investors.

In line with illimity's business model of internalising the entire value chain, the Bank is supported by Arec neprix S.p.A., created through the merger by incorporation of Arec S.p.A. (acquired on 30 June 2022) by neprix S.r.l. with legal effect from 1 January 2023, for the management of distressed loans, which also enters into commercial agreements with servicers selected from time to time on the basis of the characteristics of the assets acquired.

Arec neprix, the company where servicing activities for NPLs acquired by illimity are centralised, relies on the services of professionals with specific experience and know how in due diligence and in managing non-performing loans.

The Bank is also supported by Abilio S.p.A., a company formed by the proportional partial spin-off of neprix S.r.l. that is wholly owned by the Bank and became operational on 1 April 2022. The company manages and sells property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a network of professionals operating nationwide.
To carry out its operations concerning distressed credit, illimity works with the vehicles Aporti, Friuli SPV, Doria SPV, River SPV, Pitti SPV, Maui SPE, Kenobi SPV, Dagobah SPV and Spicy Green SPV, Sileno SPV, Ortensia SPV, Metafora SPV, Montes SPV and with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, Dagobah LeaseCo, Montes LeaseCo, River Immobiliare, Mida RE, SpicyCo and SpicyCo 2.

With effect from 1 January 2024, some changes were approved to the organisational structure of the Division (which changed its name on that date to Specialised Credit), with the aim of optimising oversight of the origination and underwriting business and simplifying internal processes.

Growth Credit Division

The objective of the Growth Credit Division is to serve businesses, usually medium-sized, with a credit standing that is not necessarily high, but that have a good industrial potential and which, due to the complex nature of operations to finance, or their financial difficulties, require a specialist approach to supporting business development programmes or plans to rebalance and relaunch industrial activities.

Therefore the Division mainly focuses on structuring detailed funding operations that meet the complex needs of its clients, directly supporting companies and, if considered appropriate, acquiring credit positions with third-party banks, mainly at a discount, for turnaround operations.

The Growth Credit Division is active in the following segments:

1. Factoring: financing of the supply chain of the operators of Italian chains and industrial districts through the activity of recourse and non-recourse purchasing of customers' trade receivables, through a dedicated digital channel;
2. Crossover & Acquisition Finance: financing to high-potential businesses with a suboptimal financial structure and/or with a low rating or no rating; the crossover segment also includes financing solutions dedicated to acquisition activities (so-called acquisition finance);
3. Turnaround: the purchase of loans classified as unlikely-to-pay (UTP), with the aim of recovering and restoring them to performing status by identifying optimal financial solutions, which may include new loans or the purchase of existing loans.

The Growth Credit Division is organised by specialised business areas, on the basis of the segments and products defined above, each of which is responsible for managing activities for its own customers. Each Area is tasked with analysing the customers and sector within its portfolio to design the optimal financing solution, assess the risk level of each position, define product pricing or transaction specifications, interface with customers to monitor the risk profiles of counterparties and intervene promptly, where necessary, in the event of problems, in coordination with the Bank unit responsible for monitoring loans.

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the Legal SME area supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support area manages the annual reporting of the Division, and provides support to the business areas by defining instruments and processes.

Investment Banking Division

The Investment Banking Division is responsible for defining and executing capital markets operations (both in the equity segment and the debt segment for corporate customers), for derivatives trading on own behalf and for third parties, for structuring structured finance transactions for funding and capital optimisation purposes to support the other units of the Bank.

The Division's Value Proposition provides:

- alternative solutions for companies, to provide new "finance" and/or improve their financial position, in addition to those already offered by the Bank, exploiting the synergies with the other Group divisions (i.e. Basket Bonds, Basket Loans, securitisation of trade receivables and inventories, securitisation of secured and unsecured loans, single-tranche structures, IPOs, M&A, advisory, derivative instruments to provide solutions for interest rate and exchange rate risk, etc.);
- structuring funding transactions and capital optimisation (i.e. SRTs), also supporting other Company Divisions and Functions.

The Division is divided into three organisational units, described below:
1. Capital Markets, which provides strategic development solutions for businesses, also through access to capital markets;
2. Corporate Solutions, which manages the "Corporate Bonds" and "Alternative Debt Securities" portfolio and offers solutions to SMEs and Mid Caps to hedge market risks;
3. Structuring, which takes care of implementing alternative financial transactions for the Bank and for companies.

In order to conduct its Investment Banking business, illimity also works with the vehicle Piedmont SPV and Mia SPV.

With effect from 1 January 2024, some changes were approved to the organisational structure of the Division, which will involve the evolution of the business and a reorganisation of the activities within its remit.

b-ilty Division

illimity, via the b-ilty Division, offers digital banking and digital lending products and services to Business customers or to small and medium-sized enterprises with turnover of EUR 2 million to EUR 10 million, with the goal of improving their financial management. The Division aims to develop a range of products and services that can fulfil the needs of the market. It is responsible for designing the Value Proposition and its relative commercial and pricing components.

The b-ilty Value Proposition currently extends to the following products and services categories:
- Deposit accounts with competitive rates and a simple, customisable product structure;
- Current accounts, offered through an innovative, digital User Experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
- Account Aggregator Service, a feature that enables aggregation in each customer's home banking of accounts held with other banks, providing an overview of the customer's financial situation within a single screen;
- Digital credit, which includes factoring and green financing operations;
- Insurance products offered to customers through partnerships with selected market operators.

The Division is divided into the organisational units described below:
1. Digital Lending & Special Projects, which focuses primarily on defining the target market for corporate credit customers;
2. Digital Products & Business Processes, which focuses primarily on structuring products and services for the Division and designing the relevant disbursement processes;
3. Data & Strategy, which is responsible primarily for the Division's strategic planning, monitoring the achievement of cost management targets, defining the development strategies for partnerships and managing and developing the Division's information assets;
4. Sales & Account Management, which focuses on achieving profit targets, defining business models and developing the commercial network.

In conducting its business in b-ilty, illimity also avails of the INGENII Open Finance fund and the vehicles GRO SPV and Farky SPV.

Digital Division

The Digital Division (headed by the CIO) is responsible for managing IT infrastructure as well as managing the funding platform, i.e. the web and app channel for retail customers.

Through ICT Platforms & Data Monetization, illimity offers digital banking products and services to retail customers. The objective of this structure is to manage the technological platforms and initiatives for developing and monetising the platforms.

The Direct Banking Value Proposition for retail customers currently extends to the following products and services categories:

- Current accounts, offered through an innovative, digital user experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
- Deposit accounts with competitive rates and a simple, customisable product structure;
- Spending projects, to simply and automatically save to achieve goals;
- Account Aggregator and Payment Initiation Service, i.e. features that enable the aggregation in each customer's home banking of accounts held with other banks, making it possible to perform transactions;
- Offer of a complete range of products (i.e. personal loans, American Express credit cards and insurance products).

Asset Management Company

illimity SGR S.p.A. is the Asset Management Company ("SGR") of the illimity Bank Group which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

The SGR was set up with the aim of operating and developing activities in the strategic areas indicated by its parent company illimity Bank S.p.A. and the Banking Group of which the latter is the parent, and is a professional operator for establishing, administering, managing, organising, promoting and selling alternative investment funds.

To pursue its business objectives in an effective and consistent manner, the SGR has adopted a "traditional" governance model, which has a structure comprising a Board of Directors and a Board of Statutory Auditors. The structure, described below, has been set up for the best management possible of the operational model defined for the Company in line with regulatory principles and guidelines, and also with guidance from the Parent Company. In accordance with the characteristics of its own operations, with future planned developments and with the guidelines of the long-term business plan of the SGR and the Group it belongs to, the SGR has the following organisation:

"Business Areas" comprising:

- The UTP & Turnaround Funds Area, focused on setting up and managing AIFs with investment strategies and policies centred on the turnaround market and on businesses in financial difficulty with prospects for relaunch;
- The Private Capital Funds Area, focused on setting up and managing AIFs with investment strategies and policies targeting asset classes with underlying financial instruments issued by performing companies;
- The NPL Small Medium Tickets Funds Area, focused on setting up and managing AIFs with investment strategies and policies in the granular (typically unsecured) Non-Performing Loans (NPL) market, with potential counterparties both small corporates and retail businesses, and different areas of origination (utilities, consumer, commercial credit, etc.).

A transversal support area named Operations & Administration supports the organisation as a whole in all formal, administrative and operational aspects connected with managing AIFs and the SGR.

Lastly, the SGR's organisation comprises the establishment of Compliance and Anti-Money Laundering, Risk Management and Internal Audit functions, outsourced to the respective central units of the parent company illimity Bank, in order to have a structured system to monitor internal controls. It also appoints a Supervisory Body pursuant to Legislative Decree 231/01, whose composition, in accordance with the approach adopted by the Group, consists of the Company's Board of Statutory Auditors.

Other functions - Corporate Centre

The organisation also monitors risk management and support activities through functions directly reporting to the Chief Executive Officer:

- The CFO, responsible for coordinating the complex process of planning, control and administration, managing strategic planning and relations with the financial community, as well as developing the Corporate Social Responsibility Plan;
- HR & Organization, responsible for optimising operating and procurement costs, managing human resources, as well as managing the organisational activities of supervision and transversal coordination for the Bank.
- Legal & Corporate Affairs, responsible for legal and corporate support and managing the corporate secretariat, as well as general affairs and relations with authorities;
- Risk Management, responsible for guaranteeing the strategic oversight and definition of risk management policies;
- Lending, which monitors credit analysis and approval activities;
- Digital, responsible for managing IT infrastructure, Back Office activities and the Contact Centre. The Digital Competence Line is also responsible for the platforms owned by illimity (illimity.com) and related development opportunities, as well as the customers managed through those platforms;
- Compliance & AFC, responsible for compliance risk management and oversight of money laundering and terrorist financing risk;
- Communication & Marketing,responsible for promoting and supporting the development of a single, shared identity of the Bank among the stakeholders and formulating the Bank's communications plan and brand development strategy to ensure positioning, customer acquisition results and optimal customer management.

Bank branches and offices

The Bank's branches and offices are as follows:

- Milan - Via Soperga 9 (head office);
- Modena – Via F. Lamborghini 88/90.

Human resources

As of 31 December 2023, the Bank's registered employees numbered 921 (853 as of 31 December 2022). A breakdown of the workforce is given below, divided by job level:

Category	31/12/2023			31/12/2022			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	81	9%	46	77	9%	46	4	5%
Middle managers	378	41%	38	350	41%	38	28	8%
Other employees	462	50%	34	426	50%	34	36	8%
Employees	**921**	**100%**		**853**	**100%**		**68**	**8%**

Macroeconomic scenario

According to the OECD's most recent forecasts, global GDP growth will slow to 2.7% in 2024, due to restrictive monetary policies and growing uncertainty among consumers and businesses. The risks deriving from international political tensions remain, particularly with regard to the Middle East.

The Federal Reserve and the Bank of England have kept their benchmark interest rates unchanged, despite a reduction in inflation.

With regard to the European macroeconomic context, at its meeting on 14 December 2023, the European Central Bank (ECB) announced its decision to keep its three benchmark interest rates unchanged. Those decisions on interest rates are the result of assessments of the outlook for inflation, based on the most recent economic and financial data, the trend in underlying inflation and the intensity of transmission of monetary policy.

The ECB's macroeconomic forecasts in December 2023 predict that inflation will gradually reduce during the course of 2024 before nearing the target of 2% in 2025. Overall, the ECB predicts that average inflation will be 5.4% in 2023, before falling to 2.7% in 2024, 2.1% in 2025 and 1.9% in 2026, a downwards revision compared with its previous estimates made in September 2023, particularly with regard to the 2024 projection.

The effects of previous interest rate rises are impacting the economy through more restrictive finance conditions that are suppressing demand and continuing to reduce inflation. In the short term, economic growth is expected to remain limited, but beyond that time horizon the economy is expected to recover due to an increase in real incomes, benefiting from the fall in inflation and the increase in pay. The Eurosystem experts predict that growth will gradually increase, rising from an average of 0.6% in 2023 to 0.8% in 2024 and to 1.5% in both 2025 and 2026.

The real estate sector could face a difficult period due to the general increase in interest rates. Furthermore, economists predict a slight recession starting in the second half of 2024, with additional pressures on specific industrial sectors. Consequently, the macroeconomic outlook indicates a series of events that could lead to a prolonged crisis or stagnation in the real estate sector. Nevertheless, at present, it is not possible to formulate a definitive projection for the medium-to-long term.

In parallel to its decision on interest rates, the ECB announced some progress in the process of normalising the Eurosystem's balance sheet. It intends to continue to reinvest, in full, the principal payments from maturing securities purchased under the pandemic emergency purchase programme (PEPP) during the first half of 2024. Over the second half of the year, it intends to reduce the PEPP portfolio by EUR 7.5 billion per month on average and to discontinue reinvestments under the PEPP by the end of 2024.

In Italy, economic growth remained week at the end of 2023, influenced by more stringent lending conditions and high energy costs.

Employment enjoyed constant growth and inflation fell, with further reductions projected in the coming years. Restrictive monetary policies were reflected in the credit market, with weak demand for finance. Overall, 2023 saw an improvement in the public accounts.

The budget for the 2024--26 period was approved in December; according to official assessments, it involves an increase in net debt in 2024 equal to 0.7% of GDP in relation to the current regulatory provisions and is in line with a marginal reduction in the debt-to-GDP ratio over the three-year period.

The ECB's Governing Council will adopt a data-led approach to determining the level and duration of its restrictive guidance, basing its decisions concerning interest rates on analyses of the outlook for inflation, the most recent economic and financial data, the trend in underlying inflation and the intensity of transmission of monetary policy.

Significant events in 2023

The impact of external factors on the strategic and operational context of the illimity Group

The context of the last few months was still characterised by various elements of uncertainty linked to the development of internationally relevant factors, such as the Russia-Ukraine military conflict, the spikes in inflation associated with commodities markets, and the evolution of the epidemiological context in certain countries. The illimity Group has defined its business model and developed and applied its risk government policies, ensuring that they are resilient in a context still characterised by significant risks, based on the following key elements:

- contained exposure to direct risks and a business mix in which lines of activity have limited correlation;
- a commercial and technological proposal that can understand and meet the growing demand for remote financial services that has characterised the key markets and continues to do so;
- a highly conservative approach to pricing investments and providing funding;
- continuous monitoring and strong governance over the exposure to the riskiest economic sectors (e.g. real estate) or asset classes, through the RAF and related risk limits;
- risk analyses and impact assessments of risk factors related to sustainability, the transition to an economy less dependent on hydrocarbons, and the intensification of physical risk linked to climate change;
- a governance structure that relies on the managerial committees and governing boards of the Group to carry out assessments at regular intervals on the actual and potential economic, financial and operational impacts of the current context on the strategic and operational choices of the various business lines;
- an impact assessment of macro scenarios that also take into account the evolution of the context and the responses of the Authorities, markets, companies and consumers. That assessment is also formalised in the prospective capital adequacy (ICAAP) and liquidity (ILAAP) assessments and in the preparation of the Recovery Plan, and used for the update of the Risk Appetite Framework and the sustainability assessment of the Strategic Plan.

In relation to the Russia-Ukraine conflict, the direct and indirect exposures to Russian counterparties or those who depend on Russian operators and/or the Russian market for their business (supply, sales, orders, etc.) are quantified and carefully monitored in order to assess the possible impacts in terms of credit and liquidity risk, with evidence confirming that exposure remains low. The Chief Compliance & AFC Officer also operates in that context, to ensure, for borrowers, compliance with the provisions of the sanctions imposed by Italy and European and international bodies on Russian parties (natural and legal persons).

Secondly, with a view to mitigating the financial risks associated with the management of the HTCS and HTC financial portfolios, the current risk profile of the portfolios - which is at a low level - is subject to constant analysis and monitoring, and there is no direct exposure to Russia or Ukraine. Moreover, considering that those portfolios are debt portfolios, they are policy decisions are constantly monitored.

During the year, the Group investigated several aspects of the real estate market in order to assess the potential impacts of the emerging macro trends on its exposures. The main European real estate companies, with few exceptions regarding logistics operators, suggest that the sector will undergo a phase of the negative cycle, mainly due to the general increase in interest rates expected at least until the second half of 2024. That increase could result in write-downs to balance sheet assets, which would drive companies to adopt deleveraging strategies, leading them to carry out forced sales of assets. Moreover, economists predict a period of slight recession from mid-2024 which will result in additional pressures on certain industrial segments. The macroeconomic outlook foresees a spiral of events that will generate a crisis or prolonged stagnation in the real estate field. It is not currently possible to make certain medium/long-term forecasts that could quantify the consequences that the Group will suffer based on its investments.

Joining this with the wider Risk Appetite Framework, the Group's Real Estate categories of exposure were identified, both in terms of direct risk (for ex. repossessed assets) and indirect risk (for ex. assets used as collateral for the loans acquired), to assess the risk factors of those categories and monitor their various levels of risk exposure. Risk-differentiated clusters were identified to ensure the implementation of specific monitoring actions and forward-looking governance, in line with the expected evolution of the RAF.

The government also proposed introducing a tax on extra profit of the banks in response to the interest rate hikes by the central banks, calibrated to the size of the banks. Compared to an initial version that was harshly penalising for intermediaries, the application methods set out will, *inter alia,* make it possible to allocate the tax to capital strengthening processes of intermediaries, without thus significant effects on lending activities or support to the economy.

Corporate transactions

With effect from 1 January 2023, the merger by incorporation of the subsidiary AREC S.p.A. into neprix S.r.l. was completed, resulting in the creation of the legal entity ARECneprix S.p.A. ("ARECneprix"). That operation has had no effects on the consolidated financial statements, as both companies were wholly-controlled by illimity Bank S.p.A. and included in the consolidated financial statements on a line-by-line basis.

On 18 April 2023, illimity Bank S.p.A. and the ION Group announced that the ION Group had increased its equity investment in illimity from 7.25% to 9.39%. Furthermore, the Bank and the ION Group announced that the licence contract signed between the parties in 2021 concerning the IT systems developed by illimity had been consensually terminated, to allow the Bank to further exploit its IT systems, including by pursuing royalty agreements otherwise not provided for by the licence contract previously in force.

On 2 May 2023 COIMA, a leader in investment, development and management of real estate assets on behalf of institutional investors, signed a real estate partnership with Abilio, the illimity Group company that specialises in the digital brokerage of property and capital goods. Specifically, the agreement provided for COIMA to acquire a stake of 18% in Abilio's share capital, by means of a reserved capital increase. The operation was resolved upon by the Shareholders' Meeting of Abilio and was finalised on 25 May 2023. It specifically involved the transfer to Abilio by COIMA of 100% of its Residenze Porta Nuova company (now "Quimmo Prestige Agency") and the resulting subscription of 18% of the company's share capital.

On 30 May 2023, the Board of Directors of illimity Bank S.p.A. :

i. approved the share capital increase for the "Employee Stock Ownership Plan – ESOP" incentive plan (for 2023) for a total of EUR 156,724.73, corresponding to 240,486 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 3 of the By-laws, granted by the Shareholders' Meeting of 18 January 2019;
ii. resolved to exercise the authority granted also by the Shareholders' Meeting of 18 January 2019, in accordance with that set out in Article 5, paragraph 4 of the By-laws in force, in favour of employees of the illimity Group who are the beneficiaries of the first MBO Plan, and of any compensation paid on early termination of employment, granting a mandate to the Chief Executive Officer for the accurate execution of the capital increase, up to a maximum of 102,168 new ordinary shares.

On 5 June 2023, illimity Bank S.p.A announced the new composition of its share capital, following the resolution of the Board of Directors of 30 May 2023, issuing 240,486 new ordinary shares.

On 25 July 2023, illimity Bank S.p.A. ("illimity"), following on from that announced on 30 May 2023, announced the new composition of its share capital, following the registration with the Milan Companies' Register of the new By-laws due to the Chief Executive Officer's resolution that resulted in the partial exercise of the authorisation to increase the share capital pursuant to Article 2443 of the Italian Civil Code and of Article 5, paragraph 5 of the By-laws, for the beneficiaries of the MBO Plan or of any compensation paid in the event of early termination of the employment contract, with a share capital increase of EUR 20,030.65 and issuance of 30,736 new ordinary shares for the purpose of such share capital increase.

On 15 December 2023, a deed was signed to assign the "Industrial Sales" business unit of Abilio S.p.A. to the previously incorporated company Industrial Discount S.r.l., with effect from 20 December 2023. That operation had no effects on the consolidated financial statements, as both companies were controlled by the Group as of the transaction date and included in the consolidated financial statements on a line-by-line basis.

Main business transactions

In February 2023, illimity SGR, the fund management company of the “illimity Credit & Corporate Turnaround Fund” (“iCCT”) supported a company in its growth plan through the Fund’s acquisition of a majority stake in the company.

In March 2023, ARECneprix announced that it had entered into an agreement in the capacity of arranger and special servicer relating to the structured finance operation, for a total of EUR 495 million, between a leading Italian banking group and an important real estate company.

In March 2023, the Bank announced that it had acted as Global Coordinator in the context of the process of admission and subsequent listing on the market of a leading company in the restoration of concrete works of art of high strategic value (tunnels, bridges, motorway viaducts, etc.).

In April 2023, through its Investment Banking Division, illimity Bank S.p.A. structured a securitisation transaction of a portfolio of performing loans amounting to around EUR 150 million, through its Investment Banking Division, subscribing senior notes for EUR 90 million. Moreover, along with an important player operating in the financial markets, the Investment Banking division finalised a EUR 200 million agreement to support working capital and liquidity needs of SMEs, with specific focus on sustainable investments and the companies operating in the cohesion regions.

In April 2023, illimity SGR began operation of the new “illimity Selective Credit” Fund, the first Italian bank loan fund dedicated to performing unlisted SMEs having a turnover of up to EUR 300 million.

In June 2023, guarantees totalling EUR 50 million were granted to illimity to improve access to credit for Italian small and medium-sized enterprises (SMEs). The objective of these transactions is to stimulate investments to promote economic sustainability, innovation and digitisation.

In July 2023, illimity finalised a complex operation to support a significant growth plan for a leading Italian private operator in services for the Offshore Oil&Gas sector.

In August 2023, illimity announced that it had acted as Euronext Growth Advisor (EGA) and Global Coordinator as part of the process for the admission and subsequent listing on the market of an engineering company specialising in the design of critical infrastructure for strategic operators in the telco, mobility, civil and energy industries. It also acted as Lead-Arranger, through its Investment Banking Division, along with a specialised fintech advisor, in structuring a securitisation programme for supporting small and medium-sized Italian enterprises, committing to subscribing partly-paid ABS notes for an amount of EUR 150 million in 12 months.

In October 2023, illimity issued its first sustainability-linked direct loan for a total of EUR 30 million, to a leading Italian private operator active in the management, reuse and recycling of industrial waste.

In October 2023, ARECneprix, along with a well-known Italian banking group, announced the launch of a new real estate contribution fund, Olympus Fund (for operating reasons two equity contribution funds, Olympus Fund 1 and Olympus Fund 2, were created, with extremely similar features and structure and with the same players involved), dedicated to enhancing the value of loans, including leases, with real estate collateral, and to managing real estate assets. At the first closing date, the found comprised real estate and lease loans for a total GBV (Gross Book Value) of approximately EUR 2 billion.

In November 2023, illimity announced that it had acted as Co-arranger in a securitisation operation dedicated to Italian SMEs worth EUR 300 million, through its Investment Banking Division, reserving the option to subscribe, together with a French banking institution, senior notes for a total value of EUR 270 million.

In December 2023, illimity structured a securitisation operation concerning trade receivables and inventory goods worth around EUR 77 million relating to a leading international trading and industrial group active in the metallurgical sector, through its Investment Banking Division.

In December, illimity announced that it had acted as Euronext Growth Advisor (EGA) and Global Coordinator in the process of the admission and subsequent listing on the market of a company operating in the digital transformation sector.

Other significant information

In January 2023, the Bank announced that it could no longer be classified as an SME (small or medium-sized enterprise) thanks to the growth of its market capitalisation above the relevant threshold (EUR 500 million) for three consecutive years (2020-2021-2022), with the transitional turnover criteria having ceased to apply.

In January 2023, the SGR completed a new closing of its “illimity Real Estate Credit” (“iREC”) Fund, a contribution Fund dedicated to investments in non-performing loans – mainly UTPs – secured by real estate assets, under the form of both mortgage loans and finance leases.

In April 2023, the annual Shareholders’ Meeting of illimity Bank S.p.A. approved the 2022 financial statements and the distribution of the first dividend in illimity’s history, equal to EUR 0.18 per share.

In March 2023, the SGR signed a commitment to apply and promote the Principles for Responsible Investment (“PRI” or “Principles”) supported by the United Nations, confirming its commitment to integrate sustainability into all aspects of its activity and consolidating active dialogue with institutions and peers in the sector on the impacts of sustainable finance. illimity Group’s adoption of and commitment to applying and promoting the PRI is part of its wider strategy, having paid close attention to ESG matters from day one.

In April 2023, illimity announced that it signed a long-term industrial partnership agreement with the Engineering Group, concerning illimity's IT platform, its distribution to third parties and its future development. On 30 June 2023, Illimity announced that it signed the detailed agreements in execution of the binding commitments assumed (Long Form Agreement) with the Engineering Group, confirming the previously announced agreements.

The consideration deriving from the disposal came to a value of EUR 55.5 million which, net of the discounting effect related to the deferred payment, entailed the recognition of EUR 54 million in the Group's income as of 30 June 2023. An additional EUR 4.5 million may be added to this amount in the period 2024-2032 in return for further platform upgrades provided by illimity that Engineering has the option to acquire.

In May 2023, the Bank launched two new current accounts and, for the first time since the start of operations of the platform, now remunerates demand deposits at an interest rate of 2.5%.

In July 2023, illimity obtained a ‘positive’ outlook from Standard Ethics, an independent sustainability rating agency, compared to the previous ‘stable’ outlook, and its “EE-“ rating was confirmed (on a scale from “F” to “EEE”). Standard Ethics also upgraded the Long Term Expected Corporate Standard Ethics Rating (SER) to “EE+”.

In August 2023, illimity obtained an upgrade to the ESG rating from MSCI, from “A” to “AA”, moving from the Average category to the Leader in its sector.

With regard to that set out in Italian Decree-Law no. 104 of 10 August 2023, “Urgent provisions protecting users, regarding economic and financial activities and strategic investments” (known as the Omnibus Decree), converted into Italian Law dated 9 October 2023, which introduced an extraordinary tax calculated on the increase in the net interest margin, the Board of Directors, availing of the option set out in said Law, decided to propose that the Shareholders’ Meeting that will approve the 2023 Financial Statement and the allocation of profit for the year establish a specific undistributable shareholders’ equity reserve, according to the provisions of applicable regulations.

In October 2023, Fitch Ratings confirmed all the ratings assigned to the Bank. In particular, the Long-Term Issuer Default Rating (IDR) was maintained at "BB-" with Stable Outlook, and the Long-Term Deposits Rating at "BB."

In December 2023, illimity announced that, following the annual Supervisory Review and Evaluation Process (SREP) conducted by Banca d'Italia, the illimity Bank Group's capital ratios were confirmed in line with the new capital requirements established by Banca d'Italia. For further details on capital requirements, please read the section entitled "Capital Adequacy".

In December 2023, illimity announced that it had entered into a partnership with an Italian finance and insurance group aimed at accelerating the sustainable transition of Italian businesses.

In December 2023, illimity signed up to the Principles for Responsible Banking (PRB), one of the most important benchmark sustainability frameworks in the financial sector.

Reclassified consolidated financial statements as of 31 December 2023

This Report on Consolidated Operations has been prepared on the basis of tables in the Bank of Italy Circular No. 262 of 22 December 2005 as amended.

In this document, the mandatory financial statements have been reclassified according to a managerial approach better suited to representing the Group's financial performance and financial position, in view of the typical characteristics of the financial statements of a banking group. The goal has been to simplify the use of these financial statements through the specific aggregations of line items and reclassifications detailed below. Therefore, this Report on Consolidated Operations includes a reconciliation between the financial statements presented and the mandatory financial reporting format laid down in Bank of Italy Circular No. 262, whose values converge in the items of the reclassified financial statements.

Reconciliation with the items of the mandatory financial statements aids in reclassification of the items in question, but above all facilitates the understanding of the criteria adopted in constructing the Report on Consolidated Operations; additional details useful to this end are provided below:

- recoveries of taxes recognised among other operating expenses/income are deducted directly from the indirect taxes included among other administrative expenses and therefore their amount has been set off against the relevant item of the mandatory financial statements;
- the cost components related to Raisin's operations are deducted from the net interest margin;
- dividends received from financial assets measured at fair value through profit or loss were included in the Profits (losses) on trading and financial assets and liabilities;
- personnel expenses also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations;
- contributions and membership fees are excluded from other administrative expenses and recognised in a separate item, named “Contributions and other non-recurring fees”. Write-downs/write-backs and one-off components related to the valuation of trade receivables were also classified in that item;
- interest expense resulting from the lease liability (IFRS 16) is recognised under other administrative expenses;
- net write-downs/write-backs on closed positions include profits and losses generated from the sale of property investments and *datio in solutum* transactions;
- revaluations and write-downs linked to transformations of capital assets, which are not loans, are reclassified to Other operating expenses and income (excluding taxes);
- net credit exposure to customers on closed positions is shown separately from net losses/recoveries for credit risk.

Some assets and liabilities in the statement of financial position were grouped together, concerning:

- the inclusion of hedging derivative assets, tangible assets, tax assets and assets held for sale in the residual item other assets;
- the aggregation of Loan and securities at amortised cost from banks and financial entities;
- the separate indication of government bonds at amortised cost and loans to customers and investments at amortised cost;
- the separate indication of goodwill and other intangible assets;
- the reclassification of Leasing agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes;
- the inclusion of hedging derivative liabilities, the Provision for Risks and Charges and employee severance pay in residual items of other liabilities;
- the aggregate indication and items comprising shareholders’ equity.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Assets	31/12/2023	31/12/2022	Chg.	Chg. %
10)	Cash and cash equivalents	431,696	680,777	(249,081)	(37%)
40 a) + 40 b)	Loans to banks and financial entities	112,702	182,801	(70,099)	(38%)
40 b)	Loans to customers and investments	4,064,018	3,775,620	288,398	8%
40 b)	Government Bonds	585,009	428,309	156,700	37%
30)	HTCS Financial assets	456,643	391,710	64,933	17%
20 a) + 20 c)	FVTPL Financial assets	527,840	105,043	422,797	>100%
70	Investments in equity	81,199	76,375	4,824	6%
100)	Goodwill	69,992	65,372	4,620	7%
100)	Other intangible assets	83,776	69,729	14,047	20%
50 + 90 + 110 + 120 + 130	Other assets	846,172	579,389	266,783	46%
	Total assets	**7,259,047**	**6,355,125**	**903,922**	**14%**

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Liabilities	31/12/2023	31/12/2022	Chg.	Chg. %
10 a)	Due to banks	941,995	1,205,048	(263,053)	(22%)
10 b)	Amounts due to customers	4,487,248	3,409,302	1,077,946	32%
10 c)	Securities issued	611,741	653,002	(41,261)	(6%)
20 + 40 + 60 + 80 + 90 + 100	Other liabilities	261,961	246,451	15,510	6%
(*)	Shareholders' equity	956,102	841,322	114,780	14%
	Total liabilities and shareholders' equity	**7,259,047**	**6,355,125**	**903,922**	**14%**

(*) 120 + 150 + 160 + 170 + 180 + 190 + 200

Summary of consolidated statement of financial position data

The Group's total assets amounted to EUR 7,259 million as of 31 December 2023, up by 14% on 31 December 2022, when they amounted to EUR 6,355.1 million. The increase of EUR 903.9 million during the year is due primarily to the increase in assets measured at fair value through profit or loss resulting from transfers of assets to UCIs, as well as the increase in volumes of loans to customers classified under either Loans to customers and investments or Non-current assets held for sale and discontinued operations (under *Other assets*).

Loans to banks and financial entities amounted to EUR 112.7 million, down compared to 31 December 2022, when they amounted to EUR 182.8 million, following the complete reduction in the component due from financial entities for EUR 125.6 million, which was partially offset by the increase in the component due from banks for EUR 55.5 million.

The Group's assets as of 31 December 2023 mainly included financial assets measured at amortised cost arising from loans to customers and investments of EUR 4,064 million (up compared to EUR 3,775.6 million as of 31 December 2022). The increase in the component in question was mainly attributable to the new operations concluded during the financial year by the Growth Credit Division, as well as the operations of the b-ilty and Investment Banking Divisions. Conversely, the portfolio of assets at amortised cost of the Distressed Credit Division was down, specifically due to the strategy of transformation of the assets mentioned above, which resulted in an increase in assets at fair value and Non-current assets held for sale and discontinued operations.

Government securities HTC, whose book value as of 31 December 2023 came to EUR 585 million, up by EUR 156.7 million on 31 December 2022.

Financial assets HTCS were mainly represented by government bonds and securities issued by other banks and financial entities and high yield corporate bonds. The item totalled EUR 456.6 million, up by EUR 64.9 million on 31 December 2022, due primarily to ALM & Treasury and Structured Products operations.

As of 31 December 2023, the Group had a total negative net valuation reserve of EUR 30 million, due primarily to the negative contribution of the reserve on securities managed through the HTCS business model. However, the reserve did see an improvement of around EUR 17.9 million compared with the closing balance for the 2022 financial year.

Financial assets at FVTPL amounted to EUR 527.8 million and were composed of other financial instruments mandatorily measured at fair value of EUR 456.2 million, financial instruments mandatorily measured at fair value of EUR 45.8 million and financial assets held for trading of EUR 25.9 million.

Loans measured at fair value refer primarily to loans pertaining to the Growth Credit Division (around EUR 35 million) and loans of the Energy Business pertaining to the Distressed Credit Division, mandatorily measured at fair value (EUR 10.8 million), held via the securitisation vehicle Spicy Green SPV.

As of 31 December 2023, financial instruments amounted to EUR 456.2 million, increasing by approximately EUR 418.3 million compared to 31 December 2022. The increase was due primarily to the subscription of units in UCIs, following illimity's transfer of NPL portfolios and securitisation notes to investment funds.

The “Equity investments” item, which amounted to EUR 81.2 million as of 31 December 2023, consists predominantly of the value of the joint control equity investment held by illimity in Hype, insofar as it was consolidated using the equity method. The balance of equity investments grew compared to the figure of December 2022 by EUR 4.8 million, due to the capital increase for Hype in the first quarter of 2023, net of the losses realised by the investee companies in the financial year.

As of 31 December 2023, intangible assets amounted to EUR 153.8 million, increasing by approximately EUR 18.7 million compared to 31 December 2022. The increase is mainly due to the intangible assets capitalised during the financial year, as well as the recognition, following the Purchase Price Allocation as a result of the acquisition of Quimmo Prestige Agency, of goodwill of EUR 4.6 million.

In addition to the above-mentioned goodwill, the intangible assets of the Group also include the residual value of the specific intangible assets identified in carrying out the Purchase Price Allocation process following the acquisition of the business unit of AREC (now merged by incorporation into ARECneprix S.p.A.), equal to EUR 5.2 million as of 31 December 2023, in addition to the residual difference recorded under goodwill for EUR 29.1 million. Lastly, the balance also includes the goodwill from the business combination of SPAXS with Banca Interprovinciale (equal to EUR 21.6 million), goodwill recognised at the acquisition of IT Auction (now Abilio and Industrial Discount) and its subsidiaries in 2020 (equal to EUR 14.6 million), as well as the goodwill - albeit in a lesser amount - recognised at the acquisition of 100% of the units of the securitisation vehicles Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l. and River SPV S.r.l. and Kenobi SPV S.r.l., and 66.7% of the units of the securitisation vehicles Aporti S.r.l. This item also includes the IT investments made by Group companies.

Other assets, which as of 31 December 2023 amounted to EUR 846.2 million, were up by EUR 266.8 million compared to 31 December of the previous year. This increase was due mainly to the classification in that item of the Group’s assets held for sale and discontinued operations as of 31 December 2023, which included POCI loans for EUR 154.1 million and Public Procurement Claims for EUR 210 million.

Total consolidated liabilities and shareholders’ equity as of 31 December 2023 amounted to EUR 7,259 million. Amounts due to customers, net of the lease liability referred to IFRS 16, amounted to EUR 4,487.2

million and increased compared to 31 December 2022, mainly driven by time deposits from customers, especially following the increase in interest rates on restricted deposits. Amounts due to banks - including the central banks component - stood at EUR 942 million, decreasing by EUR 263.1 million compared to 31 December 2022.

Securities issued amounted to EUR 611.7 million, down by EUR 41.3 million compared with the end of the 2022 financial year, due to the maturity of a bond in December, which was only partially offset by a new issue for a lower nominal amount.

Consolidated shareholders' equity came to EUR 956.1 million, up on 2022 due primarily to the profit recorded in 2023, in addition to the improvement in valuation reserves, net of the dividends for 2022 paid in May 2023. Furthermore, the transactions concluded relating to Quimmo Prestige Agency and the Ingenii Open Finance Fund, net of the results achieved by them pertaining to minority shareholders, resulted in the increase in Shareholders' equity attributable to minority interests of around EUR 5.6 million.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	31/12/2023	31/12/2022	Chg.	Chg. %
10 + 20 + 320	Net interest margin	192,523	162,225	30,298	19%
40 + 50	Net fee and commission income	76,713	61,570	15,143	25%
80 + 90 + 100 + 110	Fair value adjustments in trading, hedge accounting and sale of financial assets	(480)	13,215	(13,695)	N/A
130 a) + 130 b) + 200 a) + 280	Net write-downs/write-backs on closed positions	30,294	63,768	(33,474)	(52%)
140 + 110 + 230	Other operating expenses and income (excluding taxes)	59,875	23,836	36,039	>100%
Total net operating income		**358,925**	**324,614**	**34,311**	**11%**
190 a)	Personnel expenses	(105,379)	(86,126)	(19,253)	22%
190 b)	Other administrative expenses	(99,019)	(90,701)	(8,318)	9%
210 + 220	Net adjustments/recoveries on property and equipment and intangible assets	(22,608)	(16,761)	(5,847)	35%
Operating expenses		**(227,006)**	**(193,588)**	**(33,418)**	**17%**
Operating profit (loss)		**131,919**	**131,026**	**893**	**1%**
130 a)	Net losses/recoveries for credit risk - HTC Customer Banks and Financial entities	37,384	(13,456)	50,840	N/A
130 b)	Net losses/recoveries for credit risk - HTCS	(130)	(1,292)	1,162	(90%)
200 a)	Net adjustments/recoveries for commitments and guarantees	(1,519)	(1,042)	(477)	46%
Total net adjustments/recoveries		**35,735**	**(15,790)**	**51,525**	**N/A**
200 b)	Other net provisions	(272)	(38)	(234)	>100%
250	Other income (expenses) on investments	(3,493)	(7,633)	4,140	(54%)
190 b) + 230	Contributions and other non-recurring expenses	(12,148)	(6,703)	(5,445)	81%
Profit (loss) from operations before taxes		**151,741**	**100,862**	**50,879**	**50%**
300 + 320	Income tax for the year on continuing operations	(47,927)	(25,536)	(22,391)	88%
	Profit (loss) for the period	**103,814**	**75,326**	**28,488**	**38%**
340	Profit (loss) for the financial year attributable to minority interests	586	-	586	N/A
Profit (Loss) for the year attributable to the Parent Company		**104,400**	**75,326**	**29,074**	**39%**

Consolidated income statement highlights

The Group's total net operating income for the period ended 31 December 2023 amounted to EUR 358.9 million, up on the previous year, when it came to EUR 324.6 million.

The increase in total net operating income is mainly attributable to operating income recognised due to the finalisation of the commercial agreement with the Engineering Group for EUR 54 million, recognised in the second quarter of the current year. That agreement sets out a long-term industrial partnership concerning the IT platform.

The net interest margin increased by EUR 30.3 million, due mainly, with regard to interest income, to the greater disbursements made by the Growth Credit Division as well as the operations of the b-ilty and Investment Banking Divisions, and the higher interest deriving from the HTC and HTCS securities portfolios. The interest expense component also included an increase in the cost of funding due to the trend in interest rates, starting from the second half of 2022, in addition to an increase in deposits, in line with the liquidity strategy implemented by the Group.

Net fee and commission income, which amounted to EUR 76.7 million as of 31 December 2023, also increased compared to the comparative figure of EUR 61.6 million, particularly as a result of the operations of ARECneprix within the group, following the acquisition of ARECneprix's business, which was finalised in June 2022 and made a positive contribution thanks to servicing commissions.

That item also includes the revenues of Abilio and its subsidiaries Quimmo Agency, Quimmo Prestige Agency and Industrial Discount, which contribute to the commission margin through the commissions accrued for the use of the proprietary real estate portals.

The total net operating income included the net profit/loss on positions closed in 2023 for a total of EUR 30.3 million (EUR 63.8 million as of 31 December 2022, and amount that included material transactions), which refers to net recoveries on closed customer POCI positions and to the profits (losses) on the sale of properties.

Fair value adjustments in trading, hedge accounting and sale of financial assets was down by around EUR 13.7 million compared to the previous financial year. This change was due largely to the negative effect observed on the trading and exchange rate derivatives portfolio, the recognition of an ineffectiveness component on hedging operations (not present in the 2022 financial year), and the effects caused by instruments of the energy business.

Lastly, the balance of other operating expenses and income increased by EUR 36 million compared to the 2022 financial year. That increase is mainly linked to the long-term industrial partnership entered into with the Engineering Group, which resulted in the recognition of a benefit of EUR 54 million in the income statement already in the second quarter 2023. The same period of 2022 benefited from the income attributable to the partnership with ION, now terminated.

Operating expenses amounted to EUR 227 million as of 31 December 2023, up by EUR 33.4 million compared to the previous financial year.

In detail, personnel expenses increased compared to the 2022 financial year by approximately EUR 19.3 million, as a result of new resources being employed, to support the increased activities of the Bank's Divisions, and also due to the incorporation of AREC (now ARECneprix) and Quimmo Prestige Agency into the Group. Personnel expenses for the 2023 financial year were also affected by compliance with the new National Collective Bargaining Agreement on credit and the adjustment of variable-pay incentives.

Other administrative expenses rose by EUR 8.3 million compared with the previous financial year. Also in this case, the increase in administrative expenses was impacted by the entry of new companies into the Group. Please refer to the "Business Performance" section for further details on the contribution of the individual expenditure categories and the changes therein compared to 31 December 2022.

Finally, the item includes net adjustments/recoveries for property and equipment and intangible assets totalling around EUR 22.6 million, up by EUR 5.8 million compared to 31 December 2022, both due to the amortisation of IT investments and depreciation of materials managed in application of IFRS 16 and due to the amortisation and write-downs/write-backs of the specific intangible assets identified in the Purchase Price Allocation process relating to the acquisitions made in previous years. The item also includes the write-downs/write-backs made to the real estate portfolio, which were recognised in line with IAS 2 on the basis of a continuing process of re-evaluation.

Overall net losses/recoveries on portfolio positions were positive for EUR 35.7 million. In detail, that item includes net losses/recoveries on organic loans for a negative EUR 14 million, net losses/recoveries on inorganic exposures for a positive EUR 50.6 million and a negative EUR 0.9 million in net losses/recoveries on loans to banks, financial entities, securities and off-balance sheet exposures. Net losses on positions measured at amortised cost are primarily related to individual and collective assessments of loans to customers. This item also includes net losses and recoveries on financial assets measured at amortized cost linked to transformations of assets.

Moreover, expenses on investments, related to results of companies consolidated using the equity method, came to negative EUR 3.5 million, a considerable improvement over the same period of the previous year.

Contributions and other non-recurring expenses were also recorded for around EUR 12.1 million, mainly attributable to the contributions allocated for the purposes of the sustainability of the banking system (including the Resolution Fund, recognised in the first quarter of 2023, and the Interbank Deposit Protection Fund, recognised in the third and fourth quarters of 2023 - for the ordinary and extraordinary components respectively), as well as adjustments pertaining to trade receivables linked to the agreement terminated with ION concerning the granting of the licence to use the IT platform.

Based on the above, as of 31 December 2023, profit for the year before taxes amounted to EUR 151.7 million.

Net of income tax on continuing operations, equal to approximately EUR 47.9 million, consolidated net profit attributable to the parent company as of 31 December 2023 stood at EUR 104.4 million, up compared to a profit of EUR 75.3 million as of 31 December 2022. It is specified that the consolidated profit includes the net loss attributable to minority interests of EUR 586 thousand.

Basic earnings per share as of 31 December 2023, calculated by dividing the result for the period attributable to the parent company by the weighted average number of ordinary shares issued, was equal to EUR 1.25, higher than the diluted earnings per share as of the same date, which was EUR 1.22. See the section "Basic and diluted earnings (loss) per share" for details of the methodology used to calculate earnings per share.

Key data on capital

Invested assets

A table of invested assets broken down by Business Division and/or type of financial asset, is shown below:

(amounts in thousands of euros)

DETAILS OF INVESTED ASSETS	31/12/2023		31/12/2022		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. %
Cash and cash equivalents	**431,696**	**7.0%**	**680,777**	**12.2%**	**(249,081)**	**(37%)**
Financial assets held for trading	**25,917**	**0.4%**	**31,146**	**0.6%**	**(5,229)**	**(17%)**
Financial instruments mandatorily measured at fair value	**501,923**	**8.1%**	**73,897**	**1.3%**	**428,026**	**>100%**
- Distressed Credit Division	449,211	7.3%	38,060	0.7%	411,151	>100%
- Growth Credit Division	51,668	0.8%	33,376	0.6%	18,292	55%
- ALM & Treasury portfolio	31	0.0%	130	0.0%	(99)	(76%)
– Investment Banking Division	1,013	0.0%	2,331	0.0%	(1,318)	(57%)
HTCS Financial assets	**456,643**	**7.4%**	**391,710**	**7.0%**	**64,933**	**17%**
- ALM & Treasury portfolio	316,092	5.1%	278,249	5.0%	37,843	14%
– Investment Banking Division	140,104	2.3%	113,461	2.0%	26,643	23%
- Other capital instruments	447	0.0%	-	0.0%	447	N/A
Loans to banks and financial entities	**112,702**	**1.8%**	**182,801**	**3.3%**	**(70,099)**	**(38%)**
Government Bonds HTC	**585,009**	**9.5%**	**428,309**	**7.7%**	**156,700**	**37%**
Loans to customers - Loans and PPCs	**4,064,018**	**65.8%**	**3,775,620**	**67.9%**	**288,398**	**8%**
- Distressed Credit Division	998,923	16.2%	1,490,341	26.8%	(491,418)	(33%)
- Growth Credit Division	2,450,176	39.7%	2,102,237	37.8%	347,939	17%
- b-ilty Division	309,436	5.0%	49,561	0.9%	259,875	>100%
– Investment Banking Division	305,483	4.9%	133,481	2.4%	172,002	>100%
Total invested assets	**6,177,908**	**100%**	**5,564,260**	**100%**	**613,648**	**11%**

Loans and PPCs to customers amounted to approximately EUR 4,064 million, up from EUR 3,775.6 million at the end of the previous year, due primarily to the new disbursements by the Growth Credit Division and by the b-ilty Division and to the operations of the Investment Banking Division.

The decrease in loans to customers recorded by the Distressed Credit Division was mainly attributable to the reclassification of assets subject to disposal to *Non-current assets held for sale and discontinued operations*.

Financial assets mandatorily measured at fair value through profit and loss amounted to EUR 501.9 million as of 31 December 2023, up by EUR 428 million on 31 December 2022. These financial assets consist of loans measured at fair value (EUR 45.8 million) and financial instruments (EUR 456.2 million).

Loans measured at fair value refer primarily to loans pertaining to the Growth Credit Division (around EUR 35 million) and loans of the Energy Business pertaining to the Distressed Credit Division, mandatorily measured at fair value (EUR 10.8 million), held via the securitisation vehicle Spicy Green SPV.

As of 31 December 2023, financial instruments amounted to EUR 456.2 million, increasing by approximately EUR 418.3 million compared to 31 December 2022. The increase was due primarily to the subscription of units of UCIs following the Distressed Credit Division's finalisation of asset transformation operations.

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, amounted to approximately EUR 456.6 million, and refer mainly to government bonds, securities issued by other banks and financial entities, and high yield corporate bonds. These assets were up by EUR 64.9 million compared with 31 December 2022, primarily due to the ALM & Treasury and the Investment Banking Division operations.

(amounts in thousands of euros)

INVESTED ASSETS BY TECHNICAL FORM	31/12/2023		31/12/2022		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. %
Cash and cash equivalents	**431,696**	**7.0%**	**680,777**	**12.2%**	**(249,081)**	**(37%)**
Due from banks	**112,702**	**1.8%**	**57,213**	**1.0%**	**55,489**	**97%**
Current accounts and deposits	112,702	1.8%	57,213	1.0%	55,489	97%
Loans to financial entities	**-**	**0.0%**	**125,588**	**2.3%**	**(125,588)**	**(100%)**
Loans to customers and PPCs	**3,486,745**	**56.4%**	**3,223,510**	**57.9%**	**263,235**	**8%**
Current accounts held by customers	105,793	1.7%	188,185	3.4%	(82,392)	(44%)
Reverse Repurchase Agreements	60,940	1.0%	-	-	60,940	N/A
Green Loans	3,319,754	53.7%	2,949,939	53.0%	369,815	13%
Public Procurement Claims	258	0.0%	85,386	1.5%	(85,128)	(100%)
Loans mandatorily measured at fair value	**45,768**	**0.7%**	**36,061**	**0.6%**	**9,707**	**27%**
Securities and financial derivatives	**2,100,997**	**34.0%**	**1,441,112**	**25.9%**	**659,885**	**46%**
Debt securities	1,622,238	26.3%	1,379,832	24.8%	242,406	18%
- Government bonds	839,553	13.6%	650,356	11.7%	189,197	29%
- Bank bonds	83,516	1.4%	77,962	1.4%	5,554	7%
- Financial companies	601,916	9.7%	544,970	9.8%	56,946	10%
- Non-financial companies	97,253	1.6%	106,544	1.9%	(9,291)	(9%)
Financial Derivatives	25,899	0.4%	31,117	0.6%	(5,218)	(17%)
Financial instruments/earnouts	4,291	0.1%	9,182	0.2%	(4,891)	(53%)
Equity investments	447	0.0%	-	0.0%	447	N/A
Equity securities	19	0.0%	19	0.0%	-	0%
Units of UCIs	448,103	7.3%	20,961	0.4%	427,142	>100%
Total	**6,177,908**	**100%**	**5,564,260**	**100%**	**613,648**	**11%**

In accordance with document no. 2011/226, issued by the European Securities and Markets Authority (ESMA) on 28 July 2011, the table above shows the incidence of the various technical forms on total invested assets.

Loans due from banks totalled EUR 112.7 million, up compared to 31 December 2022 due to the increase in interbank deposits, due to the self-securitisations implemented by the Group.

Loans to customers and PPCs, which amounted to EUR 3,486.7 million as of 31 December 2023, were up on the figure at the end of the previous year. This increase was due mainly to the growth in loans, which rose from EUR 2,949.9 million as of 31 December 2022 to EUR 3,319.8 million as of 31 December 2023 – which offset the reduction in Current accounts held by customers equal to EUR 82.4 million and in Public Procurement Claims equal to EUR 85.1 million. These items were recognized under *Non-current assets held for sale and discontinued operations*, as per IFRS 5.

Lastly, debt securities amounted to EUR 1,622.2 million, up on 31 December 2022, and mainly related to government entities and financial companies. The main changes since the end of the previous year are related to the purchase of government bonds managed under an HTCS business model.

The following is a summary of loans to customers measured at amortised cost broken down by business division.

(amounts in millions of euros)

FINANCING BY BUSINESS DIVISION	31/12/2023	Inc. %	31/12/2022	Inc. %	Chg.	Chg. %
Distressed Credit Division	999	21.5%	1,490	34.4%	(491)	(33%)
Growth Credit Division	2,363	50.8%	2,011	46.5%	352	18%
Investment Banking Division	305	6.6%	133	3.1%	172	>100%
b-ilty Division	309	6.6%	50	1.2%	259	>100%
Loans to ordinary former BIP customers (Growth Credit)	88	1.9%	91	2.1%	(3)	(3%)
Total due from customers (Loans and Securities)	**4,064**	**87.4%**	**3,775**	**87.2%**	**289**	**8%**
Loans to financial entities	-	0.0%	126	2.9%	(126)	(100%)
Government Bonds	585	12.6%	428	9.9%	157	37%
Financing to customers and financial entities measured at amortised cost	**4,649**	**100%**	**4,329**	**100%**	**320**	**7%**

Financial assets measured at amortised cost

The table below provides an overview of the Group's main financing at amortised cost, compared with the relevant values as of 31 December 2022.

(amounts in thousands of euros)

FINANCIAL ASSETS AT AMORTISED COST	31/12/2023						31/12/2022					
	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)
Due from banks	**112,815**	**2.3%**	**(113)**	**112,702**	**2.4%**	**0.10%**	**57,263**	**1.1%**	**(50)**	**57,213**	**1.3%**	**0.09%**
Green Loans	112,815	2.3%	(113)	112,702	2.4%	0.10%	57,263	1.1%	(50)	57,213	1.3%	0.09%
- Stage 1-2	112,815	2.3%	(113)	112,702	2.4%	0.10%	57,263	1.1%	(50)	57,213	1.3%	0.09%
Loans to financial entities	-	0.0%	-	-	0.0%	N/A	**125,757**	**2.5%**	**(169)**	**125,588**	**2.9%**	**0.13%**
Green Loans	-	0.0%	-	-	0.0%	N/A	125,757	2.5%	(169)	125,588	2.9%	0.13%
- Stage 1-2	-	0.0%	-	-	0.0%	N/A	125,757	2.5%	(169)	125,588	2.9%	0.13%
Government Bonds	**585,693**	**11.7%**	**(684)**	**585,009**	**12.3%**	**0.12%**	**428,829**	**8.6%**	**(520)**	**428,309**	**9.8%**	**0.12%**
- Stage 1-2	585,693	11.7%	(684)	585,009	12.3%	0.12%	428,829	8.6%	(520)	428,309	9.8%	0.12%
Loans to customers and PPCs	**4,307,278**	**86.0%**	**(243,260)**	**4,064,018**	**85.3%**	**5.65%**	**4,397,598**	**87.8%**	**(621,978)**	**3,775,620**	**86.1%**	**14.14%**
Green Loans	3,530,559	70.5%	(44,072)	3,486,487	73.2%	1.25%	3,169,374	63.3%	(31,250)	3,138,124	71.5%	0.99%
- Stage 1-2	2,617,483	52.3%	(12,804)	2,604,679	54.7%	0.49%	1,978,403	39.5%	(11,353)	1,967,050	44.8%	0.57%
- Stage 3	913,076	18.2%	(31,268)	881,808	18.5%	N/A	1,190,971	23.8%	(19,897)	1,171,074	26.7%	N/A
Securities	580,143	11.6%	(2,870)	577,273	12.1%	0.49%	555,536	11.1%	(3,426)	552,110	12.6%	0.62%
- Stage 1-2	475,411	9.5%	(2,030)	473,381	9.9%	0.43%	450,428	9.0%	(3,119)	447,309	10.2%	0.69%
- Stage 3	104,732	2.1%	(840)	103,892	2.2%	0.80%	105,108	2.1%	(307)	104,801	2.4%	0.29%
Public Procurement Claims	196,576	3.9%	(196,318)	258	0.0%	N/A	672,688	13.4%	(587,302)	85,386	1.9%	N/A
Total	**5,005,786**	**100%**	**(244,057)**	**4,761,729**	**100.0%**	**N/A**	**5,009,447**	**100%**	**(622,717)**	**4,386,730**	**100.0%**	**N/A**

(*) In the column "Coverage ratio", the value "n/a" was inserted as it refers to net write-downs/write-backs and therefore is not correlated to the gross exposure in terms of coverage representation.

Financial assets at amortised cost, equal to EUR 4,761.7 million as of 31 December 2023, were mainly composed of loans to customers and PPCs, which comprise 85.3% of the total of the item, in addition to government bonds and due from banks, which comprise 12.3% and 2.4% of the total respectively.

A breakdown of the quality of organic customer credit (loans and securities, net of loans to financial entities) and a comparison to the previous year is provided below.

(amounts in thousands of euros)

LOANS TO CUSTOMERS - ORGANIC	31/12/2023						31/12/2022					
	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio
Non - performing loans - Organic	**174,507**	**5.3%**	**(31,268)**	**143,239**	**4.4%**	**17.92%**	**61,840**	**2.5%**	**(19,897)**	**41,943**	**1.7%**	**32.17%**
- Bad loans	51,848	1.6%	(20,129)	31,719	1.0%	38.82%	20,505	0.8%	(14,353)	6,152	0.3%	70.00%
- Unlikely-to-pay positions	103,129	3.1%	(10,104)	93,025	2.9%	9.80%	40,992	1.6%	(5,481)	35,511	1.4%	13.37%
- Past-due positions	19,530	0.6%	(1,035)	18,495	0.6%	5.30%	343	0.0%	(63)	280	0.0%	18.37%
Non-performing securities - organic	**15,042**	**0.5%**	**(840)**	**14,202**	**0.5%**	**5.58%**	**3,000**	**0.1%**	**(307)**	**2,693**	**0.1%**	**10.23%**
- Unlikely-to-pay positions	15,042	0.5%	(840)	14,202	0.5%	5.58%	3,000	0.1%	(307)	2,693	0.1%	10.23%
Performing loans	**3,092,894**	**94.2%**	**(14,834)**	**3,078,060**	**95.1%**	**0.48%**	**2,428,831**	**97.4%**	**(14,472)**	**2,414,359**	**98.2%**	**0.60%**
- Loans	2,617,483	79.7%	(12,804)	2,604,679	80.5%	0.49%	1,978,403	79.3%	(11,353)	1,967,050	80.0%	0.57%
- Securities	475,411	14.5%	(2,030)	473,381	14.6%	0.43%	450,428	18.1%	(3,119)	447,309	18.2%	0.69%
Total	**3,282,443**	**100.0%**	**(46,942)**	**3,235,501**	**100.0%**	**1.43%**	**2,493,671**	**100%**	**(34,676)**	**2,458,955**	**100.0%**	**1.39%**

Organic non-performing loans amounted to EUR 143.2 million, higher than the figure recorded as of 31 December 2022. The coverage ratio for organic non-performing loans as of 31 December 2023 was equal to 17.92%, down from the figure as of 31 December 2022. This is due primarily to the fact that a large number of secured credit exposures have now become UTPs and bad loans. This resulted in a reduction in the proportion of the group's organic non-performing loans represented by unsecured credit.

As of 31 December 2023 performing loans amounted to EUR 2,604.7 million and performing securities amounted to EUR 473.4 million. The item loans was up on 31 December 2022 in relation to increased operations of the Growth Credit Division, the Investment Banking Division and the b-ilty Division. The total performing loan and securities portfolio thus grew compared to EUR 2,414.4 million as of 31 December 2022.

The coverage ratio for performing loans of the Bank as of 31 December 2023 was equal to 0.49%, a decrease on the comparative figure as of 31 December 2022 due to the disbursements of new loans secured by public guarantees which require a lower coverage ratio.

Below is a breakdown of the inorganic component of the portfolio, which comprises loans, securities and Public Procurement Claims.

(amounts in thousands of euros)

LOANS TO CUSTOMERS - INORGANIC & PPCs	31/12/2023						31/12/2022					
	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)
Non-performing loans - inorganic	**738,569**	**72.2%**	**-**	**738,569**	**89.3%**	**N/A**	**1,129,131**	**59.3%**	**-**	**1,129,131**	**85.8%**	**N/A**
- Bad loans	318,840	31.2%	-	318,840	38.6%	N/A	618,740	32.5%	-	618,740	47.0%	N/A
- Unlikely-to-pay positions	402,154	39.3%	-	402,154	48.6%	N/A	499,617	26.2%	-	499,617	37.9%	N/A
- Past-due positions	17,575	1.7%	-	17,575	2.1%	N/A	10,774	0.6%	-	10,774	0.8%	N/A
Non-performing securities - Inorganic	**89,690**	**8.8%**	**-**	**89,690**	**10.8%**	**N/A**	**102,108**	**5.4%**	**-**	**102,108**	**7.8%**	**N/A**
- Unlikely-to-pay positions	89,690	8.8%	-	89,690	10.8%	N/A	102,108	7.8%	-	102,108	7.8%	N/A
PPCs	**196,576**	**19.2%**	**(196,318)**	**258**	**0.0%**	**N/A**	**672,688**	**35.3%**	**(587,302)**	**85,386**	**6.5%**	**N/A**
Total	**1,024,835**	**100.0%**	**(196,318)**	**828,517**	**100.0%**	**N/A**	**1,903,927**	**100%**	**(587,302)**	**1,316,625**	**100.0%**	**N/A**

(*) In the column "Coverage ratio", the value "n/a" was inserted as it refers to net write-downs/write-backs and therefore is not correlated to the gross exposure in terms of coverage representation.

Inorganic non-performing loans amounted to EUR 738.6 million, of which:

- EUR 318.8 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as Bad loans, registering a decrease compared to EUR 618.7 million as of 31 December 2022;
- EUR 402.2 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as unlikely-to-pay positions, registering a decrease compared to EUR 499.6 million as of 31 December 2022;
- EUR 17.6 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as past due, registering an increase compared to EUR 10.8 million as of 31 December 2022.

Instead, inorganic non-performing securities, equal to EUR 89.7 million as of 31 December 2023, decreased on the comparative figure, which was EUR 102.1 million.

In addition to inorganic loans and securities, new investments in loans for Public Procurement Claims amounted to EUR 0.3 million, a sharp decrease on the amount recognised at the end of the previous year. This change was due to the reclassification to *"Non-current assets held for sale and discontinued operations"*, in line with IFRS 5.

Funding

(amounts in thousands of euros)

CUSTOMER FUNDING BY TECHNICAL FORM	31/12/2023		31/12/2022		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. %
Amounts due to customers (A)	4,487,248	74.3%	3,409,302	64.7%	1,077,946	31.6%
Securities issued (B)	611,741	10.1%	653,002	12.4%	(41,261)	(6.3%)
Total direct customer funding (A) + (B)	**5,098,989**	**84.4%**	**4,062,304**	**77.1%**	**1,036,685**	**25.5%**
Due to banks (C)	941,995	15.6%	1,205,048	22.9%	(263,053)	(21.8%)
Total debt (A) + (B) + (C)	**6,040,984**	**100.0%**	**5,267,352**	**100%**	**773,632**	**14.7%**

The Group's liabilities present total "direct funding" of EUR 6,041 million, broken down between customers for EUR 5,099 million and banks for EUR 942 million. This item was up compared with 31 December 2022, mainly driven by time deposits from customers, especially following the increase in interest rates on restricted deposits. Due to banks – including the central bank component – was down on the comparative figure as of 31 December 2022.

Property and equipment and intangible assets

Property and equipment as of 31 December 2023 amounted to approximately EUR 88.2 million, down from EUR 128.4 million as of 31 December 2022, due mainly to the disposal of a large number of repossessed assets recognised in the cover pool of Kenobi SPV, as well as through additional disposals of single-name assets previously recognised under property and equipment pursuant to IAS 2. In accordance with IFRS 16, the item also includes the rights of use of assets acquired through lease agreements, of approximately EUR 22.7 million, net of accumulated depreciation.

The Group's intangible assets, equal to EUR 153.8 million, include goodwill of EUR 4.6 million, arising from the Purchase Price Allocation process carried out following the acquisition of Quimmo Prestige Agency (now Residenze Porta Nuova). The intangible assets also include the residual value of the specific intangible assets identified in carrying out the Purchase Price Allocation process following the acquisition of the business unit of AREC (now merged by incorporation into ARECneprix S.p.A.), equal to EUR 5.2 million as of 31 December 2023, in addition to the residual difference recorded under goodwill for EUR 29.1 million. Lastly, the balance also includes the goodwill from the business combination of SPAXS with Banca Interprovinciale (equal to EUR 21.6 million), goodwill recognised at the acquisition of IT Auction (now Abilio and Industrial Discount) and its subsidiaries in 2020 (equal to EUR 14.6 million), as well as the goodwill - albeit in a lesser amount - recognised at the acquisition of 100% of the units of the securitisation vehicles Doria SPV

S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l. and River SPV S.r.l. and Kenobi SPV S.r.l., and 66.7% of the units of the securitisation vehicles Aporti S.r.l. This item also includes the IT investments made by Group companies.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 62.8 million as of 31 December 2023, down from the EUR 78.6 million recognised as of 31 December 2022. Details of the breakdown of tax assets are shown below.

(amounts in thousands of euros)

TAX ASSETS	31/12/2023	31/12/2022	Chg.	Chg. %
Current	1,837	7,828	(5,991)	(77%)
Deferred	60,919	70,764	(9,845)	(14%)
Total	**62,756**	**78,592**	**(15,836)**	**(20%)**

Deferred tax assets other than those convertible into tax credits (Article 2, paragraph 55 *et seq.* of Italian Legislative Decree no. 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences. Deferred tax assets refer primarily to the effects of the exercise of the tax relief option on goodwill and other intangible assets recognised in the financial statements following extraordinary operations and purchases of equity investments, and of the write-downs recorded on the portfolio of securities measured at fair value through other comprehensive income.

The main changes compared with the previous year relate to decrease in the write-downs recorded on the portfolio of securities measured at fair value through other comprehensive income.

Tax liabilities amounted to EUR 25 million, down by EUR 11.8 million on the figure of December 2022, due to the payment of taxes for the 2022 financial year and to payments on account for the 2023 financial year, net of the increase in tax liabilities relating to taxes on the profits achieved in the financial year.

(amounts in thousands of euros)

Tax liabilities	31/12/2023	31/12/2022	Chg.	Chg. %
Current	21,704	33,372	(11,668)	(35%)
Deferred	3,266	3,352	(86)	(3%)
Total	**24,970**	**36,724**	**(11,754)**	**(32%)**

Capital adequacy

On 1 January 2014, the new prudential requirements for banks and investment firms came into force, which are contained in Regulation (EU) No 575/2013 (Capital Requirements Regulation, the CRR) and in Directive 2013/36/EU (Capital Requirements Directive, the CRD IV), which have transposed into the EU the standards set by the Basel Committee on Banking Supervision (Basel 3 Framework). The CRR entered into effect in the Member States directly, whereas the rules laid down in CRD IV were transposed into Italian law by Legislative Decree no. 72 of 12 May 2015, which entered into force on 27 June 2015. Following a public consultation process launched in November, on 17 December 2013 the Bank of Italy published Circular no. 285, "Prudential supervisory regulations for banks", implementing the new EU rules to the extent of its competency, together with Circular no. 286, "Instructions for completing prudential reports for banks and securities brokerage firms" and the update to Circular no. 154 "Supervisory reports by credit and financial institutions. Reporting formats and instructions for submitting data streams" (the above set of rules has been updated on several occasions).

On 5 February 2024, illimity Bank received a conclusive provision from Banca d'Italia containing the outcomes of the Supervisory Review and Evaluation Process (SREP) carried out on the Group. The new requirements set out below must be adopted on a consolidated basis as of 31 March 2024:

- CET 1 ratio of 9.60%;
- Tier 1 ratio of 11.10%;
- Total Capital ratio of 13.10%.

These ratios include an additional Pillar 2 requirement (P2R) of 2.60% and a Capital Conservation Buffer component of 2.50%, both to be maintained in the form of CET 1 capital.

In determining own funds the profit (loss) for the period was allocated net of all charges and dividends that may be forecast pursuant to the CRR, article 26, paragraph 2, letter b) and Delegated Regulation (EU) 241/2014, articles 2 and 3. In particular, CET1 capital included 80% of profits for the period, based on a consolidated payout ratio of 20%, in line with the current business plan. That being said, the breakdown of own funds at the reporting date was as follows:

Capital ratios	31/12/2023	31/12/2022
Common Equity Tier 1 (CET1) capital	**748,269**	**682,872**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**201,137**	**200,787**
Total own funds	**949,406**	**883,659**
Credit risk	365,217	312,920
Credit valuation adjustment risk	-	-
Settlement risks	-	-
Market risks	4,409	4,577
Operational risk	36,720	28,897
Other calculation factors	-	-
Total minimum requirements	**406,377**	**346,394**
Risk-weighted assets	**5,079,714**	**4,329,921**
Common Equity Tier 1 ratio (*Phased-in*)	**14.73%**	**15.77%**
Common Equity Tier 1 ratio (*Fully Loaded*)	**14.67%**	**15.31%**
Total capital ratio (*Phased-in*)	**18.69%**	**20.41%**
Total capital ratio (*Fully Loaded*)	**18.63%**	**19.95%**

The difference between the Fully Loaded ratio and the Phased-in ratio is due to the application of Regulation 2020/873, in relation to the application of IFRS 9 to own funds and capital ratios.

Changes in shareholders' equity

Consolidated shareholders' equity came to EUR 950.5 million, up on the end of 2022 due to the profit recorded in Income Statement for the 2023 financial year, in addition to the improvement in valuation reserves, net of the dividends for 2022 paid in May 2023. The transactions concluded relating to Quimmo Prestige Agency and the Ingenii Open Finance Fund, net of the results achieved by them pertaining to minority shareholders, resulted in the increase in Shareholders' equity attributable to minority interests of around EUR 5.6 million.

Items/Technical forms	31/12/2023	31/12/2022
1. Share capital	54,691	54,514
2. Share premium reserve	624,583	624,583
3. Reserves	197,584	135,516
4. Equity instruments	-	-
5. (Treasury shares)	(747)	(747)
6. Valuation reserves	(30,020)	(47,875)
7. Profit (Loss) for the year attributable to the Parent Company	104,400	75,326
Total shareholders' equity attributable to the Group	**950,491**	**841,317**
Shareholders' equity attributable to minority interests	5,611	5
Total shareholders' equity	**956,102**	**841,322**

Share capital and ownership structure

As of 31 December 2023, the Bank's share capital amounted to EUR 54,690,661.10, fully subscribed and paid up, divided into 83,916,330 ordinary shares, without indication of the par value.

The Ordinary Shares were admitted to trading on the Euronext Milan market organised and managed by Borsa Italiana S.p.A. on 5 March 2019. By order of the Bank of Italy no. 8688 of 2 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the Euronext Milan market.

Treasury shares

As of 31 December 2023, the Bank held 88,445 treasury shares for a value of EUR 747 thousand, in line with figures as of 31 December 2022. The Bank's subsidiaries do not hold any shares in it.

Parent company reconciliation - consolidated

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 31 December 2023:

	Shareholders' equity	Result
illimity Bank S.p.A.	**958,650**	**102,307**
Effect of consolidation of subsidiaries	4,287	-
Result of subsidiaries	(16,864)	(16,864)
Consolidation adjustments	23,397	22,569
Dividends	-	-
Effect of measuring associates and joint ventures using the equity method	(18,979)	(3,612)
Group	**950,491**	**104,400**

Financial performance

Net interest margin

(amounts in thousands of euros)

Items/Technical forms	Loans/ Payables	Debt securities	Other transactions	31/12/2023	31/12/2022	Absolute changes	Change %
Interest and similar income							
1. Financial assets designated at fair value through profit or loss	310	377	1,770	**2,457**	1,782	675	38%
Held for trading	-	77	1,770	**1,847**	-	1,847	N/A
Designated at FV	-	-	-	**-**	-	-	N/A
Mandatorily measured at fair value	310	300	-	**610**	1,782	(1,172)	(66%)
2. Financial assets at FV through other comprehensive income	-	10,726	-	**10,726**	8,135	2,591	32%
3. Financial assets at amortised cost	294,302	53,351	-	**347,653**	220,949	126,704	57%
Due from banks	*15,736*	-	-	***15,736***	*1,284*	*14,452*	*>100%*
Customer loans	*278,566*	*53,351*	-	***331,917***	*219,665*	*112,252*	*51%*
4. Hedging derivatives	-	-	32,089	**32,089**	4,394	27,695	>100%
5. Other assets	-	-	3,157	**3,157**	2,220	937	42%
6. Financial liabilities	-	-	-	**1,209**	1,213	(4)	0%
Total interest income	**294,612**	**64,454**	**37,016**	**397,291**	**238,693**	**158,598**	**66%**
Interest expenses							
1. Amounts due to customers	(130,220)	(36,901)	-	**(167,121)**	(66,743)	(100,378)	>100%
Due to central banks	*(2,464)*	-	-	***(2,464)***	*(406)*	*(2,058)*	*>100%*
Due to banks	*(35,799)*	-	-	***(35,799)***	*(5,549)*	*(30,250)*	*>100%*
Amounts due to customers	*(91,957)*	-	-	***(91,957)***	*(40,028)*	*(51,929)*	*>100%*
Securities issued	-	*(36,901)*	-	***(36,901)***	*(20,760)*	*(16,141)*	*78%*
2. Financial liabilities held for trading	-	-	-	**-**	-	-	N/A
3. Financial liabilities designated at FV	-	-	-	**-**	-	-	N/A
4. Other liabilities and provisions	-	-	(3,810)	**(3,810)**	(3,585)	(225)	6%
5. Hedging derivatives	-	-	(32,909)	**(32,909)**	(4,435)	(28,474)	>100%
6. Financial assets	-	-	-	**(928)**	(1,705)	777	(46%)
Total interest expenses	**(130,220)**	**(36,901)**	**(36,719)**	**(204,768)**	**(76,468)**	**(128,300)**	**>100%**
Net interest margin	**164,392**	**27,553**	**297**	**192,523**	**162,225**	**30,298**	**19%**

As of 31 December 2023, the net interest margin amounted to approximately EUR 192.5 million, up on the previous year, when it came to approximately EUR 162.2 million.

The change described above is mainly due to the increase in interest income accrued on financial assets at amortised cost: in particular, interest on loans to customers increased by EUR 112.3 million compared to the previous year. This increase is due primarily to larger portfolio volumes in the Bank's assets, as well as the increase in interest rates on the comparative period.

Interest income on financial assets measured at fair value through other comprehensive income also increased.

Interest expense also increased by around EUR 128.3 million compared with 31 December 2022. This increase was due to the increase in interest expense on amounts due to customers (EUR 51.9 million) and in interest expense on amounts due to banks and central banks (EUR 32.3 million), directly related to the increase in funding volumes and interest rates.

Interest expense on securities issued was also up by around EUR 16.1 million - due primarily to the issue of bonds in late 2022 and in June 2023, for the purpose of achieving the Group's funding targets.

Lastly, spreads on hedging derivatives (an operation that was begun and consolidated during 2022) increased, in terms of both the income and expense components. The net effect of these spreads was insignificant as of 31 December 2023.

Net fee and commission income

(amounts in thousands of euros)

Items/Technical forms	31/12/2023	31/12/2022	Absolute changes	Change %
Fee and commission income				
a) Financial instruments	100	1	99	>100%
b) Corporate Finance	3,653	5,419	(1,766)	(33%)
e) Collective portfolio management	5,569	3,697	1,872	51%
f) Custody and administration	-	1	(1)	(100%)
i) Payment services	1,854	1,259	595	47%
j) Distribution of third party services	234	216	18	8%
l) Servicing activities for securitisation operations	18,108	5,811	12,297	>100%
m) Commitments to disburse funds	-	-	-	N/A
n) Financial guarantees issued	1,298	250	1,048	>100%
o) Loan operations	36,960	31,423	5,537	18%
p) Currency trading	56	60	(4)	(7%)
r) Other fee and commission income	14,416	17,564	(3,148)	(18%)
Total	**82,248**	**65,701**	**16,547**	**25%**
Fee and commission expense				
d) Custody and administration	(356)	(239)	(117)	49%
e) Collection and payment services	(2,009)	(1,595)	(414)	26%
f) Servicing activities for securitisation operations	(103)	(398)	295	(74%)
h) Financial guarantees received	(81)	-	(81)	N/A
k) Other fee and commission expense	(2,986)	(1,899)	(1,087)	57%
Total	**(5,535)**	**(4,131)**	**(1,404)**	**34%**
Net fee and commission income	**76,713**	**61,570**	**15,143**	**25%**

Net fee and commission income amounted to EUR 76.7 million, up compared to the period ended 31 December 2022, when it amounted to EUR 61.6 million.

The increase in fee and commission income arising from the inclusion of AREC into the Group (now merged by incorporation into ARECneprix), which involved a significant increase in servicing commissions for securitisation operations, was partially offset by lower fees and commissions related to Capital Markets activities carried out by the Investment Banking Division, as well as to Senior Financing structuring operations and fees and commissions on NPLs.

Other operating expenses and income

(amounts in thousands of euros)

Items/Technical forms	31/12/2023	31/12/2022	Absolute changes	Change %
Other operating expenses				
Amortisation of expenses for improvements on third party assets	(232)	(155)	(77)	50%
Other operating expenses	(3,893)	(1,087)	(2,806)	>100%
Total	**(4,125)**	**(1,242)**	**(2,883)**	**>100%**
Other operating income				
Recoveries of expenses from other customers	6,260	3,907	2,353	60%
Other income	54,754	17,965	36,789	>100%
Rental income	2,986	3,206	(220)	(7%)
Total	**64,000**	**25,078**	**38,922**	**>100%**
Other operating income/expenses	**59,875**	**23,836**	**36,039**	**>100%**

The item includes operating income and expenses of the Bank and its subsidiaries. The increase in other operating expenses is mainly attributable to the commercial agreement with the Engineering Group for EUR 54 million, recognised in the second quarter of the current year, in addition to EUR 0.4 million recognised in the 2023 financial year in relation to the time value component associated with the deferral of part of the consideration. This agreement, which brought non-recurring economic benefits in the 2023 financial year, involves a long-term industrial partnership relating to the IT platform. Other main components refer to recoveries of expenses and rental income for the management of real-estate complexes, recognised under Property and Equipment, acquired through *Datio in solutum* operations.

Personnel expenses

(amounts in thousands of euros)

Items/Technical forms	31/12/2023	31/12/2022	Absolute changes	Change %
1. Employees	(100,264)	(81,080)	(19,184)	24%
2. Other personnel in service	(2,338)	(2,562)	224	(9%)
3. Directors and statutory auditors	(2,777)	(2,484)	(293)	12%
Personnel expenses	**(105,379)**	**(86,126)**	**(19,253)**	**22%**

Personnel expenses amounted to approximately EUR 105.4 million and consist mainly of employee wages and salaries and the related social security contributions. This item went up compared to the previous year due to the increase in personnel to support the Group's new, increased operations, as well as the inclusion of AREC (now merged into ARECneprix S.p.A.) and Quimmo Prestige Agency in the Group.

The Group had a total of 921 employees as of 31 December 2023, up on 31 December 2022 (when it was equal to 853).

Category	31/12/2023			31/12/2022			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	81	9%	46	77	9%	46	4	5%
Middle managers	378	41%	38	350	41%	38	28	8%
Other employees	462	50%	34	426	50%	34	36	8%
Employees	**921**	**100%**		**853**	**100%**		**68**	**8%**

Other Administrative expenses

(amounts in thousands of euros)

Items/Technical forms	31/12/2023	31/12/2022	Absolute changes	Change %
Insurance	(3,506)	(3,236)	(270)	8%
Various consulting services	(12,366)	(11,024)	(1,342)	12%
Cost of services	(5,904)	(4,889)	(1,015)	21%
Financial information	(4,429)	(3,315)	(1,114)	34%
Adverts and advertising	(5,817)	(6,206)	389	(6%)
Financial statement audit	(1,213)	(802)	(411)	51%
IT and software expenses	(25,361)	(25,425)	64	0%
Legal and notary's fees	(9,536)	(9,177)	(359)	4%
Property management expenses	(5,795)	(5,621)	(174)	3%
Expenses for professional services	(13,275)	(9,864)	(3,411)	35%
Utilities and services	(1,437)	(1,706)	269	(16%)
Other indirect taxes and duties	(4,696)	(5,068)	372	(7%)
Others	(5,685)	(4,368)	(1,317)	30%
Total other administrative expenses	**(99,020)**	**(90,701)**	**(8,319)**	**9%**

Other administrative expenses amounted to approximately EUR 99 million, increasing by EUR 8.3 million compared to the figure recorded at the end of the previous year, and refer primarily to IT and software expenses, expenses for professional services and consultancy fees.

Net adjustments/recoveries on property and equipment and intangible assets

(amounts in thousands of euros)

Items/Technical forms	31/12/2023	31/12/2022	Absolute changes	Change %
Net adjustments/recoveries on property and equipment				
Property and equipment with functional use				
of which: Own property and equipment	*(375)*	*(818)*	*443*	*(54%)*
of which: Inventories	*(660)*	*(102)*	*(558)*	*>100%*
of which: Rights of use acquired through lease agreements	*(3,293)*	*(2,771)*	*(522)*	*19%*
Total	**(4,328)**	**(3,691)**	**(637)**	**17%**
Net adjustments/recoveries on intangible assets				
Finite useful life	(18,280)	(13,070)	(5,210)	N/A
Indefinite useful life	-	-	-	N/A
Total	**(18,280)**	**(13,070)**	**(5,210)**	**40%**
Net adjustments/recoveries on property and equipment and intangible assets	**(22,608)**	**(16,761)**	**(5,847)**	**35%**

The item includes net adjustments/recoveries for property and equipment and intangible assets totalling around EUR 22.6 million, up by EUR 5.8 million compared to 31 December 2022, both due to the amortisation of IT investments and depreciation of materials managed in application of IFRS 16 and due to the amortisation of the specific intangible assets identified in the Purchase Price Allocation process relating to the acquisitions carried out in previous financial years. The item also includes the write-downs/write-backs made to the real estate portfolio, which were recognised in line with IAS 2 on the basis of a continuing process of re-evaluation.

Net write-downs/write-backs and profits on closed positions

(amounts in thousands of euros)

Transaction/Income item	Write-downs (1)			Write-backs (2)			Total (1)+(2) 31/12/2023	of which Closed Positions (3)	LLPs (1)+(2)-(3) 31/12/2023
	Stage one and Stage two	Stage three	Impaired	Stage one and Stage two	Stage three	Impaired			
Assets measured at Amortised Cost									
- Loans	(8,180)	(13,444)	(150,315)	53,116	1,980	166,197	49,353	28,292	21,061
- Debt securities	(1,070)	(533)	-	1,994	-	15,931	16,323	-	16,323
Amortised Cost Subtotal	**(9,250)**	**(13,977)**	**(150,315)**	**55,110**	**1,980**	**182,128**	**65,676**	**28,292**	**37,384**
HTCS Assets									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	(320)	(917)	-	1,108	-	-	(130)	-	(130)
HTCS Subtotal	**(320)**	**(917)**	**-**	**1,108**	**-**	**-**	**(130)**	**-**	**(130)**
Guarantees given and Irrevocable commitments to disburse funds	**(761)**	**-**	**(3,381)**	**154**	**-**	**3,477**	**(511)**	**1,008**	**(1,519)**
Total	(10,331)	(14,894)	(153,696)	56,372	1,980	185,605	65,035	29,300	35,735

Of the EUR 35.7 million of LLPs as of 31 December 2023, EUR 14 million related to losses on organic exposures, and therefore contributed towards determining the Cost of risk – equal to 43 bps – as presented in the section "Alternative Performance Measures as of 31 December 2023".

Net recoveries on POCI loans amounted to EUR 78 million, as shown in the table above, and also included profits on closed positions for EUR 28.3 million.

(amounts in thousands of euros)

Recap Closed Positions	31/12/2023
On HTC financial assets - POCI	26,877
On HTC financial assets - Other	1,415
On Guarantees given and Irrevocable commitments to disburse funds	1,008
Closed Positions Loan Portfolios Subtotal	**29,300**
On disposal of Repossessed Assets	994
Closed Positions Real Estate Subtotal	**994**
Total	**30,294**

With regard to the positive contribution made by closed positions, this is attributable to credit exposure disposals for EUR 29.3 million and to disposals of real estate assets (previously repossessed in the context of credit exposure management) for EUR 1 million.

Income tax for the year on continuing operations

Income tax for the year amounted to EUR 47.9 million. This item was impacted mainly by the positive effects of the application of the "Patent Box" regulation (Article 6 of Legislative Decree no.146/2021) and by the regulation on Aid to Economic Growth (Article 1 of Legislative Decree no. 201/2011), as well as by the negative effects of the loss generated by the investee company Hype S.p.A.

Basic and diluted earnings (losses) per share

The basic earnings (losses) per share is calculated by dividing the Group's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

(amounts in thousands of euros)

Basic and diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings (loss) per share
Year ended 31 December 2023	104,400	83,712,134	1.25
Year ended 31 December 2022	75,326	81,149,186	0.93

The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the potential shares in service of the Long-Term Incentive (LTI) plan.

(amounts in thousands of euros)

Diluted earnings (losses) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (losses) per share
Year ended 31 December 2023	104,400	85,470,710	1.22
Year ended 31 December 2022	75,326	83,180,280	0.91

Quarterly trend

The quarterly trend of the reclassified consolidated statement of financial position and consolidated income statement is presented below.

Reclassified Statement of Financial Position

(amounts in thousands of euros)

Assets	31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022
Cash and cash equivalents	431,696	321,388	536,342	339,632	680,777
Loans to banks and financial entities	112,702	119,856	227,552	212,995	182,801
Loans to customers and investments	4,064,018	4,207,125	4,221,754	3,927,273	3,775,620
Government Bonds	585,009	485,271	428,302	403,036	428,309
HTCS Financial assets	456,643	453,886	450,641	384,268	391,710
FVTPL Financial assets	527,840	158,970	118,250	110,701	105,043
Investments in equity	81,199	81,194	81,953	83,221	76,375
Goodwill	69,992	69,992	69,992	65,376	65,372
Other intangible assets	83,776	75,302	74,696	72,006	69,729
Other assets	846,172	857,617	514,266	499,958	579,389
Total assets	**7,259,047**	**6,830,601**	**6,723,748**	**6,098,466**	**6,355,125**

(amounts in thousands of euros)

Liabilities	31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022
Due to banks	941,995	948,598	950,545	899,067	1,205,048
Amounts due to customers	4,487,248	3,927,623	3,862,922	3,436,865	3,409,302
Securities issued	611,741	740,456	730,613	661,633	653,002
Other liabilities	261,961	291,260	280,926	243,973	246,451
Shareholders' equity	956,102	922,664	898,742	856,928	841,322
Total liabilities and shareholders' equity	**7,259,047**	**6,830,601**	**6,723,748**	**6,098,466**	**6,355,125**

Reclassified Income Statement

(amounts in thousands of euros)

Income Statement items	4Q2023	3Q2023	2Q2023	1Q2023	4Q2022
Net interest margin	44,796	49,985	49,387	48,355	46,125
Net fee and commission income	25,792	18,655	17,138	15,128	19,779
Profits/losses on financial assets and liabilities	(985)	1,499	(910)	(84)	(73)
Net write-downs/write-backs on closed positions	6,066	5,311	11,119	7,798	18,464
Other operating expenses and income (excluding taxes)	1,290	2,305	55,329	951	6,725
Total net operating income	**76,959**	**77,755**	**132,063**	**72,148**	**91,020**
Personnel expenses	(32,815)	(22,202)	(27,217)	(23,145)	(21,757)
Other administrative expenses	(30,832)	(23,311)	(23,241)	(21,635)	(26,614)
Net adjustments/recoveries on property and equipment and intangible assets	(6,793)	(5,335)	(5,232)	(5,248)	(4,850)
Operating expenses	**(70,440)**	**(50,848)**	**(55,690)**	**(50,028)**	**(53,221)**
Operating profit (loss)	**6,519**	**26,907**	**76,373**	**22,120**	**37,799**
Net losses/recoveries for credit risk - HTC Customer Banks and Financial entities	33,320	13,759	(7,514)	(2,181)	(9,453)
Net losses/recoveries for credit risk - HTCS	138	119	(146)	(241)	(374)
Net adjustments/recoveries for commitments and guarantees	821	(2,029)	(4)	(307)	(801)
Total net adjustments/recoveries	**34,279**	**11,849**	**(7,664)**	**(2,729)**	**(10,628)**
Other net provisions	(517)	-	395	(150)	-
Other income (expenses) on investments	(216)	(845)	(1,270)	(1,162)	(1,968)
Contributions and other non-recurring expenses	(2,346)	(3,596)	(185)	(6,021)	(1,992)
Profit (loss) from operations before taxes	**37,719**	**34,315**	**67,649**	**12,058**	**23,211**
Income tax for the year on continuing operations	(8,647)	(11,715)	(23,296)	(4,269)	(1,518)
Profit (loss) for the year	**29,072**	**22,600**	**44,353**	**7,789**	**24,729**
Profit (loss) for the financial year attributable to minority interests	**322**	**237**	**27**	**-**	**-**
Profit (Loss) for the year attributable to the Parent Company	**29,394**	**22,837**	**44,380**	**7,789**	**24,729**

The interest margin in the fourth quarter of 2023 amounted to approximately EUR 44.8 million, down compared with both the previous quarter and the corresponding quarter of 2022, due primarily to the increase in the cost of funding, as well as the transfers of assets to UCIs carried out by the Distressed Credit division.

Total net operating income for the fourth quarter of 2023 amounted to EUR 77 million. In addition to the interest margin, revenues for the quarter include net fee and commission income of EUR 25.8 million, net gains on closed positions in the quarter of approximately EUR 6.1 million, other net income of EUR 1.3 million and net loss of EUR 1 million from trading.

Operating expenses in the fourth quarter of 2023, equal to approximately EUR 70.4 million, increasing on the previous quarter. This increase was attributable mainly to the adjustment of variable-pay incentives for personnel, as well as the increased costs incurred due to the adjustment of pay in order to comply with the new National Collective Bargaining Agreement on credit. Furthermore, the increase in other administrative expenses was due primarily to marketing expenses (particularly those related to the deposit accounts campaign), consultancy and legal fees.

Net losses/recoveries, positive in the amount of EUR 34.3 million, are essentially linked to the valuation of the Customer HTC portfolio, up sharply compared with the previous quarter, particularly with regard to operations currently being finalised and for which the relevant binding offers have already been received and accounted for.

Membership fees and other non-recurring expenses improved on the previous quarter, mainly because the ordinary contribution regarding the Interbank Deposit Protection Fund for EUR 3.5 million was recognised in the third quarter, as opposed to the extraordinary contribution recorded in the fourth quarter in the amount of EUR 2.2 million.

Moreover, expenses on investments, related to results for the period of companies consolidated with the equity method, came to negative EUR 0.2 million, a figure improving on the previous quarter, and a considerable improvement over the quarters of 2022.

Net of income tax for the year on continuing operations, equal to approximately EUR 8.6 million, and the portion pertaining to minorities, equal to EUR 322 thousand, consolidated net profit attributable to the parent company in the fourth quarter stood at EUR 29.4 million, up compared to both the profit recorded in the previous quarter and the profit of EUR 24.7 million recorded in the fourth quarter of 2022.

Contribution of operating segments to the Group's results

The illimity Group operates through an organisational structure comprising six Operating Segments:

a. Distressed Credit
b. Growth Credit
c. Investment Banking
d. b-ilty
e. Digital;
f. Asset Management Company.

In addition to these, the Group also has Hype, a fintech company that illimity co-owns as a joint venture with the Sella Group, and the Corporate Center, which oversees the steering, coordination and control of the entire Group.

The segment reporting is based on elements that management uses to make its operating decisions ("management approach"), in line with the reporting requirements of IFRS 8.

The next table shows the main data summarising developments in the operating segments of the illimity Group in the 2023 financial year.

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Digital	Corporate Center	Hype	31/12/2023
Net interest margin	100.5	72.8	8.3	4.6	-	6.3	-	-	192.5
Net fee and commission income	32.0	27.2	9.8	3.9	4.9	(1.1)	-	-	76.7
Other economic components	31.3	3.9	(0.4)	-	0.4	54.5	-	-	89.7
Total net operating income	**163.8**	**103.9**	**17.7**	**8.5**	**5.3**	**59.7**	**-**	**-**	**358.9**
Personnel expenses	(43.4)	(14.6)	(4.6)	(5.2)	(2.9)	(10.1)	(24.6)	-	(105.4)
Other administrative expenses and Net adjustments/ recoveries on property and equipment and intangible assets	(53.6)	(7.2)	(2.5)	(4.9)	(0.7)	(31.8)	(20.9)	-	(121.6)
Operating expenses	**(97.0)**	**(21.8)**	**(7.1)**	**(10.1)**	**(3.6)**	**(41.9)**	**(45.5)**	**-**	**(227.0)**
Operating profit (loss)	**66.8**	**82.1**	**10.6**	**(1.6)**	**1.7**	**17.8**	**(45.5)**	**-**	**131.9**
Total net adjustments/ recoveries and other provisions	42.2	(2.1)	(0.5)	(4.2)	-	-	-	-	35.4
Contributions and other non-recurring expenses	-	-	-	-	-	(4.3)	(7.8)	-	(12.1)
Other income (expenses) on investments	(0.4)	-	-	-	-	-	-	(3.1)	(3.5)
Profit (loss) from operations before taxes	**108.6**	**80.0**	**10.1**	**(5.8)**	**1.7**	**13.5**	**(53.3)**	**(3.1)**	**151.7**

Amounts in millions of euros. Any discrepancies between the figures presented are due solely to rounding.

Shown below are the main economic data illustrating developments in the operating segments of the illimity Group in 2022, calculated pro forma based on the new structure in force as of 31 December 2023.

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Digital	Corporate Center	Hype	31/12/2022
Total net operating income	210.0	73.7	15.1	1.4	3.8	20.6	-	-	**324.6**
Operating expenses	(79.4)	(17.9)	(5.7)	(11.3)	(3.0)	(33.6)	(42.7)	-	**(193.6)**
Profit (loss) from operations before taxes	**118.8**	**53.6**	**7.8**	**(10.4)**	**0.8**	**(13.0)**	**(49.4)**	**(7.3)**	**100.9**

Amounts in millions of euros. Any discrepancies between the figures presented are due solely to rounding.

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Digital	Corporate Center	Hype	31/12/2023
Financial assets measured at fair value through profit or loss	449.2	68.2	9.6	-	0.8	-	-	-	527.8
Customer loans	761.5	2,363.5	52.3	309.4	-	-	-	-	3,486.7
Asset securities at amortised cost	441.7	397.1	297.4	26.1	-	-	-	-	1,162.3
Property and Equipment	64.7	-	-	-	-	-	23.5	-	88.2
Amounts due to customers and securities issued	-	-	-	48.0	-	3,827.8	1,250.1	-	5,125.8
RWAs	2,428.5	1,812.6	229.8	95.8	7.4	130.4	330.0	45.2	5,079.7

Amounts in millions of euros. Any discrepancies between the figures presented are due solely to rounding.

The Distressed Credit Division reported approximately EUR 100.5 million of net interest income in 2023, and a net operating income of EUR 163.8 million (approximately 45.6% of the Group's net operating income). Profit before taxes came to EUR 108.6 million, down on the previous year due to material transactions finalised in the previous year.

The Growth Credit Division reported a profit before taxes of EUR 80 million, a net increase compared to the figure recorded in 2022, which amounted to EUR 53.6 million, primarily due to the disbursements finalised in the year, as well as the increase in interest rates.

The Investment Banking Division reported operating profit of approximately EUR 10.6 million, especially due to interest income on the securities portfolio and structuring commissions. Compared to the previous year, the Investment Banking Division saw a decrease in revenues generated in the Capital Markets area.

The b-ilty Division presented a loss before taxes of approximately EUR 5.8 million (an improvement on the previous year) referring mainly to around EUR 4.6 million of net interest, EUR 3.9 million of net commission, EUR 10.1 million of operating costs and EUR 4.2 million of write-downs on loans.

The Digital Division (formerly the CIO Division) brings together the inter-divisional remuneration of the various forms of funding. Furthermore, the costs arising from the operations of the illimitybank.com channel, as well as the amortisation of the software capitalised by the Bank and expenses pertaining to personnel dedicated to the Division's specific operations, are allocated to that Division. The division also incorporated the operating income deriving from the partnership with Be-Eng, recorded in the second quarter of 2023. Consistently, the Division is allocated the write-downs/write-backs deriving from the termination of the previous agreement with ION concerning the granting of the licence to use the IT platform.

The SGR contributed to consolidated results as of 31 December 2023 with an operating profit of approximately EUR 1.7 million. It is believed that the growing operation of illimity SGR will gradually bring greater benefits to the Group, especially in terms of improving the commission margin.

The central functions of the Corporate Center reported an operating loss of EUR 45.5 million in the 2023 financial year, which is consistent with its nature as a cost centre for all other functions of the Group.

Lastly, the joint venture in Hype, who results show a sharp improvement on the figure as of 31 December 2023, is expected to produce benefits, above all significant cost sharing, as well as revenues enabled from cross-selling opportunities.

Distressed Credit

Direct Acquisitions

As of 31 December 2022, the Distressed Credit Division had purchased approximately EUR 12.1 billion of distressed loans, in terms of gross book value, for the price of approximately EUR 1.8 billion.

Throughout the 2023 financial year, a total of approximately EUR 277 million was invested in loan purchase operations, for a total nominal value of around EUR 2,148 million.

The business opportunities concluded were finalised through the following structuring:

- acquisitions completed through securitisation vehicles pursuant to Italian Law 130/1999: these transactions were concluded by subscribing the notes issued by the securitisation vehicles, which in turn receive from illimity (and any other investors) the funding necessary for the acquisition of the receivables;
- acquisitions or new loan disbursements executed directly by illimity: loans are purchased (or disbursed) directly by illimity and accounted for in the Bank's financial statements; this case is necessary, for example, used to purchase still-active positions, usually classified as unlikely-to-pay, for which the transfer of both the credit right and the associated banking relationship is required.
- acquisitions of Public Procurement Claims finalised through securitisation vehicles pursuant to Italian Law 130/1999: those operations were carried out through the subscription of 100% of the notes issued by the securitisation vehicles.

Also taking into account investments made in previous years, as of 31 December 2023 the Distressed Credit Division finalised investment transactions in distressed loans, both on its own and through controlled securitisation vehicles, for a total amount of approximately EUR 2 billion, which, in terms of GBV amounted to approximately EUR 14.2 billion.

Senior Financing Operations

During the course of 2023, the operations finalised by the Senior Financing area amounted to EUR 131 million disbursed.

Also taking into consideration the investments made by the Senior Financing area in previous years, as of 31 December 2023 the Bank signed asset-backed loan-agreements in support of professional investors in the distressed credit and distressed assets sectors, for a total of EUR 660 million.

Special Situations - Real Estate Operations

During the course of 2023, the Special Situations - Real Estate area finalised new loan and securitisation note subscription operations for a total of EUR 84 million.

Taking into account investments made in previous years, as of 31 December 2023 the Bank had carried out loan operations and subscribed notes with the support of the Special Situations - Real Estate area for a total amount of approximately EUR 189 million.

Note that this figure does not include the Convivio transaction, as it is already included in the new investments in distressed loans in the amount of 50%, as illimity's contribution to the joint venture with Apollo Global Management.

Special Situations - Energy Operations

During the course of 2023, the Special Situations - Energy area finalised acquisitions for a nominal value of EUR 44.9 million at a price of EUR 20.2 million.

In light of that illustrated, also considering the investments made in the previous years, as of 31 December 2023 the Distressed Credit Division had finalised investments in the Special Situations Energy segment for a total of approximately EUR 132 million.

Growth Credit Division

As of 31 December 2022, the Growth Credit portfolio had a gross exposure of EUR 2,158 million, broken down as follows:

- former BIP portfolio, amounting to EUR 108 million (5%);
- Turnaround amounting to approximately EUR 692 million (32%);
- Crossover and Acquisition Finance amounting to EUR 874 million (41%);
- Factoring, amounting to EUR 484 million (22%).

During the course of 2023, receivables of the Growth Credit Division grew by approximately EUR 366 million.

In particular, 2023 saw the following:

- new loans secured by public guarantees for approximately EUR 157 million, of which EUR 106 million relating to the Crossover & Acquisition Finance Area and EUR 51 million relating to the Turnaround Area;
- disbursement of unsecured financing for over EUR 369 million, of which some EUR 173 million relating to the Turnaround Area and the remaining EUR 196 million relating to the Crossover & Acquisition Finance Area;
- early repayments amounting to approximately EUR 202 million.

As regards factoring, loans increased by EUR 102 million, amounting to EUR 586 million as of 31 December 2023, with turnover of approximately EUR 2,591 million for the financial year.

Note that due to operating practices the aggregate of the former BIP portfolio also includes loans granted to illimity Group employees.

As of 31 December 2023, the Growth Credit portfolio had a gross exposure of EUR 2,524 million, broken down as follows:
- former BIP portfolio, amounting to EUR 105 million (4%);
- Turnaround amounting to approximately EUR 860 million (34%);
- Crossover and Acquisition Finance amounting to EUR 973 million (39%);
- Factoring, amounting to EUR 586 million (23%).

b-ilty Division

Some two years after its founding, b-ilty has positioned itself as the only fully digital banking platform that can offer its customers targeted and innovative fully digital credit solutions - such as loans dedicated to the implementation of new green solutions or aimed at accelerating the process of digitisation - as well as a series of products and services suitable for comprehensive corporate management, which are also offered through third-party partners. Its services include payment collection services, hedging products (such as interest rate risk derivatives and broad-spectrum insurance products such as non-life Credit Protection Insurance (CPI) against "industrial risks") and support with the incorporation of the company itself.

2023 was a year of strong growth for b-ilty, both in terms of the development of the services it offers and its target and with regard to business originated.

During the first half of 2023, b-ilty focused on defining a new offering dedicated to the target segment of start-ups, launching b-start. In addition to offering the Basic Business Account at favourable terms and conditions, this new package provides a range of partnerships designed to meet the needs of the segment at all times of a company's life cycle, from its creation right through to its natural growth.

Based on qualitative and quantitative research carried out directly with entrepreneurs and industry associations, b-ilty devised a customised offering that not only supports start-ups in their day-to-day operating and financial activities, but also provides targeted consultancy services in collaboration with select partners.

The last quarter of the year was dedicated to expanding the offering to another target segment that is essential to the economic structure of our country: Small Economic Operators (freelancers and sole traders). In the first phase of development, b-ilty opted to guarantee this category of entrepreneurs the Basic Business and Unlimited Business accounts at a favourable price. It also plans to expand the current transactional offering by incorporating new dedicated products and services, so as to be able to provide a comprehensive service to all types of Italian entrepreneurs.

Another new feature for 2023 was the launch on the market and in all digital stores of the first b-ilty app. The functionalities available are constantly being enhanced, with the aim of developing an even more user-friendly version in 2024. Also during 2023, b-ilty introduced the possibility for prospective customers to begin the onboarding process directly from their smartphone, using responsive web design.

It also continued to enrich its credit offering to b-ilty customers; in fact, during the course of 2023 the Division approved the first loan operations to take place under the "business asset credit line". b-ilty also began to place other types of credit products, such as cash advances and advances on invoices.

2023 can be considered the year in which b-ilty's loan engine became fully operational. This makes it possible to assess loan applications in an automated manner, using algorithms and quantitative and qualitative KPIs, with a commercial meeting to get to know the customer being planned and held by the Relationship Managers before the loan is approved and disbursed.

Thanks to the implementation of this new and innovative decision-making process, the key business indicators had significantly improved; these include the Time-to-Yes and the Time-to-Cash, which were considerably reduced compared with 2022. In addition, the percentage of loan applications being approved rose from 66% at the end of 2022 to 83% in 2023, thanks to a clearly improved focus on direct commercial development through the network of mediators. The improvement in these KPIs was due, above all, to the optimisation of the analysis model for certain phases of the credit disbursement cycle, with a view to reducing the times necessary for disbursement, whilst also creating more efficient processes.

The benefits of the new decision-making process can also be seen in the volumes disbursed, which in 2023 amounted to around EUR 120 million, more than double the volumes registered in the previous year. The average ticket of disbursals in 2023 also became more granular, standing at around EUR 300 thousand.

The gross book value (GBV) of the portfolio as of 31 December 2023 was EUR 302 million, consisting of:
- EUR 297 million in medium-/long-term loans;
- EUR 5 million in factoring.

Lastly, b-ilty ended 2023 by achieving and exceeding its target of two thousand customers.

Moreover, during the course of 2023, following an agreement entered into by illimity Bank S.p.A. and the EIB concerning a loan in tranches to be allocated to promote investment programmes and initiatives forming part of the European Union's objectives, b-ilty submitted the first one hundred financed “Projects” promoted by small and medium-sized enterprises (SMEs), obtaining formal approval for them. While on the one hand this collaboration will enable the bank to avail itself of funding under advantageous conditions, it will also allow worthy SMEs to benefit from more beneficial economic conditions, thereby pursuing the virtuous path undertaken.

Asset Management Company (“SGR”)

In 2023 the SGR continuously performed the activities connected with investment and management of the assets of the illimity Credit & Corporate Turnaround Fund (“iCCT Fund”) and the illimity Real Estate Credit Fund (“iREC Fund”), in line with the provisions of the Management Regulations and the Fund’s policies and respective investment strategies.

With effect from 29 March 2023, the SGR completed the first closing of the Alternative Investment Fund (AIF) “illimity Selective Credit” (the “iSC Fund”), with an initial subscription amount of EUR 90.9 million. The iSC Fund is an alternative investment fund for direct lending that can act as a medium-/long-term strategic partner for non-listed performing Italian SMEs, through the use of a broad spectrum of financial instruments, and therefore will invest primarily in senior debt instruments, whereas the remainder of the Fund's portfolio is made up of subordinated debt instruments and equity instruments.

In April 2023 the Board of Directors of illimity SGR approved the first investment on behalf of the iSC Fund for a total amount of EUR 9.1 million, which entailed an initial disbursement for an amount of EUR 2.3 million on data 27 April 2023 and a second disbursement on 28 June 2023 for the entire remaining amount. In the third quarter of 2023 the Board of Directors of the SGR passed a resolution in favour of carrying out three potential investment operations, which were subsequently completed in October and November 2023 for a total of EUR 23.5 million.

With regard to the iCCT Fund, in 2023 the SGR completed the acquisition of additional receivables, issuing new units, subscribed both by institutes that are unit holders and by new participants, in a closing of the Fund whose execution was finalised through the months of February, March, April and June. On the outcome of the transaction, the Fund was transferred additional UTP loans for a total gross value of EUR 45.4 million. In December the SGR completed the acquisition of additional receivables with the issue of new units, subscribed both by institutions that are already unit holders and by new participants, following which the Fund was transferred additional UTP loans for a total gross value of EUR 19.5 million. In December 2023, the SGR also carried out additional investments partly settled through the issue of units of the iCCT Fund and partly in cash, in an operation that finalised the purchase of additional receivables for a gross total of approximately EUR 10.8 million. The receivables were contributed by banks that already held units in the Fund and expanded their subscription. During the period in question, the iCCT Fund purchased cash receivables for a gross total of EUR 18.8 million.

In 2023, the SGR carried out additional investments settled through the issue of units of the iREC Fund, in an operation that finalised the purchase of additional receivables for a gross total of approximately EUR 21.6 million. The receivables were sold by banks that already held units in the Fund and expanded their subscription. In July 2023, the SGR carried out additional investments partly settled through the issue of units of the iREC Fund and partly in cash, in an operation that finalised the purchase of additional receivables for a gross total of approximately EUR 5.7 million.

The receivables were sold by banks that already held units in the Fund and expanded their subscription.

On 16 May 2023, the SGR resolved to set up a fourth closed-end, reserved, securities alternative investment fund named illimity Capitale Rilancio (the "iSR Fund"). The iCR will mainly invest in equity and equity-like instruments, and in a residual manner in debt instruments. Companies that are target counterparties are companies with registered office in Italy, with turnover of at least EUR 50 million, which are in situations of temporary equity and financial imbalance. The investment will be made through listed and unlisted instruments. At the date of preparing this report, the SGR has obtained authorisation to sell units of the iCR Fund pursuant to Article 43 of the Consolidated Act on Finance, which is still in progress with the aim of beginning management of the iCR Fund in the 2024 financial year.

On 22 June 2023, the SGR resolved to set up a fifth closed-end, reserved, securities alternative investment fund named Fondo Granulare NPL (the "NPL Fund"). The NPL Fund plans to collect subscriptions through both contributions and cash payment commitments, and makes investments in instruments issued by SPVs as part of the securitisation of medium-small, secured or unsecured, retail and/or corporate non-performing loans (including unlikely to pay) deriving from various types of sellers (banks, financial companies or retail companies). The Fund's assets will be invested in Instruments directly subscribed by the Fund when they are issued by the SPV (known as primary transactions) or by purchasing Instruments previously issued by SPVs (known as secondary transactions). In September, the SGR obtained from Consob the authorisation to sell units of the NPL Fund pursuant to Article 43 of the Consolidated Law on Finance.

In line with the strategies of the SGR and of the specific Group , in the rest of the year, the SGR of illimity will implement the necessary activities to pursue and differentiate business opportunities, in line with its status, having conducted the analyses necessary to ensure compliance with the regulations applicable in each case, and the consistently with its organisational structure.

Investment Banking

The Investment Banking Division targets companies, financial companies and public institutions in order to support them in structuring market and private operations, to meet their needs for capital, debt and strategic growth, not only through IPOs, but also through bond issues and structuring securitisations.

The offering also includes the structuring of risk hedging operations through derivatives trading on own behalf and for third parties, in addition to consulting for operations such as mergers, spin-offs, incorporations, acquisitions and corporate restructuring.

The Division's operations are managed by the following structures:

- Capital Markets;
- Corporate Solutions;
- Structuring.

As of 31 December 2023, the Division's KPIs were the following:
- Nine IPOs successfully concluded on Euronext Growth Milan (EGM), for total funding of EUR 115 million since the establishment of the Capital Markets Area;
- Investment portfolio of around EUR 89.8 million in corporate bonds and around EUR 342.5 million in alternative debt instruments;
- Around EUR 448 million in nominal value of derivative instruments traded with customers;
- Ten securitisations of trade receivables and secured corporate loans for a total programme amount of around EUR 1.1 billion.

Capital Markets Operations

Capital Markets operations aim to develop strategic growth plans for small and medium-sized enterprises, including through accessing the capital markets, defining organic and inorganic growth solutions, and optimising the financial structure.

As part of IPOs, the Capital Markets Area performs the role of Global Coordinator and Euronext Growth Advisor (EGA), assisting companies in their processes of listing on the Euronext Growth Milan (EGM) market. With regard to bond issues, the Area holds the role of Arranger and placement agent on the market with institutional investors. illimity's Capital Markets Area also provides strategic support for extraordinary finance transactions and corporate broking.

As of 31 December 2023, in addition to having acquired numerous Euronext Growth Advisor (EGA) and advisory mandates, the Area had successfully completed nine IPOs on EGM as Global Coordinator, of which four, generating total funding of EUR 34.2 million, were completed in 2023.

Corporate Solutions Operations

The Corporate Solutions Area manages the Division's investment portfolio and structures solutions such to manage and hedge risks for companies, by trading in derivatives.

With regard to the management of the Division's portfolio, the Area invests in the (primary and secondary) markets of corporate bonds and alternative debt (tranches of securitisations, Collateralised Loan Obligations, etc.) to support companies in their growth, guaranteeing quick execution and time-to-market.

As of 31 December 2023, the investment portfolio managed by the Area amounted to EUR 89.8 million, with the following characteristics:
- extensive single-name, geographical and sector diversification (the portfolio consists of around 75 instruments, in 9 industries);
- an average duration limited to 3.4 years.

To that portfolio of corporate bonds can be added EUR 242.5 million invested in tranches of securitisations originated by the structuring activities of the Area of the Division of the same name, and around EUR 100 million invested in Collateralised Loan Obligations.

Taking advantage of the synergies with the other business divisions, the Area offers customers a wide range of risk hedging solutions, providing them with the necessary instruments to reduce and limit the risks linked to their operations and statement of financial position structures. During 2023, derivatives with a notional value of around EUR 205 million were managed and structured.

Structuring Operations

The Structuring Area identifies efficient structured financing solutions that require extensive financial specialisation and expertise to achieve the objectives of diversifying funding sources, improving companies' financial positions and optimising customers' capital.

The Area operates as an Arranger in the structuring of securitisation operations, basket bonds and alternative debts, and as a Lead Manager in the placement on the market of the notes issued in the aforementioned operations for institutional investors.

As of 31 December 2023, the Structuring Area had successfully concluded ten securitisations of trade receivables and secured loans for a total programme amount of around EUR 1.1 billion.

In detail, the Area structured:

- three securitisations of trade receivables for an amount of EUR 222.4 million;
- five securitisations of corporate loans for an amount of EUR 783 million;
- a basket bond programme for a total of EUR 100 million;
- a multi-originator securitisation for an amount of EUR 40.5 million.

The Area also acts for the bank – in support of the operations of the Treasury - in the structuring of funding solutions (self-securitisations, repos, bond issues under the EMTN programme) and of capital management solutions (SRT securitisations, synthetic transactions and financial guarantees).

In this regard, a self-securitisation was carried out for funding purposes, using as collateral corporate loans guaranteed by MCC and SACE and originated by illimity Bank, for a nominal value of EUR 580 million, and the resulting financing of the senior notes - for a total of EUR 90 million issued in the context of the operation - through Repurchase Agreements.

Digital Division

During 2023, activities continued in line with the previous months. All illimiters work at the company and remotely as necessary, facilitated by the IT architecture present as per the Bank's policy.

IT platform projects

In the area of IT Security, work was done on consolidating procedures and interactions between the internal SOC and external SOC (to optimise the effort and methods of managing the various reports and activities), to obtain a more effective threat detection and prevention system.

In terms of innovation, ICT security works with CERTFIN to develop the IT awareness campaign for corporate, and, together with the community, participates in the European project TANGO, which studies collaborative artificial intelligence engines to combat fraud.

In monitoring third parties, the process of revising the ICT contracts is under way, in compliance with the endorsement of the 40th update to Bank of Italy Circular 285, which involves security in assessing the questionnaires of ICT providers.

The fourth quarter of 2023 saw the architectural assessment of the CSP platform carried out by Microsoft specialists, who deemed the platform to be in line with the market benchmarks.

As part of IT4IT projects, initiatives dedicated to the technological evolution of infrastructure continued.

In the area of Data Governance, the “Data Quality” project is active, which, through dedicated apps and dashboards accessible by Control Owners, Data Owners and Data Users, enables the creation and constant monitoring of the results of data quality controls and the rectification of any anomalies.

Moreover, as part of the data quality management framework, a new function was introduced in mid-2023: management of managerial data quality controls. These controls were integrated into the existing system and provide additional benefits to the organisation. They involve the Control Owners in the quarterly reporting of the results and require a specific procedure to reconcile anomalous data identified by the controls.

Planning activities for the development of an Identity Governance framework resulted in the publication of the procedure and a detailed schedule of activities for 2024. The ongoing development and consolidation of the solution makes it possible to monitor and certify corporate system accesses based on the principles of least privilege and need to know.

The Digital Division is carrying out ongoing oversight of the Business Continuity Management system and Disaster Recovery activities, partly with a view to developing and consolidating them.

The offering for customers of the Direct Bank was updated, with the creation of the Premium account and the Classic account, replacing the Plus and Smart Current Accounts. The purpose of these accounts is to diversify the offering for customers, providing Premium customers with highly competitive interest rates on the deposit account and remuneration of deposits.

In May 2023, the PagoQui project was released to production. This service consists of payment of PagoPA bills on N-and vending machines. In detail, N-and customers with the APP can directly pay their bills at the vending machine, calling up illimity for the dialogues with PagoPA.

In addition, the IT Function supported the b-ilty, Growth Credit, Investment Banking and Distressed Credit Divisions and the central functions in developing the projects identified in their respective master plans, with the goal of guaranteeing an update to the scope of products while supporting the divisions in monitoring their management KPIs over time.

Corporate Centre

The Corporate Centre, which oversees the steering, coordination and control of the Entire Group, manages financial data arising from:

- activities supporting other Group segments, overseen by Digital;
- planning and control, administration and risk management overseen by the central units;
- treasury activities, own portfolio management and Asset & Liability Management overseen by the Finance Department.

illimity Bank share performance

The ordinary shares of illimity are traded on the Mercato Telematico Azionario Euronext Milan organised and managed by Borsa Italiana since 5 March 2019. From 10 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the Euronext Milan market. Share performance in the last three years is reported below:

Significant shareholders with a stake of at least 3% in the share capital with voting rights in illimity, with the percentages calculated by the Bank based on the number of shares resulting from the most recent information available and number of ordinary shares issued, updated at 05 March 2024, are reported below:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
Banca Sella Holding S.p.A.	Banca Sella Holding S.p.A.	Owned	10.0%	10.0%
ION Investment Corporation Sàrl	FermION Investment Group Limited	Owned	9.4%	9.4%
LR Trust – FIDIM	Fidim Srl	Owned	7.7%	7.7%
Tensile Capital Management LLC	Tensile-Metis Holdings Sàrl	Owned	7.0%	7.0%
Atlas Merchant Capital LLC	AMC Metis Sàrl	Owned	6.3%	6.3%
Corrado Passera	Corrado Passera	Owned	4.0%	4.0%

In relation to the ownership structure, AMC Metis S.a.r.l., Metis S.p.A. and Corrado Passera entered into an agreement on 18 March 2019 pertaining directly and indirectly to shares of Tetis S.p.A. (a company nearly wholly owned by Metis S.p.A. which in turn is 90% owned by Corrado Passera and holds ordinary and special shares in the company) and ordinary shares of illimity, containing shareholders' agreement measures. Specifically, this agreement, which governed AMC Metis S.à.r.l.'s pre-emptive right to ordinary illimity shares held by Tetis S.p.A. subject to certain conditions, provides among other things that Corrado Passera and Metis S.p.A. take steps to ensure that the illimity shareholders' meeting appoints, depending on the make-up of the Company's Board of Directors, one or two non-executive directors nominated by AMC Metis S.à.r.l. On 23 January 2024, the parties to this agreement announced an update to the essential information relating to the agreement itself (as per the document published on the same date on the Bank's website, which should be referred to), following the termination of equity instruments originally issued by Tetis S.p.A., with the associated transfer of illimity shares to AMC Metis S.a.r.l. pursuant to the regulations governing said equity instruments. The agreement expires on 19 March 2024.

Management of business risks

As extensively discussed in the Consolidated Explanatory Notes - Part E, the illimity Group has a Risk Management Process (RMP), used as a reference model in the organisational and process-related development and systematic execution of all operational and business activities carried out - which may be standard, or non-systematic or contingent. In line with the mission assigned, strategies and objectives pursued, these operations and activities entail undertaking and continually managing risks, in order to contribute to a sustainable value creation process, while also ensuring regulatory compliance and, among others, a coordinated use of human resources, technologies and methodologies. In fact, at a general level, the Group implements the aforementioned process through an organisation model that requires the coordinated use of human resources, technologies and methodologies based on a set of internal rules that define the structure of management controls, the policies (rules, authorities, objectives and limits in governing risks of various operating and business segments), and the processes in which the activities are carried out, including the control activities.

The Board of Directors of the Parent Company plays a fundamental role in risk control. It sets the strategic guidelines, approves the risk management policies and assesses the level of efficiency and adequacy of the Internal Control System. The Board of Directors relies on the Risks Committee and the Management Committee to carry out the preparatory and advisory work relating to internal control and the monitoring of business risks. In collaboration with the Chief Executive Officer, it is also responsible for the implementation of strategic guidelines, the Risk Appetite Framework ("RAF") and risk governance policies.

The Audit and Internal Control Committee monitors the adequacy and concrete functioning of the company's organisational structure and internal control system. It supports the Board of Directors in defining the guidelines for the internal control and risk management system, in line with the Bank's strategies and in assessing, at least annually, the adequacy of that system with respect to the characteristics of the Bank and the risk profile assumed, as well as the efficacy of the system.

The Chief Risk Officer oversees the so-called second level control activities as a Risk Management Function, ensuring, through the support of the technical functions concerned, constant control of the risks assumed by the Group, governing the process of identification, analysis, modelling, assessment, measuring, controlling and reporting.

The **Chief Compliance & AFC Officer**, as a function of second-level control, oversees regulatory compliance, with a view to preventing, managing and mitigating the risk of incurring legal or administrative penalties, major financial losses or damage to reputation resulting from violations of mandatory regulations or self-regulation, as well as preventing money laundering and terrorist financing risk and the risk of breach of financial sanctions. The Chief Compliance & AFC Officer is also responsible for overseeing issues relating to the processing of personal data and is identified as the Data Protection Officer, in accordance with the applicable regulations in force.

The Internal Audit Department oversees the so-called "third level" control activities as the Internal Audit Function. Specifically, it monitors the regular performance of operations and the evolution of risks, and assesses the completeness, adequacy, functionality and reliability of the organisational structure and the internal control system, notifying the company bodies of possible improvements, with specific regard to the RAF, the risk management process and the risk measurement and monitoring tools.

To ensure that the Risk Management Process functions efficiently and effectively, and can fully cover all existing or potential risks, also in accordance with regulatory requirements, the Group has implemented:

- a system of risk limits and objectives of the RAF, that represents an organic and structured approach which has implications on integrated risk management and governance processes, producing impacts on nearly all company functions. The RAF is structured and set out at an operational level by Company, Business Division and business segment, and covers escalation processes, metrics and quantitative limits, as well as qualitative guidelines, indicated annually in the Risk Appetite Statement (RAS). The formalisation of the risk management process is fundamental to ensure a sound and prudent company management;
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process ILAAP), which have the objective of providing an internal assessment of the assets with respect to exposure to the risks that characterise their operations and the operational and structural liquidity profile, under ordinary and stressed conditions, also on a forward-looking basis on achievement of the objectives of the Strategic Plan and the Budget;
- a process for the ex ante assessment of Major Transactions (OMR), with a prior opinion on their sustainability at a credit and income level and coherence with the RAF.

In conjunction with these processes to manage and control risk under normal operating conditions, the Group has implemented a process connected with drawing up the Recovery Plan, which governs the management of crisis situations, and strategies and options for intervention designed to restore ordinary operations, as well as the Contingency Funding Plan procedure (emergency plan to manage liquidity in crisis situations).

In accordance with the prudential regulatory provisions, the Group has defined the way in which information is provided to the public about its capital adequacy, risk exposure and the general characteristics of the systems it uses to identify, measure, manage and control these risks (so-called Third pillar of Basel 2 – “Pillar 3”), a separate report in addition to the information given in this financial report. The report is published according to the rules laid down by the Bank of Italy on its website, at the address: *www.illlimity.com* (“*Investor Relations*" section).

Main risks and uncertainties

The Group has defined, codified and continually adopted an operational risk mapping process based on quali-quantitative metrics and rules shared within the organisation, which identifies the individual types of risk that the Group is or might be exposed to, and also assesses these risks according to specific drivers which may represent the materiality of the risk itself.

The result of the identification process is contained in the “Risk Radar” risk map, the objective of which is to represent, in relative terms, the risks inherent in the Group’s operations, and to structure them according to the business lines that generate these risks, as a functional requirement to determine the overall risk exposure.

The execution of the process to identify material risks for the Group is overseen by the CRO, together with the Chief Financial Officer and with the support of other organisational units of the Parent Company and subsidiaries.

The results of this process represent the assessment and input measures used to develop processes related to the ICAAP and ILAAP, i.e. the Strategic Plan, Budget and RAF, and are therefore validated by top management, discussed and analysed by the Risks Committee, and subject to approval by the Board of Directors of the Parent Company.

Part E of the Consolidated financial statements of the illimity Group contains overall information about the risk governance system and specific information about material risks, indicated below, and the related management, control and hedging policies adopted by the Group:

- credit risk (which also includes concentration risk);
- market risk (interest rate risk and price risk - regulatory trading portfolio);
- interest rate (interest rate risk and price risk of banking portfolio);
- liquidity risk;
- operational risk;
- IT risk;
- ESG risk (for further information, please refer to the information published in the Consolidated Non-Financial Statement of the illimity Group (pursuant to Italian Legislative Decree 254/2016)).

The other risks considered relevant as a result of the *risk mapping* process described above are also subsequently reported and defined.

The Group also has a system of quantitative limits with reference to assets at risk towards related parties and others. In accordance with the relevant supervisory provisions, indication of the level of risk appetite required by the provisions for the determination and formalisation by banks and banking entities was planned, defined in terms of the maximum limit of the lines of credit granted to related parties deemed acceptable in relation to the total lines of credit granted by illimity Bank.

Further limits are envisaged with reference to the exposures granted to subjects in conflict of interest pursuant to Article 2391 of the Italian civil code, bankruptcy proceedings, as well as stricter limits than the regulations for the individual borrower or connected group.

Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure “the transparency and material and procedural fairness of operations with related parties” carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the “Regulation on related party transactions”, which sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions.

In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

In 2023 a material related party transaction was carried out involving an agreement to manage operations with said counterparty related to the liquidity deposited by the latter in current and deposit accounts with illimity Bank S.p.A. (about which adequate information was disclosed to the market, which should be referred to for further details). There were no further material or minor related party transactions in 2023 which significantly affected the Group’s capital or profit and loss.

In relation to CONSOB communication no. DEM/6064293 of 28 July 2006, operations or positions with related parties as classified in IAS 24 and the Consob Regulation have a limited impact on the financial situation and capital, profit and loss and cash flows of the Group.

According to IAS 24, related parties are parties:

a) that directly or indirectly, through one or more intermediaries,
   (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
   (ii) hold an investment in the entity of an extent that they may have considerable influence on the latter; or
   (iii) jointly control the entity;
b) represent an associate of the entity;
c) represent a joint venture in which the entity participates;
d) are one of the key senior managers of the entity or its parent;
e) are a close family member of one of the parties in points (a) or (d);
f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the 9th update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks, issued in implementation of Article 53, paragraph 4 et seq., of the Consolidated Law on Banking and in accordance with Resolution of the Interministerial Committee for Credit and Savings no. 277 of 29 July 2008, as well as the regulations set forth by Article 136 of the Consolidated Law on Banking. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 “Risk assets and conflicts of interest with connected parties” to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

For more detail about the operations with related parties and for an examination of the impact of these operations on the financial situation, refer to Part H of the Explanatory Notes.

Atypical or non-ordinary transactions

In 2023 the Bank did not carry out any such transactions as defined in the Consob Communication no. 6064293 of 28 July 2006.

Research and Development

illimity's Research and Development activities led to the realisation of various projects of significance to the Group. Specifically, during the course of 2023, the Digital Division continued to invest in a single open, scalable and secure IT infrastructure and in illimitybank.com, supplementing and further developing the digital platform so that all the bank's businesses can fully make use of the new technologies of data and augmented and artificial intelligence.

Events after the reporting date

On 16 January 2024, the ratings agency Moody's Investors Service assigned ratings to the Bank for the first time. In particular, its long- and short-term ratings on deposits were investment-grade ratings of "Baa3" and "Prime-3" respectively. The long-term issuer and senior debt ratings were both "Ba1" with a stable outlook.

On 22 February 2024, independent director Patrizia Canziani handed in her resignation from the position, with effect from 31 March 2024. Ms Canziani, a non-executive and independent director and member of the Risks Committee and the Sustainability Committee, elected from the minority list by the Shareholders' Meeting of 28 April 2022, resigned due to new professional commitments that are incompatible with her continuing in her roles at the Bank.

The Board of Directors, with the support of the Nominating Committee, having acknowledged the impossibility of replacing the director pursuant to the By-laws in force and in light of the time frame of the next annual Shareholders' Meeting, also resolved not to co-opt a new Board member, and therefore delegated the decision on the replacement of the resigning director to the will of the Shareholders, who will be called to present any candidates to be submitted to the annual Shareholders' Meeting to be called.

No events occurred after the reporting date of the Report on Consolidated Operations having an effect on the financial position, performance or cash flows of the Group which need to be reported.

Business outlook

The macroeconomic and market scenario for 2024 is characterised by limited economic growth with prospects that remain uncertain due to persistent geopolitical tensions and financial conditions that are still restrictive for households and businesses.

The distressed credit transactions segment, which has already been slowing in recent years, is expected to remain sluggish in the current financial year.

In light of this challenging context, in the second half of 2023 illimity reacted by implementing a change of strategy in the distressed credit segment, gradually reducing its direct investments in NPE portfolios and reinvesting available capital in performing credit activities, relying on its capacity to capitalise on its existing assets and on the diversification of the business segments in which it operates. It did all this while retaining solid capital and liquidity levels, keeping credit quality under control and maintaining the resilience of its core business.

This strategy will also continue in 2024, a year in which customer loans are expected to grow further, supported by loans to businesses in the business divisions and the further development of the energy and asset-based financing desks, and also driven by the strong growth of b-ilty and the investment banking activities that benefit from guaranteed or low-capital-intensity business.

In terms of revenues, 2024 will be impacted by the increase in the cost of funding, which is expected to peak during the current financial year, by the reduced contribution from the partnership relating to the technological platform, which in 2023 generated a non-recurring income, and by the reduced contribution from profits from closed operations associated with the aforementioned evolution of the business model of direct investments in NPE portfolios. These components will be partially offset by the increase in net fee and commission income and by income from investments in funds, including the recent transfer to the Olympus funds.

illimity's profitability may also benefit from the Bank's capacity, as already demonstrated in 2023, to capitalise on the Group's assets.

Operating costs are expected to fall visibly year on year, particularly for the "other administrative expenses" component, as a result of the different strategy pursued in the distressed credit segment, based on sharp cost-streamlining measures.

Credit quality is expected to remain under control, benefiting from the particularly selective, prudent approach in the loan analysis phase, which will make it possible to keep the cost of credit at limited levels, thanks in part to the high level of loans secured by public guarantees. Also note that most of the organic non-performing exposures refer to customers involved in restructuring processes or procedures to restore their financial positions.

The liquidity profile will remain robust, with significant diversification of sources of funding.

With regard to the capital position, the CET 1 Ratio is expected to remain at high levels to support the growth of the business.

In light of the profound changes in scenario and assumptions compared with the projections made in the 2021-2025 Business Plan and the new strategy undertaken by the Bank in 2023, a new Business Plan is expected to be drawn up this year, which will include an updated net profit target for 2025.

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets		31/12/2023	31/12/2022
10.	Cash and cash equivalents	431,696	680,777
20.	Financial assets measured at fair value through profit or loss	527,840	105,043
	a) financial assets held for trading	25,917	31,146
	b) financial assets at fair value	-	-
	c) other financial assets mandatorily measured at fair value	501,923	73,897
30.	Financial assets measured at fair value through other comprehensive income	456,643	391,710
40.	Financial assets measured at amortised cost	4,761,729	4,386,730
	a) due from banks	112,702	57,213
	b) loans to customers	4,649,027	4,329,517
50.	Hedging derivatives	21,393	29,874
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	81,199	76,375
80.	Insurance assets	-	-
	a) insurance policies issued that constitute assets	-	-
	b) disposals in reinsurance that constitute assets	-	-
90.	Property and equipment	88,223	128,383
100.	Intangible assets	153,768	135,101
	of which:		
	- goodwill	69,992	65,372
110.	Tax assets	62,756	78,592
	a) current	1,837	7,828
	b) deferred	60,919	70,764
120.	Non-current assets held for sale and discontinued operations	364,151	-
130.	Other assets	309,649	342,540
	Total assets	**7,259,047**	**6,355,125**

CONTINUED: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Liabilities and shareholders' equity	31/12/2023	31/12/2022
10.	Amounts due to customers	6,067,828	5,294,132
	a) due to banks	941,995	1,205,048
	b) due to customers	4,514,092	3,436,082
	c) securities issued	611,741	653,002
20.	Financial liabilities held for trading	19,476	27,244
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	19,770	32,646
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	24,970	36,724
	a) current	21,704	33,372
	b) deferred	3,266	3,352
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	157,611	113,123
90.	Employee severance pay	5,030	3,575
100.	Allowances for risks and charges	8,260	6,359
	a) commitments and guarantees given	5,374	4,863
	b) post-employment benefits and similar obligations	37	28
	c) other allowances for risks and charges	2,849	1,468
110.	Insurance liabilities	-	-
	a) insurance policies issued that constitute liabilities	-	-
	b) disposals in reinsurance that constitute liabilities	-	-
120.	Valuation reserves	(30,020)	(47,875)
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	197,584	135,516
160.	Share premium reserve	624,583	624,583
170.	Share capital	54,691	54,514
180.	Treasury shares (-)	(747)	(747)
190.	Equity attributable to minority interests (+/-)	5,611	5
200.	Profit (loss) for the year (+/-)	104,400	75,326
	Total liabilities and shareholders' equity	**7,259,047**	**6,355,125**

CONSOLIDATED INCOME STATEMENT

Items		31/12/2023	31/12/2022
10.	Interest income and similar income	397,291	238,693
	of which: interest income calculated according to the effective interest method	338,081	229,004
20.	Interest expenses and similar charges	(202,729)	(74,558)
30.	**Net interest margin**	**194,562**	**164,135**
40.	Fee and commission income	82,248	65,701
50.	Fee and commission expense	(7,836)	(6,451)
60.	**Net fee and commission income**	**74,412**	**59,250**
70.	Dividends and similar income	45	200
80.	Profits (losses) on trading	(459)	4,729
90.	Fair value adjustments in hedge accounting	(386)	-
100.	Profits (losses) on disposal or repurchase of:	(855)	(467)
	a) financial assets measured at amortised cost	(131)	11
	b) financial assets measured at fair value through other comprehensive income	(724)	(174)
	c) financial liabilities	-	(304)
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	7,496	8,753
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	7,496	8,753
120.	**Total net operating income**	**274,815**	**236,600**
130.	Net losses/recoveries for credit risks associated with:	65,546	48,891
	a) financial assets measured at amortised cost	65,676	50,183
	b) financial assets measured at fair value through other comprehensive income	(130)	(1,292)
140.	Profits/losses on changes in contracts without derecognition	-	-
150.	**Net result from banking activities**	**340,361**	**285,491**
160.	Profit (loss) from insurance services	-	-
	a) insurance revenues deriving from insurance policies issued	-	-
	d) costs for insurance services deriving from insurance policies issued	-	-
	c) insurance revenues deriving from disposals in reinsurance	-	-
	b) costs for insurance services deriving from disposals in reinsurance	-	-
170.	Other net insurance income (expense)	-	-
	a) net financial costs/revenues relating to insurance policies issued	-	-
	b) net financial revenues/costs relating to disposals in reinsurance	-	-
180.	**Profits (losses) of banking and insurance management**	**340,361**	**285,491**
190.	Administrative expenses:	(217,552)	(186,999)
	a) personnel expenses	(105,057)	(85,871)
	b) other administrative expenses	(112,495)	(101,128)
200.	Net allowances for risks and charges	(783)	(707)
	a) commitments and guarantees given	(511)	(669)
	b) other net provisions	(272)	(38)
210.	Net adjustments/recoveries on property and equipment	(9,895)	(4,201)
220.	Net adjustments/recoveries on intangible assets	(18,280)	(13,070)
230.	Other operating income/expenses	60,389	27,715
240.	**Operating expenses**	**(186,121)**	**(177,262)**
250.	Profits (losses) on equity investments	(3,493)	(7,633)
260.	Net gains/losses on the measurement at fair value of property and equipment and intangible assets	-	-
270.	Goodwill impairment	-	-
280.	Profits (losses) on disposal of investments	994	266
290.	**Profit (loss) before tax from continuing operations**	**151,741**	**100,862**
300.	Income tax for the year on continuing operations	(47,927)	(25,536)
310.	**Profit (loss) after tax from continuing operations**	**103,814**	**75,326**
320.	Net income (loss) from discontinued operations after tax	-	-
330.	**Profit (loss) for the year**	**103,814**	**75,326**
340.	Profit (Loss) for the financial year attributable to minority interests	586	-
350.	**Profit (Loss) for the financial year attributable to the Parent Company**	**104,400**	**75,326**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Items		31/12/2023	31/12/2022
10.	**Profit (loss) for the year**	**103,814**	**75,326**
	Other comprehensive income, after tax, that may not be reclassified to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	-	1
30.	Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(439)	961
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity:	(35)	37
100.	Financial revenues or costs relating to insurance policies issued	-	-
	Other comprehensive income, after tax, that may be reclassified to the income statement		
110.	Hedging of foreign investments	-	-
120.	Foreign exchange differences	-	-
130.	Cash flow hedges	-	-
140.	Hedging instruments (undesignated elements)	-	-
150.	Financial assets (other than equities) measured at fair value through other comprehensive income	18,321	(42,817)
160.	Non-current assets held for sale and discontinued operations	-	-
170.	Share of valuation reserves for equity investments measured at equity	-	-
180.	Financial revenues or costs relating to insurance policies issued	-	-
190.	Financial revenues or costs relating to disposals in reinsurance	-	-
200.	**Total other comprehensive income (after tax)**	**17,847**	**(41,818)**
210.	**Other comprehensive income (Item 10+120)**	**121,661**	**33,508**
220.	Consolidated comprehensive income attributable to minority interests	**594**	-
230.	**Consolidated comprehensive income attributable to the parent company**	**122,255**	**33,508**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2023

	Balance as of 31 December 2022	Change in opening balances	Balance as of 1 January 2023	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	54,517	-	54,517	-	-	-
b) other shares	-	-	-	-	-	-
Share premium reserve	624,583	-	624,583	-	-	-
Reserves:						
a) retained earnings	100,059	-	100,059	60,262	16	-
b) other	35,459	-	35,459	-	-	-
Valuation reserves	(47,875)	-	(47,875)	-	-	-
Equity instruments	-	-	-	-	-	-
Treasury shares	(747)	-	(747)	-	-	-
Net profit (loss) (+/-) for the period	**75,326**	**-**	**75,326**	**(60,262)**	**(15,064)**	**-**
Consolidated Shareholders' Equity	**841,322**	**-**	**841,322**		**(15,048)**	**-**
Group shareholders' equity	**841,317**	**-**	**841,317**		**(15,048)**	**-**
Shareholders' equity attributable to minority interests	**5**	**-**	**5**		**-**	**-**

(CONT'D)

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2022

	Balance as of 31 December 2021	Change in opening balances	Balance as of 1 January 2022	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Changes in reserves
Share capital:						
a) ordinary shares	51,685	-	51,685	-	-	-
b) other shares	938	-	938	-	-	-
Share premium reserve	597,589	-	597,589	-	-	-
Reserves:						
a) retained earnings	29,803	-	29,803	65,591	-	-
b) other	34,103	-	34,103	-	-	-
Valuation reserves	(6,057)	-	(6,057)	-	-	-
Equity instruments	-	-	-	-	-	-
Treasury shares	(832)	-	(832)	-	-	-
Net profit (loss) (+/-) for the period	**65,591**	**-**	**65,591**	**(65,591)**	**-**	**-**
Consolidated Shareholders' Equity	**772,820**	**-**	**772,820**	**-**	**-**	**-**
Group shareholders' equity	**772,815**	**-**	**772,815**	**-**	**-**	**-**
Shareholders' equity attributable to minority interests	**5**	**-**	**5**	**-**	**-**	**-**

(CONT'D)

	Changes in the year										
	Shareholders' equity transactions										
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the year	Consolidated Shareholders' Equity as of 31 December 2023	Shareholders' equity attributable to the Group as of 31 December 2023	Equity attributable to minority interests as of 31/12/2023
Share capital:											
a) ordinary shares	-	-	-	-	-	117	11	-	**54,705**	**54,691**	**14**
b) other shares	-	-	-	-	-	-	1,200	-	**1,200**	**-**	**1,200**
Share premium reserve	-	-	-	-	-	-	4,989	-	**629,572**	**624,583**	**4,989**
Reserves:											
a) retained earnings	-	-	-	-	-	229	-	-	**160,566**	**160,564**	**2**
b) other	-	-	-	-	-	1,561	-	-	**37,020**	**37,020**	**-**
Valuation reserves	-	-	-	-	-	-	-	17,847	**(30,028)**	**(30,020)**	**(8)**
Equity instruments	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Treasury shares	-	-	-	-	-	-	-	-	**(747)**	**(747)**	**-**
Net profit (loss) (+/-) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**103,814**	**103,814**	**104,400**	**(586)**
Consolidated Shareholders' Equity	**-**	**-**	**-**	**-**	**-**	**1,967**	**6,200**	**121,661**	**956,102**	**X**	**X**
Group shareholders' equity	**-**	**-**	**-**	**-**	**-**	**1,967**	**-**	**122,255**	**X**	**950,491**	**X**
Shareholders' equity attributable to minority interests	**-**	**-**	**-**	**-**	**-**	**-**	**6,200**	**(594)**	**X**	**X**	**5,611**

	Changes in the year										
	Shareholders' equity transactions										
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the year	Consolidated Shareholders' Equity as of 31/12/2022	Shareholders' equity attributable to the Group as of 31 December 2022	Shareholders' equity attributable to minority interests at 31/12/2022
Share capital:											
a) ordinary shares	1,806	-	-	938	-	88	-	-	**54,517**	**54,514**	**3**
b) other shares	-	-	-	(938)	-	-	-	-	**-**	**-**	**-**
Share premium reserve	26,994	-	-	-	-	-	-	-	**624,583**	**624,583**	**-**
Reserves:											
a) retained earnings	-	-	-	-	-	4,665	-	-	**100,059**	**100,057**	**2**
b) other	(100)	-	-	-	-	1,456	-	-	**35,459**	**35,459**	**-**
Valuation reserves	-	-	-	-	-	-	-	(41,818)	**(47,875)**	**(47,875)**	**-**
Equity instruments	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Treasury shares	-	-	-	-	-	85	-	-	**(747)**	**(747)**	**-**
Net profit (loss) (+/-) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**75,326**	**75,326**	**75,326**	**-**
Consolidated Shareholders' Equity	**28,700**	**-**	**-**	**-**	**-**	**6,294**	**-**	**33,508**	**841,322**	**X**	**X**
Group shareholders' equity	**28,700**	**-**	**-**	**-**	**-**	**6,294**	**-**	**33,508**	**X**	**841,317**	**X**
Shareholders' equity attributable to minority interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**X**	**X**	**5**

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

A. OPERATING ACTIVITIES	Amount	
	31/12/2023	31/12/2022
1. Cash flow from operations	**220,323**	**163,985**
Net profit/loss for the year (+/-)	103,814	75,326
Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	(4,288)	(4,726)
Profits/losses on hedging activities (-/+)	386	-
Net value adjustments/write-backs for credit risk (+/-)	14,329	7,032
Net value adjustments/write-backs on property and equipment and intangible assets (+/-)	22,608	17,271
Net allocations to allowances for risks and charges and other costs/income (+/-)	25,831	16,955
Net revenues and costs relating to insurance policies issued and disposals in reinsurance (-/+)	-	-
Taxes, duties and unpaid tax credits (+)	59,335	30,957
Net value adjustments/write-backs on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	(1,692)	21,170
2. Cash flow generated/absorbed by financial assets	**(1,064,030)**	**(1,477,416)**
Financial assets held for trading	6,337	(25,523)
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(12,341)	3,262
Financial assets measured at fair value through other comprehensive income	(43,399)	(161,886)
Financial assets measured at amortised cost	(1,095,285)	(1,178,263)
Other assets	80,658	(115,006)
3. Cash flow generated/absorbed by financial liabilities	**643,897**	**1,513,980**
Amounts due to customers	714,131	1,499,892
Financial liabilities held for trading	(7,768)	27,185
Financial liabilities designated at fair value	-	-
Other liabilities	(62,466)	(13,097)
4. Cash flow generated / absorbed by insurance policies issued and disposals in reinsurance	-	-
Insurance policies issued that constitute liabilities/assets	-	-
Disposals in reinsurance that constitute assets/liabilities	-	-
Net cash generated/absorbed by operating activities	**(199,810)**	**200,549**

B. INVESTING ACTIVITIES	Amount	
	31/12/2023	31/12/2022
1. Cash flows from	**6,121**	**8,092**
Sales of equity investments	-	-
Dividends received on equity investments	-	-
Sales of property and equipment	6,121	8,092
Sales of intangible assets		-
Sales of subsidiaries and business units	-	-
2. Cash flows used in	**(40,343)**	**(35,543)**
Purchases of equity investments	(8,005)	(8,159)
Purchases of tangible assets	(2,230)	(1,637)
Purchases of intangible assets	(30,108)	(25,747)
Purchases of subsidiaries and business units	-	-
Net cash generated/absorbed by investing activities	**(34,222)**	**(27,451)**

C. FINANCING ACTIVITIES	Amount	
	31/12/2023	31/12/2022
Issues / Purchases of treasury shares	-	-
Issues/purchases of equity instruments	-	(100)
Distribution of dividends and other purposes	(15,049)	-
Sale/purchase of third-party control	-	-
Net cash generated/absorbed by financing activities	**(15,049)**	**(100)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(249,081)**	**172,998**

Key:

(+) generated
(–) absorbed

Reconciliation

FINANCIAL STATEMENT ITEMS	Amount	
	31/12/2023	31/12/2022
Cash and cash equivalents at start of financial year	**680,777**	**507,779**
Net increase (decrease) in cash and cash equivalents	(249,081)	172,998
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of financial year	**431,696**	**680,777**

Explanatory Notes

Part A - Accounting policies

A.1 General information

Section 1 - Declaration of compliance with IAS/IFRS

These consolidated financial statements have been prepared in application of Italian Legislative Decree no. 38 of 28 February 2005, according to the accounting standards issued by the International Accounting Standards Board (IASB) approved by the European Commission and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as established by Community Regulation no. 1606 of 19 July 2002.

In preparing these consolidated financial statements, the IAS/IFRS in force as of 31 December 2023 were applied, including the SIC and IFRIC interpretations as harmonised by the European Commission. The line items presented in this report have been valued and measured on the basis of the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission, in addition to the guidelines laid down in Article no. 9 of Italian Legislative Decree no. 38/05 and article 43 of Italian Legislative Decree no. 136/15.

There were no departures from IAS/IFRS.

The Bank of Italy, with reference to the financial statements of banks and financial companies subject to supervision, has established, by Circular 262 of 22 December 2005, as amended, the financial statements and explanatory notes used for the drafting of these Financial Statements. When preparing the consolidated financial statements, the provisions of Circular 262 - 8th update, issued on 17 November 2022, were applied, and the additions contained in the Banca d'Italia communication of 14 March 2023 were taken into consideration - particularly with regard to the impacts of COVID 19 and measures to support the economy.

Except as stated herein – and more broadly described in Section 5 – there are no changes in the Accounting Standards adopted compared to the previous year.

Section 2 - Basis of Preparation

The Financial Statements comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (prepared applying the "indirect" method) and the consolidated Explanatory Notes. The Consolidated Financial Statements are also accompanied by the Directors' Report on operations, on the economic results achieved and on the financial position and cash flows of the Group.

The Report on Operations and the Explanatory Notes provide the information required by the International Accounting Standards, Italian law, Banca d'Italia, the National Commission for Companies and the Stock Exchange (CONSOB) and the European Securities and Markets Authority (ESMA), as well as other information that is not compulsory but is deemed equally necessary in order to provide a truthful and accurate representation of the Group's situation.

In accordance with Delegated Regulation (EU) 2019/815 on "Regulatory technical standards on the specification of a single electronic reporting format", illimity, as an issuer whose securities are traded on a regulated market of the European Union, is publishing this annual financial report in digital format, i.e. using iXBRL tagging.

In accordance with Article 5 of Italian Legislative Decree no. 38/2005, the financial statements have been drafted using the Euro as the functional currency. The amounts presented in the consolidated financial statements and in the Explanatory Notes are stated in thousands of euro, unless otherwise indicated. Any discrepancies between the figures presented are due solely to rounding.

These financial statements have been prepared assuming that the Group will continue as a going concern, since there are no significant uncertainties regarding events or conditions that may lead to doubts as to the Group's ability to continue to operate as a going concern. The valuation criteria adopted are therefore consistent with the business continuity assumption and comply with the principles of competence, relevance and materiality of accounting information and the precedence of economic substance over legal form. These criteria remained unchanged from the previous year.

The financial statements are prepared in accordance with IAS 1 and the specific accounting standards approved by the European Commission as illustrated in the "Section on the main financial statement items" of these Explanatory Notes.

The Financial Statements have been drafted with clarity and provide a true and fair view of the financial situation and economic result of illimity Bank S.p.A. (the "Parent Company") and subsidiaries and/or consolidated companies as of 31 December 2023, as described in the section "Consolidation scope and methods".

The general principles used in the preparation of the financial statements are outlined below:
- going concern basis: the valuations are made on a going-concern basis;
- matching principle: costs and revenues are recognised in the period in which they accrue in relation to the services received and supplied, regardless of the date of cash settlement;
- consistency of representation: to guarantee the comparability of the data and information in the financial statements and related tables, the representation and classification methods are kept the same over time, unless they have to be changed to comply with international accounting standards or interpretations, or unless there is a need to make the presentation of data more significant and reliable;
- relevance and aggregation: each major class of items with a similar nature or function is shown separately in the statement of financial position and income statement; items with different functions or of different types, if important, are highlighted separately;
- prohibition of set off: a prohibition on set off applies, unless a set-off is provided for or permitted by the international accounting standards or interpretations, or by the Bank of Italy Circular 262 of 22 December 2005 as amended;
- comparison with the previous year: the financial statements and formats show the amounts from the previous year, which may be adapted to ensure that they can be compared;
- the financial statements are prepared on the basis of substance over form and in accordance with the principle of relevance and materiality of information.

The consolidated statements as of 31 December 2023, which were approved by the Board of Directors on 08 March 2024, were audited by the independent auditors KPMG S.p.A.

Content of the financial statements

1. Consolidated statement of financial position and income statement

The consolidated statement of financial position and consolidated income statement consist of items, sub-items and additional details. In the consolidated income statement, revenues have been presented without sign, whereas costs have been stated in parentheses.

2. Consolidated statement of other comprehensive income

In addition to the profit (loss) for the year, the consolidated statement of other comprehensive income indicates income components taken to valuation reserves, net of the relevant tax effect, in accordance with international accounting standards.

Comprehensive income is represented by providing separate proof of the income components that will not be reinstated in the income statement in future and those which, conversely, may be subsequently reclassified under profit (loss) for the year when certain conditions are met. The statement also distinguishes the share of profit attributable to the Parent Company from that attributable to minority-interest shareholders. Negative amounts have been stated in parentheses.

3. Statement of changes in consolidated shareholders' equity

The statement shows the composition of and changes in shareholders' equity during the year of the report, broken down into share capital (ordinary and savings shares), capital reserves, earnings reserves and reserves from the measurement of assets or liabilities and net profit. The treasury shares in portfolio are deducted from shareholders' equity.

4. Consolidated cash flow statement

The statement of cash flows during the reporting year was prepared on the basis of the indirect method, according to which the cash flows from operating activities are represented by the results for the financial year, adjusted by the effects of non-monetary operations. The cash flows are divided between those generated by operating activities, those generated by investment activities and those generated by financing activities.

In the statement, the cash flows generated during the year are indicated without sign, while those absorbed are indicated in brackets.

Content of the Explanatory Notes

The Explanatory Notes include the information required by the IAS and by the Circular of the Bank of Italy no. 262 issued on 22 December 2005, as amended and supplemented, applicable to the drafting of these financial statements.

Section 3 - Consolidation scope and methods

The following are the consolidation criteria and principles used to prepare the financial statements as of 31 December 2023.

The Consolidated Financial Statements include the accounting values of illimity and of the companies over which it directly or indirectly exercises control as of 31 December 2023, encompassing within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments dissimilar to that of the Parent Company.

The scope of consolidation of the financial statements as of 31 December 2023 includes the following entities:

i. **Aporti S.r.l.** ("Aporti"), in which the Bank holds a 66.7% stake, established to undertake the securitisation of Non-Performing Loans (hereinafter "NPLs"), through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
ii. **Soperga RE S.r.l.** (REOCO) ("Soperga RE") a wholly owned subsidiary of the Bank, established to manage the real estate assets associated with the portfolios of acquired NPLs pursuant to Article 7.1 of Italian Law no. 130/1999 on securitisations;
iii. **Doria LeaseCo S.r.l.** ("Doria LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
iv. **Doria SPV S.r.l.** ("Doria SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
v. **Friuli LeaseCo S.r.l.** ("Friuli LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
vi. **Friuli SPV S.r.l.** ("Friuli SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
vii. **Pitti LeaseCo S.r.l.** ("Pitti LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;

viii. **Pitti SPV S.r.l.** ("Pitti SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

ix. **River LeaseCo S.r.l.** ("River LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;

x. **River SPV S.r.l.** ("River SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xi. **River Immobiliare S.r.l.** ("River Immobiliare"), held entirely by the Bank, set up for the purchase, sale and management - for disposal - of property owned by the company;

xii. **Kenobi SPV S.r.l.** ("Kenobi SPV"), a wholly owned subsidiary of the Bank, established to undertake real estate securitisation operations, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xiii. **ARECneprix S.p.A.** ("ARECneprix"), a wholly owned subsidiary of the Bank mainly operating in the non-performing loan sector, relying on the services of professionals with specific experience and know how in assessing and managing non-performing loans;

xiv. **illimity SGR S.p.A.** ("illimity SGR") wholly owned by the Bank, which manages the assets of closed-end alternative investment funds (AIFs), established with own funds and the funds of third-party institutional investors;

xv. **Abilio S.p.A.** ("Abilio"), in which the Bank holds 82% of the share capital, a company whose purpose is to execute real estate operations and develop and organise sales through online and offline public auctions;

xvi. **Quimmo Prestige Agency S.r.l.** ("Quimmo Prestige Agency"), wholly owned by Abilio, a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties;

xvii. **Quimmo Agency S.r.l.** ("Quimmo Agency"), wholly owned by Abilio, a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties;

xviii. **Industrial Discount S.r.l.** ("Industrial Discount"), wholly owned by Abilio, a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties;

xix. **MAUI SPE S.r.l.** ("MAUI SPE"), established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xx. **Piedmont SPV S.r.l.** ("Piedmont SPV"), established to undertake the securitisation of receivables, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxi. **Dagobah LeaseCo S.r.l.** ("Dagobah LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;

xxii. **Dagobah SPV S.r.l.** ("Dagobah SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxiii. **Spicy Green SPV S.r.l.** ("Spicy Green SPV"), established to undertake the securitisation of receivables in the energy sector, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxiv. **SpicyCo 2 S.r.l.** ("SpicyCo 2"), which is responsible for the acquisition, management and sale of equity investments;

xxv. **INGENII Open Finance** ("INGENII Fund") in which the Bank subscribed 98.52% of the units in UCIs, set up as an closed-end reserved alternative investment fund, established and managed by INGENII SGR S.p.A.;

xxvi. **Sileno SPV S.r.l.** ("Sileno SPV"), wholly owned by the Bank, established to undertake the securitisation of Non-Performing Loans (hereinafter "NPLs"), through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxvii. **Ortensia SPV S.r.l.** ("Ortensia SPV"), wholly owned by the Bank, established to undertake the securitisation of Non-Performing Loans (hereinafter "NPLs"), through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxviii. **MIDA RE S.r.l.** ("Mida RE"), a wholly owned subsidiary of the Bank, established to implement the management of real estate associated with the portfolios of acquired NPLs pursuant to Article 7.1 of Italian Law no. 130/1999;

xxix. **GRO SPV S.r.l.** ("GRO SPV"), established to undertake the securitisation of receivables, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxx. **Metafora SPV S.r.l.** ("Metafora SPV"), established to undertake real estate securitisation operations, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxxi. **Montes LeaseCo S.r.l.** ("Montes LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;

xxxii. **Montes SPV S.r.l.** ("Montes SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxxiii. **Mia SPV S.r.l.** ("Mia SPV"), a wholly owned subsidiary of the Bank, established to undertake securitisation operations, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxxiv. **Farky SPV S.r.l.** ("Farky SPV"), established to undertake receivables securitisation operations, through the future subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxxv. **Hype S.p.A.** ("Hype"), held 50% by illimity through a joint venture with Fabrick (a company of the Sella group), that operates with a payment institute licence and is the digital solution for simple, efficient day-to-day money management. On the market since 2015, Hype has anticipated the response to the growing need of the public to access banking services in an entirely new way, offering other added value services;

xxxvi. **SpicyCo S.r.l.** ("SpicyCo"), of which illimity holds 49% of the share capital, which is responsible for the acquisition, management and sale of equity investments. Based on the company's Articles of Association, the economic and financial rights pertaining to illimity have been defined at 77.63%;

xxxvii. **LAISA – Società tra Avvocati per Azioni** ("STA") - in which the subsidiary ARECneprix holds a 9.99% stake - a company whose purpose is the corporate exercise of professional lawyer activities (understood to mean judicial and/or extra-judicial assistance and consultancy), in all forms and variations, including during the acquisition, management and/or enforcement, collection or sale of NPEs.

This scope has changed with respect to the consolidated financial statements for the year ended 31 December 2022. Below is a summary of the transactions that led to the change in the scope of consolidation.

Increases

a) Acquisition of 100% of the share capital of Kenobi SPV S.r.l., consolidated on a line-by-line basis;

b) Acquisition of the remaining 51% of the share capital of SpicyCo 2 S.r.l., consolidated on a line-by-line basis and previously consolidated using the equity method as a company subject to significant influence;

c) Incorporation of LAISA – Società tra Avvocati per Azioni, owned by the subsidiary ARECneprix S.p.A. and subject to consolidation using the equity method;

d) Subscription of 98.52% of the units of the INGENII Fund;

e) Acquisition of 100% of the share capital of Quimmo Prestige Agency S.r.l. By Abilio S.p.A., consolidated on a line-by-line basis. By virtue of the disposal of 18% of the share capital of Abilio S.p.A., illimity Bank S.p.A. has an indirect investment of 82% in Quimmo Prestige Agency S.r.l.;

f) Establishment of the vehicle Sileno SPV S.r.l., subject to line-by-line consolidation;

g) Establishment of the vehicle Ortensia SPV S.r.l., of which only the company portion is consolidated on a line-by-line basis, excluding the cover pool;

h) Establishment of the company Mida RE S.r.l., consolidated on a line-by-line basis, which was set up to implement the management of real estate associated with the NPL portfolios acquired;
i) Subscription of the remaining 95% of the junior note issued by the vehicle Costantino SPV, which, due to that acquisition, is now subject to line-by-line consolidation; this increase should be read in conjunction with the subsequent full markdown of the note, as indicated below in the "decreases" section;
j) Full subscription of the note issued by the vehicle GRO SPV S.r.l., subject to line-by-line consolidation;
k) Establishment and full subscription of the notes issued by the vehicle Metafora SPV S.r.l., subject to line-by-line consolidation;
l) Establishment of the company Industrial Discount S.r.l., wholly owned by Abilio S.p.A. and subject to line-by-line consolidation.
m) Acquisition of 100% of the share capital of Montes LeaseCo S.r.l., consolidated on a line-by-line basis;
n) Acquisition of 100% of the share capital and subscription of the entire financial debt of the vehicle Montes SPV S.r.l., consolidated on a line-by-line basis;
o) Establishment of the vehicle Mia SPV S.r.l., of which only the company portion is consolidated on a line-by-line basis, excluding the cover pool;
p) Subscription of the entire financial debt of the vehicle Farky SPV S.r.l., subject to line-by-line consolidation;

Furthermore, with effect from 1 January 2023, the merger by incorporation of the subsidiary AREC S.p.A. into neprix S.r.l. was completed, resulting in the creation of the legal entity ARECneprix S.p.A.

Decreases

a) Disposal of 18% of the share capital of Abilio S.p.A., consolidated on a line-by-line basis. That operation resulted in the decrease in the indirect interest held by the parent company illimity Bank S.p.A. in Quimmo Agency S.r.l., which decreased from the previous 100% to 82%.
b) Disposal of 100% of the notes issued by the vehicle Kenobi SPV S.r.l., previously subject to line-by-line consolidation;
c) Full markdown of the note issued by the vehicle Costantino SPV S.r.l., previously subject to line-by-line consolidation, following the transfer of the assets to the vehicle Aporti VI.

For further information on changes in the scope of consolidation during 2023, reference is made to Section 5 - Other aspects.

Details of the type of control and consolidation method for the scope of consolidated entities as of 31 December 2023 are given below:

Name	Operational headquarters	Registered office	Type of relationship (*)	Ownership relationship	
				Held by	Holding % (**)
Parent Company					
A.0 illimity Bank S.p.A.	Milan	Milan			
Companies consolidated on a line-by-line basis					
A.1 Aporti S.r.l. (SPV)	Milan	Milan	1-4	A.0	66.7%
A.2 Soperga RE S.r.l.	Milan	Milan	1	A.0	100.0%
A.3 Doria Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.4 Doria SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.5 Friuli LeaseCo. S.r.l.	Milan	Milan	1	A.0	100.0%
A.6 Friuli SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.7 Pitti Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.8 Pitti SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.9 River Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.10 River SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.11 River immobiliare S.r.l.	Milan	Milan	1	A.0	100.0%
A.12 Kenobi SPV S.r.l.	Milan	Milan	1	A.0	100.0%
A.13 ARECneprix S.p.A.	Milan	Milan	1	A.0	100.0%
A.14 illimity SGR	Milan	Milan	1	A.0	100.0%
A.15 Abilio S.p.A.	Faenza	Faenza	1	A.0	82.0%
A.16 Quimmo Prestige Agency S.r.l.	Milan	Milan	1	A.15	100.0%
A.17 Quimmo Agency S.r.l.	Faenza	Faenza	1	A.15	100.0%
A.18 Industrial Discount S.r.l.	Faenza	Faenza	1	A.15	100.0%
A.19 MAUI SPE S.r.l.	Milan	Milan	4	A.0	
A.20 Piedmont SPV S.r.l.	Milan	Milan	4	A.0	
A.21 Dagobah LeaseCo S.r.l.	Milan	Milan	1	A.0	100.0%
A.22 Dagobah SPV S.r.l.	Milan	Milan	1-4	A.0	100.0%
A.23 Spicy Green SPV S.r.l.	Milan	Milan	4	A.0	
A.24 SpicyCo2 S.r.l.	Milan	Milan	1	A.0	100.0%
A.25 INGENII Open Finance	Milan	Milan	4	A.0	98.52%
A.26 Sileno SPV S.r.l.	Milan	Milan	1-4	A.0	100.0%
A.27 Ortensia SPV S.r.l.	Milan	Milan	1	A.0	100.0%
A.28 Mida RE S.r.l.	Milan	Milan	1	A.0	100.0%
A.29 GRO SPV S.r.l.	Milan	Milan	4	A.0	
A.30 Metafora SPV S.r.l.	Milan	Milan	4	A.0	
A.31 Montes LeaseCo S.r.l.	Milan	Milan	1	A.0	100.0%
A.32 Montes S.P.V. S.r.l.	Milan	Milan	1-4	A.0	100.0%
A.33 Mia SPV S.r.l.	Milan	Milan	1	A.0	100.0%
A.34 Farky SPV S.r.l.	Milan	Milan	4	A.0	
Companies consolidated on an equity basis					
A.35 Hype S.p.A.	Biella	Biella	5	A.0	50.0%
A.36 SpicyCo S.r.l.	Milan	Milan	6	A.0	49.0%
A.37 LAISA – Società tra Avvocati per Azioni	Milan	Milan	6	A.13	9.99%

(*) Type of relationship:
1 = majority of voting rights at the ordinary meeting of shareholders (pursuant to Article 2359 paragraph 1(1))
2 = dominant influence at the ordinary meeting of shareholders
3 = arrangements with other shareholders
4 = other forms of control
5 = joint control
6 = significant influence

(**) Availability of votes in the ordinary shareholders' meeting: the participation quota represents voting rights in the shareholders' meeting.

2. Significant assessments and assumptions to determine the consolidation area

2.1 Subsidiaries

Subsidiaries are those entities, including structured entities, over which the Parent Company has direct or indirect control. Under IFRS 10, control exists if the following elements are simultaneously present:

- the power to direct the subsidiary's main activities;
- exposure to, or rights to variable returns, arising from the relation with the investee company;
- the capacity to exercise its power on the investee company, to influence the amount of its returns.

Subsidiaries are consolidated from the date on which control was effectively acquired by the Group. They cease to be fully consolidated on the date on which control is transferred to entities external to the Group. The costs and revenues of a subsidiary are included in the scope of consolidation from the date of acquisition of control. The costs and revenues of a sold subsidiary are included in the consolidated income statements until the date of the sale, i.e. until the moment when the parent company ceases to have control over the affiliate.

Subsidiaries are those companies, including structured entities over which the parent company SPAXS exercises control and, as defined by IFRS 10, has the power to determine, directly or indirectly, their financial and operational policies, in order to obtain benefits from their activities.

The Group may sometimes exercise "de facto control" over certain entities when, even in the absence of a majority of voting rights, it possesses rights that allows a one-way management of the affiliate significant assets.

The subsidiary may also include structured entities, in which the voting rights are not significant for the purposes of assessing control. They include special-purpose entities and investment funds. Structured entities are considered to be controlled if:

- the Group has contractual rights giving it the power to govern the major activities;
- the Group is exposed to variable returns arising from those activities.

Line-by-line consolidation

Subsidiaries are consolidated using the line-by-line method. The consolidated financial statements prepared according to the full consolidation method represent the financial situation of the Group as a single economic entity.

The full consolidation method involves acquiring the statement of financial position and income statement aggregates of subsidiaries on a "line by line" basis. After the minority shareholders have been attributed their shares of the assets and profit or loss, the value of the equity investment is cancelled as a contra entry of the residual value of the subsidiary's assets. The assets, liabilities, costs and income of a significant amount, recognised among the consolidated entities, are eliminated.

Subsidiaries are consolidated from the date on which the Group acquires control according to the purchase method, as provided for in IFRS 3, which establish that the identifiable assets purchased and the identifiable liabilities accepted (including the potential liabilities) have to be recognised at their respective fair values on the date of acquisition. Any surplus in the paid price compared to the above fair values is recognised as goodwill or as other intangible assets; if the price is lower, the difference is charged to the income statements.

If there is an event that determines a loss of control, the effect recorded in the income statement is equal to the difference between (i) the sum of the fair value of the price received and the fair value of the residual interest held, and (ii) the previous carrying amount of the assets (including goodwill), of the liabilities of the subsidiary and of any third-party assets. The difference between the sale price of the subsidiary and the carrying amount of its net assets at the same date is recognised in the Income Statement under the item Gains (losses) on disposal of investments for companies consolidated on a line-by-line basis. The portion attributable to minority interests is recognised in the Statement of Financial Position under the item Shareholders' equity attributable to minority interests, separately from liabilities and shareholders' equity attributable to the Group. In the Income Statement as well, the portion attributable to minority interests is presented separately under the item Net profit (loss) attributable to minority interests.

2.2 Joint control agreements

A joint control agreement is a contractual arrangement whereby two or more counterparts have joint control. Joint control is the sharing, on a contractual basis, of the control of an arrangement that only exists when the unanimous consent of all the sharing control parties is required for decisions on major activities.

According to IFRS 11, joint control agreements have to be classified as Joint operation or Joint Venture depending on the contractual rights and obligations held by the Group:

- a Joint Operation is a joint control agreement in which the parties have rights to the assets and obligations, with regard to the liabilities of the agreement;
- a Joint Venture is a joint control agreement in which the parties have the rights to the net assets of the arrangement.

Investments in companies under joint control qualified as joint ventures are recognized using the equity method.

2.3 Associates

These are entities over which an investor has significant influence, and which is neither a subsidiary nor a joint venture.

The controlling entity is considered to have significant influence if:

- it holds, directly or indirectly, at least 20% of the capital in another company, or
- it can, also through shareholders' agreements, exercise significant influence through:
  a) representation on the company board of directors;
  b) participation in policy-making process, including participation in decisions about dividends or other distributions;
  c) material transactions between the investor and the investee;
  d) interchange of managerial personnel;
  e) provision of essential technical information.

Investments in associates are recognised using the equity method.

Equity method

Investments in associates and joint ventures are measured using the equity method. Post-acquisition profits and losses are recognised in the Income Statement under the line item Gains (losses) from investments. Any distribution of dividends is recognised minus the goodwill of the investment.

3. Investments in wholly-owned subsidiaries with significant minority interests

As required by paragraph 12 of IFRS 12, it is reported that there are no significant minority interests in subsidiaries as of 31 December 2023.

4. Significant restrictions

The Group operates in a regulated sector and is subject to the restrictions of paragraph 13 of IFRS 12 concerning significant legal, contractual or regulatory restrictions that could impede the swift transfer of assets within the Group.

5. Other information

There are no financial statements of subsidiaries used in preparing illimity consolidated financial statements for a date other than that of the consolidated financial statements.

Section 4 - Subsequent events

In detail, subsequent events are described in the relevant section of the Report on Operations; in this part of the Explanatory Notes it is indicated that pursuant to the requirements of IAS 10, after 31 December 2023, the reporting date, no events occurred requiring any rectification of the information presented in the financial statements.

For an examination of the business outlook, refer to the Report on Operations.

Section 5 – Other aspects

5.1 Merger by incorporation of AREC S.p.A. into neprix S.r.l.

With effect for legal, accounting and tax purposes from 1 January 2023, the merger by incorporation of the subsidiary AREC S.p.A. into neprix S.r.l. was completed, resulting in the creation of the legal entity ARECneprix S.p.A.

That operation has had no effects on the consolidated financial statements, as both companies were wholly controlled by illimity Bank S.p.A. and included in the consolidated financial statements on a line-by-line basis.

5.2 Assignment of the "Industrial Sales" business unit of Abilio S.p.A. to Industrial Discount S.r.l.

On 15 December 2023, a deed was signed to assign the "Industrial Sales" business unit of Abilio S.p.A. to the previously incorporated company Industrial Discount S.r.l., with effect from 20 December 2023.

That operation had no effects on the consolidated financial statements, as both companies were controlled by the Group as of the transaction date and included in the consolidated financial statements on a line-by-line basis.

5.3 Definition of the Purchase Price Allocation process following the acquisition of Quimmo Prestige Agency

With regard to the acquisition of the controlling stake in Residenze Porta Nuova S.r.l. (now Quimmo Prestige Agency S.r.l.) by Abilio S.p.A. and the related purchase price allocation process, the analyses conducted showed no assets or liabilities to be recognised on the date of acquisition as a result of that activity. The purchase price allocation deriving from the acquisition of Residenze Porta Nuova S.r.l. (now Quimmo Prestige Agency S.r.l.) is thus definitive. Thus, the goodwill provisionally recognised at the time of acquisition, deriving from the business combination, amounting to EUR 4.6 million, was confirmed.

Use of estimates and assumptions in preparing the consolidated financial statements

In compliance with the requirements of the IFRS framework, the preparation of the consolidated financial statements requires the use of estimates and assumptions that may influence the values stated in the statement of financial position and income statement and the disclosures regarding contingent assets and liabilities presented in the consolidated Financial statements.

The estimates and related assumptions are based on the use of available management information and subjective assessments, also founded on historical experience. The use of reasonable estimates is, thus, an essential part of the preparation of the financial statements. The components in which the use of estimates and assumptions is substantially inherent in determining the book values are indicated below:

- measurement of loans;
- measurement of financial assets not quoted in active markets;
- measurement of the real estate portfolio;
- determination of the amount of accruals to allowances for risks and charges;
- determination of the amount of deferred taxation;
- assessments regarding the recoverability of goodwill;
- definition of the depreciation and amortisation of property and equipment and intangible assets with finite useful lives.

It should also be noted that an estimate may also be adjusted due to changes in the circumstances on which it was based, new information or greater experience. By their nature, the estimates and assumptions used may change from one period to the next. Accordingly, the values presented in the financial statement may differ, also to a significant degree, from current estimates. Any changes in the estimates are applied prospectively and therefore result in an impact on the income statement in the year which the change occurs as well as that for future years.

New documents issued by the IASB and endorsed by the EU, adoption of which is mandatory with effect from financial statements for years beginning on or after 1 January 2023.

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
IFRS 17 – Insurance Contracts	November 2021	1 January 2023	19/11/2021	(EU) no. 2021/2036 19/11/2021
Amendments to IAS 1 and IAS 8	February 2021	1 January 2023	02/03/2022	(EU) no. 2022/357 03/03/2022
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 - Income Taxes)	May 2021	1 January 2023	11/08/2022	(EU) no. 2022/1392 12/08/2022
Initial recognition of IFRS 17 and IFRS 9 – Comparative information (Amendments to IFRS 17 - Insurance Contracts)	December 2021	1 January 2023	08/09/2022	(EU) no. 2022/1491 09/09/2022
Amendments to IFRS 17 Insurance Contracts	June 2020	1 January 2023	13/08/2023	(EU) no. 2023/1803 26/09/2023
International tax reform – pillar two (Amendments to IAS 12 Income Taxes)	May 2022	1 January 2023	08/11/2023	(EU) no. 2023/2468 09/11/2023

As indicated in the table above, the application of the new IFRS 17 - Insurance Contracts and certain amendments to the accounting standards approved by the European Commission in 2022 and 2023 will be compulsory as of 2023 for the first time.

Specifically, the new accounting standard IFRS 17, published by the IASB in May 2017 and subject to subsequent amendments published on 25 June 2020 and on 9 December 2021, was endorsed through Regulation (EU) No. 2036/2021 of 19 November 2021 and entered into force on 1 January 2023.

The main changes introduced by the standard refer primarily to the initial recognition and subsequent measurement rules of the insurance liability, the approach to grouping contracts, the measurement models of insurance contracts and, lastly, the rules for transition to the new standard.

The other amendments relate to:
- Regulation (EU) no. 2022/357 of 2 March 2022, which adopts several amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments clarify the differences between accounting policies and accounting estimates in order to guarantee the consistent application of accounting policies and comparability of financial statements.
- Regulation (EU) no. 2022/1392 of 11 August 2022, which adopts several amendments to IAS 12 Income Taxes. Those amendments clarify how companies are to account for deferred taxes on transactions such as leases and decommissioning obligations and aim to reduce diversity in the reporting of deferred tax assets and liabilities on leases and decommissioning obligations.
- Regulation (EU) no. 2022/1491 of 8 September 2022, which adopts several amendments to IAS 17 Insurance Contracts. The amendment to the transition requirements in IFRS 17 allows companies to overcome one-time classification differences of comparative information of the previous reporting period upon initial application of IFRS 17 and IFRS 9 Financial Instruments.
- Regulation (EU) no. 2023/1803 of 13 August 2023, which adopts several amendments to IAS 17 Insurance Contracts. The Regulation governs the exemption from the annual cohort requirement for groups of

contracts, as provided for by IFRS 17 Insurance Contracts, for intergenerationally mutualised and cash flow-matched contracts.
- Regulation (EU) no. 2023/2468 of 8 November 2023, which adopts several amendments to IAS 12 Income Taxes. The Regulation provides a temporary exception from accounting for deferred taxes arising from the implementation of the international tax reform promoted by the Organisation for Economic Cooperation and Development (OECD).

Neither the new IFRS 17, since the Group does not currently carry out insurance activities, nor the other amendments are of particular significance to the Group.

IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2023

Documents endorsed by the'EU as of 31 December 2023

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Lease Liabilities in a Sale and Leaseback (Amendments to IFRS 16 Leasing)	September 2022	1 January 2024	20/11/2023	(EU) no. 2023/2579 21/11/2023
Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)	January 2020	1 January 2024	19/12/2023	(EU) no. 2023/2822 20/12/2023

In further detail:
- Regulation (EU) no. 2023/2822 – Amendments to IAS 1: Regulation (EU) 2023/2822 of the European Commission of 19 December 2023, which adopts amendments to IAS 1 Presentation of Financial Statements, was published in the EU Official Journal, L series, on 20 December 2023.
  - The amendments improve the information a company should provide when its right to defer settlement of a liability for at least 12 months is subject to covenants. The amendments specify how a company is to determine, in the statement of financial position, debt and other liabilities with an uncertain settlement date, stipulating that they are to be classified either as current (due or potentially due to be settled within one year) or non-current.

    Each company shall apply the amendments, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2024.
- Regulation (EU) no. 2023/2579 – Amendments to IAS 16: Regulation (EU) 2023/2579 of the European Commission of 20 November 2023, which adopts amendments to IAS 16 Leasing, was published in the EU Official Journal, L series, on 21 November 2023. The amendments to IFRS 16 specify how the seller-lessee subsequently measures sale and leaseback transactions.

  Each company shall apply the amendments, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2024.

These amendments are not particularly relevant to the Group.

Documents NOT yet endorsed by the EU as of 31 December 2023

Document title	Issue date by the IASB	Date of entry into force of the IASB document	Date of expected endorsement by the EU
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	1 January 2016	To be defined
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	September 2014	Deferred until completion of the IASB project concerning the equity method	To be defined
Amendments regarding supplier finance arrangements (Amendments to IAS 7)	May 2023	1 January 2024	To be defined
Amendments regarding the Effects of Changes in Foreign Exchange Rates (Amendments to IAS 21)	August 2023	1 January 2025	To be defined

These documents will only apply after they have been harmonised by the EU.

Tax on extra profit of banks

Article 26 of Decree-Law no. 104 of 9 August 2023, "Urgent provisions to protect users, regarding economic and financial activities and strategic investments", which was converted, with amendments, into Law no. 136 of 9 October 2023, introduced an extraordinary tax for 2023 on the "extra profit" of banks.

The rule, in its definitive version, provides for the extraordinary tax payable by banks to be determined by applying a rate of 40 per cent on the amount of the interest margin referred to in item 30 of the income statement, drawn up according to the formats approved by the Bank of Italy, relating to the financial year prior to the one that was in progress on 1 January 2024, to the extent that it is at least 10 per cent higher than the same margin in the year prior to the one in progress on 1 January 2022.

The amount of the tax, in any case, cannot be greater than a share equal to 0.26% of the total amount of the risk exposure of each individual bank, determined pursuant to paragraphs 3 and 4 of Article 92 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council, of 26 June 2013, with regard to the closing date of the financial year prior to the one in progress on 1 January 2023.

Furthermore, paragraph 5-bis specifies that, in lieu of paying the tax, banks can, upon approval of the financial statements relating to the financial year prior to the one in progress on 1 January 2024, allocate an amount equal to no less than two-and-a-half times the amount calculated pursuant to this article to a non-distributable reserve identified for that purpose. Said reserve fulfils the conditions set out in Regulation (EU) no. 575/2013 to be classified under Common Equity Tier 1 (CET1) capital. In the event that a loss is recorded for the financial year or the profits for the financial year are lower than the aforementioned amount, the reserve is established or supplemented using profits from previous financial years as a priority, starting with the most recent, followed by other available capital reserves.

With regard to the accounting impacts of the regulation, the aforementioned tax has been considered in the scope of application of IFRIC 21, since this is applied to the net interest margin, which is deemed not comparable to a taxable income pursuant to IAS 12. IFRIC 21 requires the liability relating to the tax to be recognised in the income statement if the "obligating event" that causes the liability to arise occurs, or the tax is paid. In this specific case, that event is not only the achievement of a net interest margin that is greater than the threshold identified by the Law, but also the Bank's decision to exercise its option to not pay the tax or to establish the specific unavailable reserve.

Therefore, instead of paying the extraordinary tax, given the extent of the profits for the financial year and of the reserves of distributable profit, it will be proposed, at the Shareholders' Meeting held to approve the 2023 Financial Statements, that an amount be allocated to a specific reserve, pursuant to Article 26 of Decree-Law 104/2023, which was converted, with amendments, into Law 136/2023, with that amount being equal to EUR 27.4 million, corresponding to 2.5 times the amount of the tax, equal to EUR 10.9 million. In view of this, no obligation to pay the tax has therefore been determined and, therefore, this has not resulted in the recognition of any liability in the income statement.

Disclosure on public funds pursuant to Article 1, paragraph 125 of Law no. 124 of 4 August 2017 ("Annual Market and Competition Law")

Law no. 124 of 4 August 2017, the "Annual Market and Competition Law" (hereinafter also referred to as Law no. 124/2017), introduced, in Article 1, paragraphs 125 to 129, certain measures aimed at ensuring transparency within the public funds system. More specifically, it provides for companies to include in their Explanatory Notes information about "subsidies, grants, paid positions and any economic benefit of any kind" (hereinafter referred to for short as "public funds") received from public bodies and from any parties specified by said law.

Failure to comply with the obligation to publish said information will result in an administrative fine equal to 1% of the amounts received, with a minimum payable of EUR 2,000. Only at a later date does the rule provide for the reimbursement of the grant itself. In order to avoid the publication of information that is not relevant, the obligation to provide information does not apply if the amount of public funds received by a single party is below the threshold of EUR 10,000.

August 2017 saw the creation of the National Register of State Aid, which was established as part of the Directorate-General for Incentives to Companies of the Ministry of Economic Development, in which the parties that grant or manage the aid in question must publish all state aid and de minimis aid given to each company. For the individual aid granted to illimity Group companies, please refer to the "Transparency of the Register" section, which can be accessed by the public.

In light of this, and in accordance with the provisions of Article 1, paragraph 125, of Law no. 124 of 4 August 2017, during the 2023 financial year the Parent Company and the subsidiaries received around EUR 0.2 million of aid pursuant to the "Regulation for interprofessional funds for ongoing training for state aid that is exempt pursuant to Regulation EC no. 651/2014 and de minimis aid pursuant to Regulation EC no.1407/2013".

A.2 Section on the main financial statement items

This section presents the accounting standards used to prepare the consolidated accounts to 31 December 2023 with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, and for the methods used for the recognition of costs and revenues.

Financial assets measured at fair value through profit or loss

This category of financial assets measured at fair value through profit or loss (FVTPL) includes Financial assets that cannot be qualified as Financial assets measured at fair value through comprehensive income or as Financial assets measured at amortised cost. This item therefore includes:

- financial assets held for trading, which are essentially debt and capital instruments and financial derivatives, for which there is a short-term profit-making strategy;
- financial assets mandatorily measured at fair value that do not meet the requirements for valuation at amortised cost or at fair value with an impact on comprehensive income. These are assets for which the contractual terms do not provide only for reimbursement of capital and payment of interest on the amount of capital to be returned (the so-called failed "SPPI test"), or which are not held in connection with a "Hold to Collect" business model, or whose objective is the "Hold to Collect and Sell" business model;
- financial assets designated at fair value, namely financial assets which are thus defined at the time of first recognition, if the requirements are met. An entity can irrevocably designate, on recognition, a financial asset as being measured at fair value through profit or loss if, and only if, by so doing it would eliminate or significantly reduce an inconsistency in valuation.

As reported above, this item includes derivatives, which are recognised among financial assets held for trading, which are represented as assets if the fair value is positive, and as a liability if the fair value is negative. It is observed that it is possible to offset the current positive and negative values from transactions with the same counterparty only if there is currently a legal right to offset the recognised amounts, and where there is an intention to settle the offset positions on a net basis. Derivatives may also include those incorporated in complex financial contracts – in which the primary contract is a financial liability – which have been recognised separately, as:

- their economic characteristics and risks are not closely correlated to the characteristics of the underlying contract;
- the incorporated instruments, even if separate, meet the definition of derivative;
- the hybrid instruments they belong to are not valued at fair value with the related changes recognised on the income statement.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be infrequent, the financial assets may be reclassified from the category measured at fair value, affecting the income statement, to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value affecting comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of first recognition, for stage assignment for impairment purposes.

The initial recognition of financial assets takes place on the date of settlement for debt securities and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives. Upon initial recognition, financial assets measured at fair value though profit and loss are recognised at fair value, without considering transaction costs or income, which are immediately recognised in the income statement, even if directly attributable to these financial assets.

After the first recognition, financial assets measured at fair value through profit or loss are measured at fair value and the effects of applying this measuring principle are charged to the income statement. To determine the fair value of financial instruments listed on an active market, the market prices are used. Without an active market, the commonly-adopted estimation and valuation models are used, which take into account all the risk factors related to the instruments and are based on observable market data, such as: (i) methods based on the valuation of listed instruments with similar characteristics; (ii) discounted cash flow calculations, models for determining the option prices; (iii) recorded values of recent comparable transactions.

Financial assets are eliminated from the financial statements when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Realised gains and losses on disposal or redemption and unrealised gains and losses arising from changes in the fair value of financial assets held for trading are recognised in the income statement under the item "Net trading result".

The accounting treatment of financial assets mandatorily measured at fair value or designated at fair value is similar to that of "Financial assets held for trading", with the recording of profits or losses, realised and measured, under the item "Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss", respectively under the components "a) financial assets and liabilities designated at fair value" and "b) other financial assets mandatorily measured at fair value".

Financial assets measured at fair value through other comprehensive income

This category includes financial assets that meet both the following conditions:
- the financial asset is owned according to a business model the goal of which is achieved both through the collection of contractually determined cash flows and through the sale ("Hold to Collect and Sell" business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

This item also includes equity instruments not held for trading for which, at the time of first recognition, the option for designation at fair value through other comprehensive income has been exercised.

In particular this item includes:
- debt instruments related to a Hold to Collect and Sell model which have passed the SPPI test;
- shareholder interests that cannot be qualified as controlling, connected or joint control, which are not held for trading purposes, and for which an option for designation at fair value through comprehensive income has been exercised;
- loans connected to a Hold to Collect and Sell model that have passed the SPPI test, including shares in syndicated loans or other types of loan that, from the origin, are destined for sale and which relate to a Hold to Collect and Sell business model.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets.

In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets measured at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In the case of reclassification from this category to the amortised cost category, the cumulative profit or loss recognised in the revaluation reserve is carried as an adjustment to the fair value of the financial asset on the date of reclassification. In the case of reclassification into the category of fair value through profit or loss, the profit or loss that was previously recognised in the revaluation reserve is reclassified from shareholders' equity to profit (loss) for the year.

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

After initial recognition, assets classified at fair value through other comprehensive income other than equity instruments are measured at fair value and the impacts from application of amortised cost are recognised on the income statement together with the effects of impairment and any foreign exchange effect, while the other profits or losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. At the time of total or partial disposal, the profit or loss in the revaluation reserve is reinstated, in full or in part, in the income statement. Subsequent to the initial recognition, therefore, with regard to accrued interest on interest-bearing instruments, they are recognised in the income statement according to the amortised cost criterion in the line item "Interest and similar income" where positive, or in the line item "Interest expense and similar charges" if negative. Profits and losses arising g from changes in fair value are instead recognised in the Statement of comprehensive income and shown in the item "Valuation reserves" of shareholders' equity.
Equity instruments that were classified in this category are measured at fair value and the amounts recognised as a contra-entry of shareholders' equity (Statement of comprehensive income) must not be subsequently transferred to the income statement, not even in the case of disposal (OCI exemption). The only item relating to the equity instruments in question that is recorded on the income statement is the related dividends.

The fair value is determined on the basis of the principles already illustrated, for the Financial assets designated at fair value through profit or loss.

For the equity instruments included in this category not listed on an active market, the cost criterion is used to estimate the fair value only on a secondary basis and limited to a small number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate.

Financial assets designated at fair value through other comprehensive income - in the form of debt or credit instruments – are subject to verification of the significant increase in credit risk (impairment) provided for in IFRS 9, like Assets at amortised cost, and therefore a write-down is recognised in the income statement to cover the expected losses. These impairment losses are recognised in the income statement under the item "Net losses/recoveries for credit risk relating to: b) financial assets measured at fair value through other comprehensive income", offset by the statement of comprehensive income and also shown under the item "Reserves from valuation" of shareholders' equity. Equity instruments are not recognised in the income statement as impairment in accordance with IFRS9. Only dividends will be shown in the income statement under the item "Dividends and similar income".

Financial assets are eliminated from the accounts when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits.

Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows, and only those, without a significant delay, to other third parties.

In the case of disposal, profit and losses are recognised in the income statement under the item "Profits/ losses on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income".

The amounts arising from the adjustment made to the carrying amounts of financial assets, considered gross of the related total write-downs/write-backs, in order to reflect changes made to contractual cash flows that do not give rise to write-offs, are recognised in the income statement under the item "Profits/ losses on changes in contracts without derecognition; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income".

With regard to equity instruments, in the case of disposal, accumulated profits and losses are recorded under "Reserves".

Financial assets measured at amortised cost

This category includes financial assets (in particular, loans and debt instruments) that meet both the following conditions:

- the financial asset is owned according to a business model of which the goal is achieved through the collection of contractually determined cash flows ("Hold to Collect" business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

Specifically, this item includes: customer and bank loans disbursed directly or acquired from third parties that provide for fixed or determinable payments, which are not listed on an active market and which have not been classified at origin under Financial assets measured at fair value through other comprehensive income.

The receivables item also includes debt instruments, repos and securities acquired through subscription or private placement with determinate or determinable payments, which are not listed on active markets.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be extremely infrequent, the financial assets may be reclassified from the category measured at amortised cost in one of the other two IFRS 9 categories (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. The profits or losses resulting from the difference between the amortised cost of the financial asset and its relative fair value are recognised on the income statement in the case of reclassification among Financial assets designated at fair value through profit or loss and Shareholders' equity, in the relevant revaluation reserve, in the case of reclassification among Financial assets designated at fair value through other comprehensive income.

The initial recognition of the financial assets takes place on the date of settlement for debt instruments and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

With particular reference to loans, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down. The loan will be recognised on the basis of its fair value, equal to the amount lent, or the subscription price including the costs or income directly linked to the individual loan and which can be determined from the outset of the operation, even if paid at a later date. This excludes costs that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

After first recognition the loans are measured at the amortised cost which is equal to the value of first recognition, reduced or increased by the repayments of capital, the write-downs/write-backs and the amortisation – calculated according to the effective interest rate method – of the difference between the amount loaned and the amount repayable on maturity, which is typically linked to the costs and income directly attributable to the individual loan.
The effective interest rate is the rate that discounts the flow of estimated future payments for the expected duration of the loan in order to obtain an accurate net book value at the time of the first recognition, which includes both the transaction costs and revenues directly attributable and also all the payments made or received between the contracting parties. This method of accounting, which uses a financial logic, allows the economic effects of the costs and income to be distributed along the expected residual life of the loan. Accrued interest is shown in the item "Interest income and similar income" where positive, or in the item "Interest expenses and similar charges" where negative. Any adjustments/write-backs are recognised in the income statement under the item "Net losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost". In the event of sale, profits and losses are recognised in the income statement under the item "Profits/losses on disposal or repurchase of: a) financial assets measured at amortised cost". The amounts arising from the adjustment made to the carrying amounts of financial assets, considered gross of the related total write-downs/write-backs, to reflect changes made to contractual cash flows that do not give rise to write-offs, are recognised in the income statement under the item "Profits/losses on changes in contracts without derecognition"; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost".

The amortised cost method is not used for loans of a short term for which the effect of applying the discounting method is considered negligible. Those loans are measured at the historic cost. The same measurement principle is used for loans with no definite maturity date, or revolving credit.

The measurement criteria are closely connected to the inclusion of these instruments in one of the three stages of credit risk provided for in IFRS 9, the last of which (stage 3) includes non-performing financial assets and the others (stages 1 and 2) include performing assets.

With reference to the presentation of these valuations, the write-downs/write-backs referring to this type of asset are recognised in the income statement:

- at the time of initial recognition, for an amount equal to the loss expected at 12 months;
- at the time of subsequent measurement, if the credit risk has not increased significantly compared to the initial recognition, based on the changes in write-downs/write-backs due to expected losses over the following twelve months;
- at the time of subsequent measurement, if the credit risk has significantly increased compared to initial recognition, based on the recognition of write-downs/write-backs for expected losses over the entire residual contractual life of the asset;
- upon subsequent measurement, if – after there has been a significant increase in the credit risk compared to initial recognition – the materiality of that increase no longer exists in relation to the change in cumulative write-downs/write-backs to take into account the transition from a loss over the asset's lifetime, to one over twelve months.

If the financial assets in question are performing, they are subjected to a valuation intended to define the write-downs/write-backs to be taken from the financial statements for each loan account (or "tranche" of the security), based on the risk parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD), and are adjusted as necessary to reflect the provisions of IFRS 9.

If, together with a significant increase in the credit risk there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset – classified as non-performing, in the same way as all the other relations with the same counterpart – and the current value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the loss recorded on the income statement is defined according to a detailed valuation process, or is determined for identical categories and therefore, is attributed in detail to each position, taking into account forward-looking information and potential alternative recovery scenarios.

Non-performing assets include financial instruments that have been given bad loan status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and European regulation.

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

The effective original rate of each asset remains unchanged over time, even if there has been a restructuring of the account that led to the change in the contractual rate, and even if the account is not, in practice, bearing contractual interest.

If the reasons for the impairment are removed following a subsequent event occurring after the recognition of the change in value, write-backs are made and allocated to the income statement. The write-back may not exceed the amortised cost that the financial instrument would have had without such adjustments having been made.

Write-backs connected to the passage of time are posted in the net interest margin.

In some cases, during the life of the financial assets in question and of the loans in particular, the original contractual conditions are then modified by the parties to the contract. If the contractual terms are modified during the life of an instrument, there is a need to check whether the original asset is still to be recognised or needs to be de-recognised, and a new financial instrument recognised in its place.

In general, changes to a financial asset lead to its de-recognition and the entry of a new asset, if the changes are substantial. Considerations about the “substantiality” of changes are based on qualitative and quantitative factors. In some cases it may be clear, without using complex analyses, that the changes have substantially modified the characteristics and/or cash flows of a certain asset while in other cases, additional quantitative analysis has to be done to assess the effects of the changes, and to check whether or not to de-recognise the asset and enter a new one.

The quali-quantitative analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty;
  a) commercial reasons, designed to "keep" the customer, involve a borrower that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the borrower, and relate to the onerousness off the debt resulting in an economic benefit to the borrower. In general it is considered that whenever the Group renegotiates to avoid losing a customer, the renegotiations must be considered as substantial because if they did not take place, the customer could be financed by another bank, and the Group would see a decrease in its expected future revenue;
  b) the second type of renegotiation, which is done for "credit risk reasons" (forbearance measures) relates to the Group's attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits, after the changes, are not usually substantially transferred, and, therefore, the accounting presentation that gives the most relevant information to the reader (apart from the information given below on objective elements) is "modification accounting" – which implies the recognition in the income statement of the difference between the carrying amount and the discounted value of the modified cash flows, discounted at the original interest rate – and not through derecognition;
- the presence of objective elements or triggers that affect the characteristics and/or contractual flows of the financial instrument (including change of currency, or changes to the type of risk the Bank is exposed to, if it is correlated to equity and commodity criteria), which the derecognition is expected to involve considering their impact (expected to be significant) on the original contractual flows.

Financial assets are derecognised only if the disposal resulted in the substantial transfer of all the risks and benefits connected to the assets. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows and only those, without a significant delay, to other third parties.

As regards the recognition methods of purchased or originated impaired Financial assets (so-called POCI), refer to the "Other information" section – Part A of these Explanatory Notes.

Hedging operations

For hedges, the Group applies the option, set out in introducing IFRS 9, to continue fully applying the provisions of the accounting standard IAS 39 on hedge accounting (the carve-out version endorsed by the European Commission).

Risk hedging operations are aimed at neutralising potential losses attributable to a specific risk and recognisable on a given element or group of elements, if that particular risk should arise.

The possible types of hedge are as follows:

- fair value hedge: a hedge to cover exposure to changes in the fair value of a recognised asset or liability or an unrecognised irrevocable commitment, or a specific portion of said asset, liability or irrevocable commitment, that is attributable to a particular risk and could influence the income statement;
- cash flow hedge: a hedge to cover exposure to changes in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or just some future interest payments on a variable-rate debt) or with a highly probable planned operation, and could influence the income statement;
- foreign exchange hedge: a hedge to cover the risks associated with an investment in a foreign company expressed in foreign currency, as defined in IAS 21.

Only instruments involving a counterparty that is external to the Group can be designated as hedging instruments.

Given the option exercised to continue fully applying the rules of IAS 39 for hedges, it is not possible to designate equity instruments classified under Financial assets designated at fair value through other comprehensive income as items hedged for price or exchange rate risk, since such instruments do not impact the income statement, even in the event of a sale (other than for dividends recognised in the income statement).

With regard to the management of hedging operations, the type of hedge selected by the Bank ("fair value hedge") refers to specific elements (micro-hedging) consisting of debt securities at fair value through comprehensive income and deposits from customers.

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value through profit or loss.

A relationship is classified as a hedge, and accounted for as such, only if all the following conditions are met:

- the hedged item and the hedging instrument must be specifically identifiable;
- at the start of the hedge, there is a designation and formal documentation of the hedging relationship, the company's objectives in managing the risk and its strategy in carrying out the hedge. This documentation must include the identification of the hedging instrument, the hedged element or transaction, the nature of the hedged risk and how the company will assess the effectiveness of the hedging instrument in offsetting the exposure to changes in the fair value of the hedged element or of the cash flows attributable to the hedged risk;
- it is expected that the hedge will be highly effective in offsetting the changes in fair value or the cash flows attributable to the hedged risk, in line with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a scheduled operation that is covered by the hedge must be highly probable and must present exposure to changes in cash flows that could ultimately impact the income statement;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or the cash flows of the hedged element that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed as a continuing hedging relationship and is considered to have been highly effective for all the financial years for which it had been designated.

With regard to the accounting rules for hedges:

- for hedging derivatives, the change in the fair value of the hedged element is offset with the change in the fair value of the hedging instrument. This offsetting is recorded through the recognition in the income statement of the changes in value relating to both the hedged element (specifically with regard to the changes generated by the underlying risk factor) and the hedging instrument. Any difference that may arise, which represents the partial ineffectiveness of the hedge, is recognised as the net effect thereof in the income statement;

For macro fair value hedges, the changes in fair value with regard to the hedged risk of the hedged assets and liabilities are recognised in the statement of financial position, under item 60. "Fair value change of financial assets in hedged portfolios" or 50. Fair value change of financial liabilities in hedged portfolio";
- for cash flow hedges, the changes in fair value of the derivative are recognised in shareholders' equity, for the effective portion of the hedge, and are recognised in the income statement only when, with regard to the hedged item, the change in cash flows to be offset can be seen or the hedge is ineffective;
- hedges that cover an investment in foreign currency are recognised in the same way as cash flow hedges.

A hedge is considered highly effective only if both the following conditions are met:
- at the start of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or the cash flows attributable to the hedged risk during the period for which the hedge is designated. This expectation can be demonstrated in various ways, including a comparison between the previous changes in fair value or the cash flows of the hedged element that are attributable to the hedged risk and the previous changes in fair value or the cash flows of the hedging instrument, or by demonstrating a high statistical correlation between the fair value or the cash flows of the hedged element and those of the hedging instrument;
- when the changes in fair value (or the cash flows) of the hedging instrument neutralise almost completely, i.e. within the limits established by the 80-125% range, the changes in the hedged instrument, for the hedged element of risk.

A company must prospectively stop accounting for fair value hedging if:
- the hedging instrument matures or is sold, terminated or exercised (to that end, the replacement or carry-over of a hedging instrument with another hedging instrument is not a conclusion or termination if said replacement or carry-over is part of the company's documented hedging strategy);
- the hedge no longer meets the hedging criteria; or
- the company revokes the designation.

If the checks do not confirm the effectiveness of the hedge, from that moment the accounting of the hedging operations, as set out above, is suspended, the hedging derivative is reclassified under trading instruments and the hedged financial instrument reassumes the measurement criteria corresponding to its classification in the financial statements. If the hedged asset or liability is measured at amortised cost, the greater or lesser value deriving from the measurement thereof at fair value as a result of the hedge that has become ineffective is recognised in the income statement using the effective interest rate method.

Lastly, a company must prospectively cease accounting for outstanding cash flow hedges in the following cases:
- the hedging instrument matures or is sold, terminated or exercised (to that end, the replacement or carry-over of a hedging instrument with another hedging instrument is not a conclusion or termination if said replacement or carry-over is part of the company's documented hedging strategy). In that case, the comprehensive profit (or loss) of the hedging instrument continues to be recognised directly in shareholders' equity until the financial year in which the hedge was effective, and is recognised separately in shareholders' equity until the scheduled transaction being hedged takes place;
- the hedge no longer meets the hedging criteria. In that case, the comprehensive profit or loss of the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is recognised separately in shareholders' equity until the scheduled transaction takes place;
- the scheduled transaction is no longer expected to take place, in which case any related comprehensive profit or loss on the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is recognised in the income statement;
- the company revokes the designation. For hedges of a scheduled transaction, the comprehensive profit or loss of the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is recognised separately in shareholders' equity until the scheduled transaction takes place or is no longer expected to take place.

Equity investments

The item includes investments in joint ventures and associates.

Companies are considered are joint ventures if, on a contractual basis, control is shared between the Bank and one or more other parties or when the unanimous consent of all the controlling parties is necessary for decisions concerning significant activities.

Companies are considered to be subject to significant influence (associates) if the Bank holds at least 20% of the voting rights (including potential voting rights) or if the Bank has a smaller share of the voting rights but can participate in determining the associate's financial and operational policies because of particular legal conditions such as participation in shareholder agreements.

Investments in joint ventures and companies subject to significant influence are recognised at cost and accounted for using the equity method.

On each reporting date, any objective evidence that the investment has been impaired, is verified. The recoverable value will then be calculated by considering the discounted value of the future cash flows that the equity investment could generate, including the final disposal value.

Equity investments are eliminated from the financial statements when the contractual rights to the related cash flows expire, or when the investment is sold with a substantial transfer of all the related risks and benefits.

Property and equipment

This item includes property and equipment for functional use (IAS 16), those held for investment (IAS 40) and inventories of property and equipment (IAS 2). Property and equipment also include rights of use acquired through lease agreements relating to the use of property and equipment (for the lessee) and operating leasehold assets (for the lessor) under IFRS 16.

This item includes long-term assets held for the purpose of generating income, for leasing or for administration purposes such as land, instrumental real estate, property investments, technical installations, furniture and fittings, tools of any type, and works of art.

Property and equipment also include the costs of improvement to leasehold assets if they can be separated from the assets themselves. If these costs are not independently functional and usable but future benefits are expected, they are entered under "other assets" and are depreciated over the shortest of the foreseeable life of the improvements, and the residual term of the lease. The related depreciation is entered under "Other operating expenses/income". The value of Property and equipment also includes any advances paid for acquisition, and the restructuring of any assets not yet included in the production process and therefore not depreciated.

Property and equipment held for the provision of services or for administration purposes are defined as "for use in the business" (IAS 16), while assets "for investment purposes" (IAS 40) are those held to collect leasing charges and/or for the appreciation of the invested capital. Property and equipment constitute inventories (IAS2) where they are held for sale in the normal course of business.

Property and equipment are recognised at the cost of acquisition, adjusted by the ancillary costs and any incremental expenses, and are presented in the financial statements net of any impairment loss and depreciation on a straight line basis from the period in which they were input into the production process. Maintenance and repair costs that do not lead to an increase in the value of the assets are charged to the income statement for the period.

Subsequent to initial recognition, property and equipment are recognised at cost net of accumulated depreciation and impairment losses. In fact, property and equipment are systematically depreciated using the straight-line method, over their useful life. The properties are depreciated for a portion deemed appropriate to represent the deterioration of the assets over time as a result of their use, taking into account extraordinary maintenance costs, which increase the value of the assets.

However, the following are not depreciated:

- the land, whether acquired individually or incorporated into the value of the buildings, as it has an indefinite useful life;

- investment property that, as required by IAS 40, is measured at fair value through profit or loss, must not be depreciated;
- inventories (IAS 2): these assets are measured at the lesser between cost and the net realisable value.

A tangible asset is eliminated from the statement of financial position at the time of disposal, or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any difference between the disposal value or recoverable amount and the book value is then recognised in the income statement respectively under the item "Profits (losses) on disposal of investments" or "Net adjustments/recoveries on property and equipment".

In application of IFRS 16, the item property and equipment also includes the right of use referring to lease contracts on property and equipment. A lease is defined as a contract the fulfilment of which depends on the use of an identified asset, and that conveys the right to control the use of the asset for a period of time in exchange for consideration: IFRS 16, therefore, applies to all transactions that provide for a right to use the good, regardless of its contractual form. The scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

In accordance with IFRS 16, the Bank shall initially recognise an asset representing the Right of use ("ROU") of the leased asset, together with a liability represented by the present value of the expected future lease payments over the life of the lease contract (the "Lease Liability") discounted at the implicit rate of the transaction (if determinable); if the rate cannot be easily determined, the lessee shall instead use the incremental borrowing rate (IBR). The ROU is, therefore, initially determined by increasing the Lease Liability of the initial direct costs incurred by the lessee.

With regard to measurements following the initial recognition of lease contracts, the lessee must measure the ROU on the basis of a cost model; therefore:
- the right of use was depreciated over the term of the contract or the useful life of the asset (on the basis of IAS 16) and is subject to impairment;
- the liability was progressively reduced due to the effect of the lease payments and the relevant interest expenses recognised and attributed separately to the income statement.

Intangible assets

Non-monetary identifiable non-physical assets held to be used over several years or for an indefinite period, are termed intangible. They are generally represented by software and the rights to use intellectual property, trademarks and other intangible assets. They are recognised at the cost of purchase adjusted for any ancillary costs only if the future economic benefits attributable to the asset are likely to be realised and if the cost of the asset can be reliably determined. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. Intangible assets also include rights of use acquired through lease agreements relating to the use of intangible assets under IFRS 16.

They are only recognised if the assets can be identified and originate from legal or contractual rights. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred.

An intangible asset is identifiable if:

- it is separable, in other words it can be separated or divided and sold, transferred, given under licence, leased or exchanged;
- it derives from contractual or other legal rights regardless of whether those rights can be transferred or separated from other rights and obligations.

The asset can be controlled by the company as a result of past events on the assumption that through its use, the company will receive economic benefits. The company has control of an asset if it has the power to use the future economic benefits arising from that asset and it can also limit access to those benefits by third parties. An intangible asset is recognised as such if:

- it is probable that the company will receive future economic benefits from that asset;
- the cost of the asset can be reliably measured.

The probability that there will be future economic benefits is assessed by representing the best estimate of all the economic conditions that will exist during the useful life of the asset, taking into account the available sources of information at the time of initial recognition.

For assets with a definite life, the cost is amortised on a straight line basis. Assets with an indefinite useful life, if existing, are not systematically amortised but undergo a periodic test to check the adequacy of the recognition value.

If there is any indication that demonstrates that an asset may have suffered an impairment of value, its recovery value is estimated. The amount of the loss, recognised in the income statement under the item “Net adjustments/recoveries on intangible assets” is equal to the difference between the asset’ carrying amount and its recoverable value.

Intangible assets are categorised as goodwill, which is the positive difference between the cost of purchase and the fair value of the assets and liabilities belonging to an acquired entity. Whenever there is a loss in value, and in any case at least once a year, a check is carried out to ensure there are no long-term value impairments. For this purpose the CGU to which the goodwill should be allocated, will be identified. The CGU is the minimum level at which the goodwill is monitored for internal operational purposes and must not be greater than the operating segment determined in accordance with IFRS 8.

Any reduction in value is determined on the basis of the difference between the recognition value of the goodwill and its recovery value, if lower. The recovery value is equal to the higher of the fair value of the CGU, net of any costs of sale, and the related value in use. The value in use is the current value of the future cash flows expected from the CGU to which the goodwill was attributed.

In order to verify the adequacy of goodwill value, the impairment test is carried out, governed by accounting standard IAS 36 – Impairment of Assets, which provides that, at least on an annual basis and, in any case, whenever events arise that suggest a potential impairment, a test must be carried out to verify the adequacy of the goodwill value subject to recognition. The impairment test is carried out identifying the units generating financial flows to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any impairment losses must be recognised in the income statement, they are not susceptible to future value recoveries.

The value of intangible assets having a specific duration is systematically amortised starting from the inclusion of such assets in the production process. An intangible asset is therefore eliminated from the statement of financial position (i) at the time of disposal, (ii) when it is fully amortised or (iii) when future economic benefits are not expected. Any difference between the disposal value or recoverable amount and the carrying amount is recognised in the income statement respectively under the item "Profits (losses) on disposal of investments” or “Net adjustments/recoveries on intangible assets”.

With reference to the methods of recognition of leases pertaining to intangible assets in accordance with IFRS 16, see the paragraph referring to property and equipment.

Non-current assets and asset/liability groups held for sale

"Non-current assets and asset groups held for sale" are classified under assets, while "Liabilities associated with non-current assets held for sale and discontinued operations", non-current assets or asset/liability groups for which a sale process has been initiated and whose sale is considered highly likely, are classified under liabilities.

Such assets/liabilities are valued at the lower of carrying amount and fair value net of disposal costs, with the exception of certain kinds of asset (e.g. financial assets falling within the scope of application of IFRS 9), for which IFRS 5 specifies that the valuation criteria of the pertinent accounting standard must be applied.

Non-current assets and asset groups may be included in portfolios of assets for which there are no prices on an active market. In that case, they should be valued at fair value, referring, if an agreement has been reached with the purchasing counterparty, to the sale prices resulting from said agreement; in the absence of an agreement, specific valuation techniques should be applied depending on the asset, potentially making use of external fairness opinions.

Income and expense (net of tax effect), attributable to asset groups held for sale or recognised as such during the course of the financial year, are recognised in the income statement under a separate item.

Current and deferred taxes

Income taxes, calculated in accordance with current tax regulations, are recognised in the income statement according to the accruals principle, in line with the recognition of the costs and revenues that generated them, apart from those relating to entries debited or credited directly to shareholders' equity, for which the recognition of the related taxes is done in shareholders' equity, for the sake of consistency. Current and deferred taxes are recognised in the income statement under the item "Income tax for the year of continuing operations", with the exception of those taxes that refer to items that are credited or debited, in the same or another year, directly to shareholders' equity, such as, for example, those relating to profits or losses on financial assets at fair value through comprehensive income and those relating to changes in the fair value of financial derivative instruments hedging cash flows, whose changes in value are recognised, after taxes, directly in the Statement of Comprehensive Income, among the Valuation Reserves.

Provisions for income taxes are determined on the basis of the provision of the current tax burden, the advance taxes and the deferred taxes.

In general, deferred tax assets and liabilities arise in cases where the deductibility or taxability of the cost or income is deferred with respect to their accounting recognition. Deferred tax assets and liabilities are recognised according to the tax rates that, as of the reporting date, are expected to be applicable in the year in which the asset will be realised or the liability will be extinguished, based on current tax legislation and are periodically reviewed in order to take into account any regulatory changes.

Deferred tax assets are recognised only to the extent that they are expected to be recovered through the production of sufficient taxable income by the entity. In accordance with IAS 12, the likelihood of future taxable income sufficient for the use of deferred tax assets is subject to periodic review. If the aforementioned review reveals that future taxable income is insufficient, the deferred tax assets are correspondingly reduced.

Deferred tax assets and liabilities are recognised in the statement of financial position in open balances without set-offs, the former being included in "tax assets" and the latter in "tax liabilities". Any deferred tax liabilities payable on capital reserves under tax suspension are not recognised, as it can reasonably be considered that there will be no operations that will result in their being taxed.

Allowances for risks and charges

Commitments and guarantees given

Allowances for risks and charges against commitments and guarantees given are recognised against all commitments and guarantees, revocable and irrevocable, whether they fall within the scope of IFRS 9 or within the scope of IAS 37. For these cases, the same allocation methods are adopted, in principle, between the three stages (credit risk stages) as well as the same calculation methods of the expected losses shown with reference to financial assets measured at amortised cost or the fair value through other comprehensive income.

Post-employment benefits

Post-employment benefits are set up to reflect company agreements and are classified as defined benefit plans. The liabilities relating to these plans and the welfare cost of current workers are determined according to actuarial assumptions, applying the “Unit Credit Projection” method, which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. The contributions paid in each year are considered as separate units and are identified and valued individually for the purposes of determining the final obligation. The discounting rate used is determined according to the market returns recognised on the measurement date, for the obligations of leading companies taking into account the liability's average residual life. The current value of the obligation on the reporting date is also adjusted by the fair value of any assets servicing the plan.

Actuarial gains and losses (which are changes in the current value of the obligation arising from changes in the actuarial assumptions are recognised as counterpart to shareholders' equity under the item "Valuation reserves” and shown on the statement of comprehensive income.

Other Allowances

Other Allowances for risks and charges include provisions for legal obligations and those relating to employment relations or disputes, including tax disputes, originating from a past event, for which an outlay of financial resources is probable in order to fulfil the obligations, but for which a reliable estimate of the amount cannot be made.

Therefore an allowance is recognised if, and only if:

- there is a current legal or implied obligation resulting from a past event;
- it is probable that funds designated to produce economic benefits will have to be used to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as an allowance represents the best estimate of the cost required to fulfil the obligation on the reference date and reflects any risks and uncertainties that characterise multiple events and circumstances.

If the temporal value of money is a relevant aspect, the amount of the provision must be discounted at a rate, inclusive of the fiscal effects, which reflects the market valuations of the passage of time on the value of the liabilities and which takes into account the specific risks of the liability itself (IAS 37 - 45, 47). The allowance and the increases due to the time factor are recognised in the income statement.

The provision is reversed if the use of funds designed to produce economic benefits is improbable, or when the obligation is discharged. A provision is used only for the charges for which it was originally recorded.

The allocation for the year, recorded under the item "Net allocations to allowances for risks and charges: b) other net provisions” of the income statement, includes increases in provisions due to the passage of time and is net of any adjustments.

This item also includes long-term employee benefits, the cost of which is determined using simplified actuarial criteria compared to those described for the pension funds. Actuarial gains and losses are immediately recognised in the income statement.

Amounts due to customers

This item includes financial instruments, other than trading liabilities and those designated at fair value, representative of the various forms of supply of funds from third parties (loans, repurchase agreements, securities lending and bonds) and includes: (i) amounts due to banks, (ii) amounts due to customers, and (iii) securities issued. The item includes operational payables with the exception of those to providers of services and goods, and lease liabilities.

These financial liabilities are initially recognised on the contractual settlement date which is normally the time of receipt of the sums collected, or the issue of the debt securities.

Initial recognition is based on the fair value of the liabilities, normally corresponding to the amount received or the issue price, adjusted for any additional costs/income directly attributable to the individual supply or issue transaction. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

After initial recognition these financial liabilities are measured at the amortised cost using the effective interest rate method. Accrued interest is shown in the item "Interest expense and similar charges" if negative, or in the item "interest income and similar income" if positive.

Securities issued are measured at amortised cost using the effective interest rate method and they are presented net of any repurchased share. In the case of operations in own shares, the difference between the cost of repurchasing the securities issued and the value of the amortised cost is charged to the income statement. The subsequent sale of securities previously repurchased is, for accounting purposes, a new placement and therefore there is a change in the average carrying cost of the related liabilities and of the corresponding effective interest.

Liabilities are derecognised when they have expired or been discharged. They are also derecognised if there is a repurchase, even temporary, of previously issued securities.

Any difference between the carrying value of the discharged liability and the amount paid is registered in the income statement under the item "Profits (loss) on disposal or repurchase of: c) financial liabilities". If, after the repurchase, the treasury shares are returned to the market, this operation is considered as a new issue and the liability is recognised at the new placement price.

Financial liabilities held for trading

The financial instruments in question are recognised as of the subscription date or the issue date, at a value equal to the fair value of the instrument, without considering any transaction costs or income directly attributable to the instruments themselves.

This category of liabilities includes, in particular, trading derivatives with negative fair value, as well as any implied derivatives with negative fair value that are separated from liabilities valued at amortised cost.

All trading liabilities are valued at fair value, with the result of the valuation recognised in the income statement.

Financial liabilities held for trading are removed from the financial statements when the contractual rights relating to the relevant cash flows expire, or when the financial liability is sold, with the essential transfer of all risks and benefits derived from the ownership thereof.

Financial liabilities designated at fair value

As of 31 December 2023 the Group does not hold financial liabilities carried at fair value.

Foreign currency transactions

Foreign currency transactions are recognised at the time of settlement, at the exchange rate for the transaction at the amount in the original currency. Foreign currency assets and liabilities are converted at the spot exchange rates in force on the closing date (ECB official average).

"Off balance sheet" transactions are valued:

- at the spot exchange rate on the closing date if they are cash transactions not yet settled;
- at the forward exchange rate on the above date, for maturities corresponding to those of the valued operations, if they are forward transactions.

Foreign exchange differences arising from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of the previous financial statements, are recognised in the income statement in the period in which they arise.

Insurance assets and liabilities

As of 31 December 2023 the Group did not hold insurance assets or liabilities.

Other information

Impairment of financial instruments

According to IFRS 9, the following assets are subject to impairment provisions:

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income other than equity instruments;
- commitments to lend funds and guarantees issued that are not measured at fair value through profit or loss;
- contractual activities resulting from operations covered by the scope of application of IFRS 15.

The quantification of "Expected Credit Losses" (ECL), which are expected losses to be recorded as write-downs/write-backs on the income statement, is determined according to whether or not there is a significant increase in the credit risk of a financial instrument compared to the risk determined on the date of initial recognition.

For that purpose, instruments subject to impairment regulations are usually associated to different stages, which have different criteria to quantify write-downs/write-backs:

- if there is no significant increase in the credit risk compared to the initial recognition, the financial instrument is kept in stage 1 and is written down by the amount of the loss expected over 12 months (or the expected loss resulting from a default on the asset considered possible within 12 months from the date of the reference period);
- if there is a significant increase in the credit risk compared to the initial recognition, the financial instrument is classified in stage 2 or in stage 3 if the instrument is non-performing, and a write-down is recorded equal to the amount of the expected lifetime loss (or the expected loss resulting from a default on the asset considered possible during its life cycle).

An exception to this are the "Purchased or originated credit impaired financial assets", so-called POCI, dealt with in the next point of this paragraph.

Any significant increase in credit risk is identified on a case by case basis, using quali-quantitative criteria.

The criteria adopted by the Bank to understand the significant increase in credit risk are shown below.

Quantitative criteria
- Negative change in the rating class (so-called delta notch).

Qualitative criteria
- Rebuttable presumption – 30 days past due;
- Forbearance;
- POCI;
- Watchlist.

For more detailed information on the criteria adopted by the Bank to understand the significant increase in credit risk, reference is made to Part E of the Explanatory Notes to the Consolidated Financial Statements.

Once the financial assets have been classified in the different Stages, for each exposure, it is necessary to determine the relative write-downs/write-backs following the logic of Expected Credit Loss ("ECL"), using appropriate calculation models. The principle on which the ECL is based is to create a connection between improvement or worsening of the risk profile of the exposure compared to the date of initial recognition in the financial statements, respectively with the increase or decrease in the provision funds.

For more detailed information on the criteria adopted by the Bank for the calculation of expected losses on loans classified in stage 1 and stage 2, refer to Part E of the Explanatory Notes to these Financial Statements.

Estimate of expected losses on non-performing positions (stage 3)

Non-performing positions are usually evaluated using analytical techniques. The criteria for estimating the adjustments to be made to non-performing loans are based on the discounting of expected cash flows taking into account any supporting guarantees, and any advances received. The fundamental elements in determining the current value of the cash flows are the identification of the estimated receipts, the related due dates, and the discounting rate to be applied. The amount of the adjustment is equal to the difference between the book value of the asset and the current value of the expected future cash flows, discounted at the original effective interest rate, which is updated as necessary in the case of a variable-rate instrument or, for positions classified as bad loans, at the effective interest rate in force on the date of transition to bad loan status.

Depending on the seriousness of the impairment and the materiality of the exposure, estimates of the recovery value will be based on a going concern approach which assumes that the counterparty's business will continue and will continue to generate cash flows, or alternatively on a gone-concern approach. The gone-concern approach is based on the assumption that the business that leads to the only source of cash available to recover the debt, will cease trading and that the underlying guarantees will be called on.

With particular regard to "bad loan" positions, the analytical assessment rules include forward-looking elements:
- in estimating the percentage of reduction in value of the real estate given as guarantee (estimated on the basis of the updated valuation reports or the report of the Court-appointed Expert);
- by introducing recovery scenarios for specific exposures, considering that they are expected to be sold within a reasonable period of time to a third party in order to maximise the cash flow and also based on a specific strategy for managing non-performing loans. Therefore, the estimated expected losses of such positions reflects not only recovery of the debt through ordinary management of the loan but also the presence of a suitably adjusted sale scenario and therefore, of the cash flows arising from this operation.

For more information on the criteria adopted by the Bank for the calculation of expected losses on positions classified in stage 3, refer to the contents of Part E of the Explanatory Notes.

Purchased or originated credit impaired financial assets (POCI)

Under IFRS 9, loans considered to be non-performing right from initial recognition due to the high level of associated credit risk, are termed Purchased or Originated Credit Impaired Assets (POCI). POCI also include loans acquired as part of sale operations (individual or portfolio sales) and business combinations.

Such loans, when included in the impairment perimeter for the purposes of IFRS 9, are valued by allocating, from the initial recognition date, provisions to cover the losses along the entire lifetime of the loan (Expected Credit Loss lifetime). As these are non-performing loans, the initial recognition takes place in stage 3, but they may be moved during their lifetime to stage 2 if they are no longer impaired, based on an analysis of the credit risk.

These assets are not identified under a specific financial statement item but are classified according to the business model in which the asset is managed, under the following headings:
- "Financial assets measured at fair value through comprehensive income";
- "Financial assets measured at amortised cost".

In terms of the initial recognition, measurement and derecognition criteria, refer to the criteria mentioned in the respective items.

Interest income must be calculated by applying the effective interest rate on the net value of the instrument (therefore also considering expected losses on loans) for POCI.

As for POCI, in some cases the financial asset is considered to be non-performing at the time of initial recognition because the credit risk is very high and in the case of acquisition, it has been acquired at a significant discount. In this case it is necessary to include in the cash flow estimates the expected losses on initial receivables for the purpose of calculating the credit-adjusted effective interest rate (also called "adjusted credit") for financial assets that are considered non-performing financial assets purchased or originated at the time of initial recognition.

Treasury shares
Treasury shares are recognised as a direct reduction of shareholders' equity.

Accruals and deferrals
Items that include costs and income pertaining to the period, accruing on assets and liabilities, are recognised as an adjustment to the assets and liabilities to which they refer.

Costs of leasehold improvements
The costs of refurbishing non-proprietary real estate are capitalised in consideration of the fact that the lessee has control of the property throughout the term of the rental agreement, and can derive future economic benefits from it. The aforementioned costs, classified under Other assets as they are not included in the scope of IFRS 16, as required by the Bank of Italy Instructions, are amortised over a period that never exceeds the duration of the rental agreement.

Employee benefits
Employee benefits are any type of remuneration paid by the company in exchange for work done by employees. Employee benefits are classified as:
- short-term benefits (other than those due to employees for the termination of employment contract, and share ownership benefits), which are expected to be paid in full within twelve months from the end of the year in which the employees did the work, and are recognised entirely in the income statement at the time of accrual (this category includes wages and salaries, and overtime);
- post-employment benefits due after termination of the working relationship, which require the company to make future payments to staff. This type of benefit includes employee severance pay and pension fund which in turn can be divided into defined-contribution plans and defined-benefit plans or company pension schemes;
- early retirement benefits, which are payments made by the company to employees in return for termination of the employment contract following the employee's decision to retire earlier than the normal retirement date;
- long-term benefits other than the above, which are not expected to be paid in full within twelve months after the end of the year in which the employees did the work.

Employee severance pay

Employee severance pay ("TFR") is defined, under IAS 19 "Employee benefits" as a "post-employment benefit".

Pursuant to the 2007 Finance Act, which brought forward to 1 January 2007 the supplementary pension reforms in Italian Legislative Decree no. 252 of 5 December 2005, amounts accruing from 1 January 2007 must be allocated, at the discretion of the employee, either to a supplementary pension fund or be kept within the company. For companies with at least 50 staff, the benefits must be transferred by the company to a fund managed by INPS. The obligation towards employees is considered a:

- "defined contribution plan" for employee severance pay accruing from 1 January 2007 (the date of entry into force of the supplementary pension reforms in Italian Legislative Decree no. 252 of 5 December 2005) whether the employee opts for a supplementary pension fund or whether the provision is allocated to the INPS Treasury fund. For these amounts, the amount recognised under personnel expenses is determined on the basis of the contributions due, without applying actuarial calculation methods;
- "defined benefit plan" recognised according to the actuarial value determined according to the unitary credit projection method, for the amount of employee severance pay accruing up until 31 December 2006.

According to this method, the amount already accrued must be increased by the current service cost, which is projected into the future until the expected date of termination of the contract, and therefore discounted to the reference date. The current service cost is also determined on the basis of the employee's expected working life.

However in this specific case, the past liability is valued without applying the prorate of the services rendered, as the service cost ("service cost") of the TFR is already accrued in full. The annual provision thus only includes the "interest cost" pertaining to the revaluation of the service expected, as a result of the passage of time.

For discounting purposes, the rate used is determined on the basis of the market yield of the bonds of leading companies taking into account the average residual life of the liabilities, weighted according to the percentage of the amount paid and advanced, for each due date, compared to the total to be paid and advanced until the whole bond is completely discharged.

The costs of servicing the plan are recognised under personnel expenses, while the actuarial gains and losses are recognised on the statement of comprehensive income.

Share-based payments

Share-based personnel remuneration plans are recorded in the income statement, with a corresponding increase in shareholders' equity, based on the fair value of the financial instruments attributed on the assignment date, dividing the burden over the period provided for by the plan. In the presence of options, the fair value of the same is calculated using a model that considers, in addition to information such as the exercise price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, as well as the specific characteristics of the existing plan. In the valuation model, the option and the probability of realisation of the conditions under which the options were assigned are assessed separately. The combination of the two values provides the fair value of the allocated instrument. Any reduction in the number of financial instruments allocated shall be accounted for as derecognition of part of them.

Recognition of revenues for commission income

The basic principle of IFRS 15 provides for the recognition of revenues when the transfer of control over the contractual goods or services takes place, at an amount that reflects the price that the company receives or expects to receive from the sale (IFRS15-31).

For the purposes of recognising these revenues on the accounts, there is a five-step process:

- Identification of the contract: contract for the sale of goods or services (or a combination of contracts);
- Identification of the performance obligations in the contract;

- Determination of the transaction price: the transaction price of the contract is defined by taking into account its various components;
- Allocation of price to the contract "performance obligations;
- Recognition of income when (or to the extent to which) the performance obligation has been fulfilled.

Business combinations

The accounting standard applicable to business combinations is IFRS 3.

The transfer of control of a company (or of a group of integrated assets and goods, which are managed as a single unit) constitutes a business combination.

Control is considered to have been transferred when the investor is exposed to variable returns or holds rights to such returns due to its relations with the investee company, and can simultaneously affect the returns by exercising its power over the investee.

Identifying the acquirer

IFRS 3 requires that for all business combinations an acquirer is identified. This is the person who obtains the control of another entity, in the sense of the power to determine that entity's financial and operational policies in order to receive benefits from its activities. If there are business combinations that determine the exchange of shareholdings, the acquirer's identification will be based on factors such as:

- the number of new ordinary voting shares that will make up the capital of the existing company, post-combination;
- the fair value of the businesses that participate in the combination;
- the composition of the new corporate bodies;
- the entity that issues the new shares.

Determining the cost of the combination

The price transferred in a business combination operation must be determined as a sum of the fair value, on the date of the exchange, of the assets transferred, the liabilities incurred or accepted and the equity instruments issued by the acquirer in exchange for control.

The price transferred by the acquirer in exchange for the acquired entity includes any asset or liability resulting from an agreement on the potential price, to be recorded on the acquisition date based on the fair value. The transferred price may be modified if additional information arises, about facts and events existing on the acquisition date and which can be recognised during the measurement period of the business combination (twelve months from the date of acquisition, as specified below). Any other change arising from any events or circumstances after the acquisition, such as a change for the vendor, linked to the achievement of certain income targets, must be recognised in the income statement.

The costs of the acquisition, including intermediation fees, advisory, legal, accounting and professional expenses, and general administration costs, are recognised in the income statement when they are incurred.

Segment reporting

The operating segment of the Group is identified on the basis of IFRS 8 Operating Segments. This standard requires that information is given about the valuations made by company management in the aggregation of the operating segments, by describing the aggregated segments and performance measures used to determine that the aggregated segments have similar economic characteristics. As regards the above, reference is made to Part L – Segment reporting.

The fair value of financial instruments

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal operation between market operators (in other words, not a forced liquidation or sale below cost) on the valuation date. The fair value is a market valuation criterion, not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

For financial instruments, the fair value is determined by using the market prices, in the case of instruments listed on active markets, or by using valuation models for the other financial instruments. A market is considered active if the listed prices, representing actual, regular market operations carried out during an appropriate reference period, are readily and regularly available on stock exchanges, through intermediaries, companies in the sector, pricing services or authorised entities.

The measurement method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market conditions.

Mutual open-end investment funds are considered to be listed on an active market, together with the equivalent investment instruments, spot and forward exchange transactions, futures, options and securities listed on a regulated market. Bonds for which at least two "executable" prices are continuously available on a pricing service are also considered to be listed on an active market, if the difference between the demand and supply price is below a range considered to be fair.

Instruments that do not fall into the above categories are not considered to be listed on an active market.

For financial instruments listed on active markets, the reference prices are used, namely the official closing prices or the prices of liquidation of the contract (always recorded at the end of the trading on the last market trading day in the reference period).

Units in mutual investment funds and similar instruments are valued on the basis of the prices given by the management companies, on dates consistent with the prices of the underlying financial instruments.

With regard to the determination of the fair value of funds not listed on official markets, the fund's latest available net asset value (NAV), as communicated by the asset management company, constitutes the main benchmark to be taken into consideration in the valuation, to which can be added an additional level of liquidity discount, depending primarily on the characteristics of the assets invested by the fund itself, in order to align the fair value of the instruments recognised in the financial statements with the price, pursuant to IFRS 13, at which a potential third-party investor would be prepared to buy units of the fund (i.e. the "exit price").

If there is no active, liquid market, the fair value of the financial instruments is mainly determined by using valuation techniques aimed at establishing the price of a hypothetical independent transaction motivated by normal market considerations, on the valuation date. In incorporating all the factors considered by the operators when setting the price, the valuation models take into account the financial value of time at the risk free rate, the risks of insolvency, early payment and redemption, volatility of the financial instrument and, applicable, the exchange rates, prices of raw materials and share prices.

For bonds and derivatives, valuation models have been defined that refer to current market values of substantially identical instruments, to the financial value of time and to options pricing models, by making reference to specific elements of the entity being valued and considering the market-observable criteria.

These criteria are identified and applied in view of the liquidity, depth and observability of the reference markets, and the changes in the credit ratings of counterparties and issuers.

Tax credits connected with the "Cura Italia" and "Rilancio" Decrees

Decree Laws 18/2020 (Cura Italia) and 34/2020 ("Rilancio") introduced tax incentives which are commensurate with a percentage of expenditure incurred, and are disbursed as tax credits or tax deductions. Most of the tax credits covered by the tax incentives may be sold to third parties, that will use them according to specific applicable regulations. In fact these receivables are tax credits arising from incentives of which the use, unlike receivables arising from the payment of excess taxes, is governed by the provisions that introduce them.

The receivables in question may be used to offset taxes and contributions or may be further sold to third parties. None of the receivables in question may be refunded (wholly or in party) directly by the State. Moreover, receivables may be used, as applicable, for offsetting, without the possibility of carrying forward or requesting a refund for the part not offset in the reference year due to insufficient balances.

As indicated in the Document of the Bank of Italy/Consob/Ivass no. 9, once acquired from a third party, the specific aspects of the receivables do not allow for them to be immediately attributable to a specific international accounting standard: in fact these receivables are excluded from the provisions of IAS 12 "Income taxes" as they do not come under the taxes that cover the company's ability to generate income; they do not come under the definition of government grants given in IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", as ownership of the receivable as regards the Revenue Agency only arises following the payment of an amount to the assignor; IFRS 9 Financial Instruments is not directly applicable, as the assets comprising the tax credits acquired do not originate from a contract between the assignee and the Italian government; lastly, IAS 38 "Intangible assets" does not apply as the tax credits in question cannot be considered as monetary assets, allowing for the payment of tax payables usually settled in cash. Therefore reference must be made to the provisions of IAS 8, which establish the following: In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is a) relevant for the economic decisions of users; and b) reliable [...]".

Based on these considerations, the Group considered the following approach applicable:

- Initial recognition: recognition of the tax receivable at the time of purchase for a value corresponding to the fair value, under the item "Other assets";
- Subsequent measurement: application of IFRS 9, which provides for measurement at amortised cost.

With reference to the economic effects of income and expenses arising from the purchase and use of tax credits, this method reflects how financial instruments are managed at amortised cost.

Tax consolidation

illimity Bank S.p.A. has opted to be a part of the national tax consolidation scheme for Corporate Income Tax (IRES), as provided for in Articles 117-129 of the Consolidated Income Tax Act (TUIR). Under this scheme, the taxable income or tax losses of each company which is consolidated are transferred to the consolidating company - along with excess amounts of ACE (economic aid for growth), withheld taxes, tax deductions and receivables - for which a single taxable income or a single tax loss to carry forward is calculated, corresponding to the algebraic sum of the taxable income or tax losses of each company.

Regulations on national tax consolidation establish optional take-up, which is binding for three financial years (with automatic renewal) and is allowed for companies between which control exists as contemplated in Article 2359, paragraph 1) no. 1 of the Italian Civil Code.

A.3 Information on transfers between portfolios of financial assets

There were no such transfers during the current year.

A.4 Information on fair value

Qualitative information

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

This section provides a summary, divided by type of instrument, of the measurement techniques used for instruments classified as having a level 2 and level 3 fair value. Lacking a dedicated fair value model, instruments shall be measured at historic cost.

Assessment of non-contributed shares and equity instruments

Items classified as level 3 are shares and equity instruments without market value contributions and for which it is not possible to identify transactions, in particular with reference to the M&A market, that, due to the time from the measurement date or nature of said provide significant information on the instruments being measured, nor are measurement techniques based on observable market multiples applicable.

In these cases, the measurement technique uses estimates of expected cash flows of the assessed entity and their expected value at the measurement date is determined. Significant exposures in non-contributed shares and equity instruments are, currently, ancillary to loan transactions, therefore the measurement techniques are consistent with the model used to measure loan transactions that evaluate the subject's capacity to repay the entire liability, including equity instruments and shares.

Measurement of loans

The characteristics of loans measured at fair value result in their failing the SPPI test. In fact, illimity does not hold loans for trading. Loans are mainly measured using the discounted cash flow method. That technique is supplemented with the enterprise value measurement method of the debtor (e.g. multiples and comparable transactions) when the loan characteristics mean that its value depends on the value of the company. That dependence is normally due to the convertibility of the loan into equity or its degree of subordination.

Measurement of structured loan products

Structured loan products are attributable to two groups. The first concerns the subordinated tranches of securitisations of NPL portfolios, while the second concerns securitisations of performing underlyings structured by illimity and held with the eventual intention to sell, in line with the HTC&C business model.

In the first case the exposures are part of an investment strategy that involves the subscription of the senior quota by the bank; as the originator, it is required to subscribe to part of the subordinate tranches. The starting point for the valuation is the purchase transaction; the congruency of the price is based on an analysis of the portfolio's capacity to repay firstly the senior quota and thereafter the underlying tranches, according to a waterfall mechanism. This capacity is therefore monitored during payments in order to confirm expectations of recovery predicted during the origination stage.

In the second case, as these are floating-rate senior notes of securitisation, the performance of the collateral is periodically assessed and the strength of the structure in confirming the initial recognition price or applying a write down where necessary.

The measurement includes prudent assumptions on the capacity of the underlying to generate cash flows, preferring an inclusion of expected cash flows when there is a high probability of their occurrence.

Valuation of OTC derivatives

Over The Counter (OTC) derivatives, whose value cannot be directly observed on the market, are valued using specific models and inputs pursuant to the asset class and the characteristics of the specific financial product. The valuation of OTC derivatives takes into consideration, as well as the market variables to which the instruments are sensitive, the specific risks pertaining to the counterparties with which they are traded, in particular:

- for transactions negotiated within a netting and margining agreement (CSA), the counterparty risk is considered non-material and the valuation of the instruments is based exclusively on the underlying risk factors, in accordance with the principle of non-arbitrage;
- for transactions negotiated without a netting and margining agreement, the valuation is carried out by adding the valuation of the instrument, as if it were subject to netting and margining, to the adjustments associated with the counterparty risk (i.e. credit valuation adjustment and debt valuation adjustment).

Derivatives in place at the end of the financial year are allocated, on the underlying basis, to the interest rate and foreign exchange rate classes. For both classes, the prevalent model adopted is the discounting cash flow model, with the addition of the Black model for the valuation of caps and floors.

Valuation of closed-end funds

The units in closed-end mutual funds held by the Group are valued periodically at fair value, in accordance with the rules set out by IFRS 13, based on specific methodologies that take into account the nature and type of the funds' underlying assets, and also with reference to the net asset value periodically provided by the asset management company.

The valuation may also include a dedicated liquidity discount, depending primarily on the characteristics of the assets invested by the fund itself, in order to align the fair value of the instruments recognised in the financial statements with the price at which a potential third-party investor would be prepared to buy units of the fund (i.e. the "exit price").

The table below shows information about the measurement models and non-observable inputs for assets and liabilities measured at level 3 fair value.

Financial assets	Valuation method	Principal non-observable input
Securities and loans	Discounting Cash Flows	-
ABSs	Discounting Cash Flows	Recovery rate, Credit spread
Equity	Direct transactions	-
Fund units	NAV with any liquidity discount	-

A.4.2 Processes and sensitivity of valuations

For a description of the process to measure instruments classified as having a level 3 fair value, reference is made to section A.4.1.

The table below shows the sensitivity of assets and liabilities valued at level 3 fair value with regard to one or more non-observable parameters. Data are reported for instruments measured using models that allow for analysis.

Financial assets	Non-observable parameters	Sensitivity (Thousands of euros)	Change in non-observable parameter
FVTPL securities	Credit spread	(6)	1 bp
FVTPL securities	Recovery rate	(209)	(1%)

A.4.3 Fair value hierarchy

For transfers between the various fair value levels, the Group uses the following principles:

- the presence or absence of a price on a regulated market;
- the presence or absence of a price on a non-regulated market, or of one or more counterparties willing to commit to price the stock;
- the quantity of the financial instrument held, such that would allow the forecast, or not, of a negative fluctuation in its valuation or price;
- new elements on which a new methodology could be based;
- the timing (date of the event or change, start and end of year) will be common to all the changes among the various valuation classes.

For securities held at fair value level 2:

- no transfers have been made between different fair value levels;
- the method used was the market price (Bloomberg BGN bid on the last available day), without making any modifications or adjustments;
- as the financial instruments are only debt instruments (bonds) at fixed or variable rates, this method reflects the trends in market interest rates and the risk level associated with the instruments' counterparties and issuers;
- this is the same measurement method used last year, for the same securities.

For securities held at fair value level 3:

- no transfers have been made between different fair value levels;
- as the quantity of shares held and the accounting method have not changed, no gains or losses were recorded;
- in the absence of prices on active markets and without any other elements such as the financial statements, the cost method is the only method that approximates the security's fair value.

To summarise the characteristics of the different fair value levels:

Level 1

The measurement is based on observable inputs or listed prices (without adjustment) on active markets for identical assets or liabilities, which the entity can access on the measurement date. The presence of official prices on active market, namely a market where the listed prices reflect ordinary operations (not forced, readily and regularly available), is the best evidence of fair value. These prices are the prices to be used preferentially, for the purposes of an accurate measurement of these financial instruments (the Mark to Market Approach). To determine the fair value of financial instruments listed on an active market, the market prices on the last day of the financial year are used.

Level 2

The measurement takes place using methods used if the instrument is not listed on an active market, and is based on inputs other than those for Level 1. The measurement of the instrument is based on prices taken from the market prices for similar assets, or using measurement techniques whereby all the significant factors are deduced from market-observable parameters. The pricing is non-discretionary as the main parameters used are drawn from the market and the calculation methods replicate the prices on active markets. If there is no active market, the estimation methods will be based on the measurement of listed instruments with similar characteristics, on the amounts recognised in recent comparable transactions, or by using measurement models that discount future cash flows, also taking into account all the risk factors connected to the instruments, and which are based on market-observable data.

Level 3

The measurement methods will value a non-listed instrument using significant non-market observable data and therefore they require the adoption of estimates and assumptions by management (the "Mark to Model Approach").

With reference to the instruments classified at level 3, a sensitivity analysis was carried out which showed that the changes in fair values are not material.

A.4.4 Other information

As of the reporting date there is no information to be given in relation to IFRS 13, paragraphs 51, 93 (i), 96 as:

- there are no assets measured at fair value on the basis of "highest and best use";
- there was no measurement of fair value at the level of total portfolio exposure to take into account the set-off of credit risk and market risk for a certain group of financial assets or liabilities (an exception ex IFRS 13, para. 48).

Qualitative information

A.4.5 *Fair value* hierarchy

Below is the information required by IFRS 7, for portfolios of financial assets and liabilities measured at fair value based on the three-level hierarchy illustrated above.

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by levels of fair value

Financial assets / liabilities measured at fair value	31/12/2023			31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	25,899	501,941	2,078	31,117	71,848
a) financial assets held for trading	-	25,899	18	-	31,117	29
b) financial assets at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	501,923	2,078	-	71,819
2. Financial assets measured at fair value through other comprehensive income	405,860	45,145	5,638	373,950	-	17,760
3. Hedging derivatives	-	21,393	-	-	29,874	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**405,860**	**92,437**	**507,579**	**376,028**	**60,991**	**89,608**
1. Financial liabilities held for trading	-	19,476	-	-	27,244	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	19,770	-	-	32,646	-
Total	**-**	**39,246**	**-**	**-**	**59,890**	

Key:

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

Instruments that are measured to a significant extent on the basis of non-observable parameters (Level 3) amount to 50.5% of the total financial assets measured at fair value, and on the reporting date are mainly represented by investments classified in the portfolio of "Financial assets mandatorily measured at fair value", referable to the Distressed Credit and Growth Credit divisions.

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				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**71,848**	**29**	**-**	**71,819**	**17,760**	**-**	**-**	**-**
2. Increases	**476,332**	**1,985**	**-**	**474,347**	**5,625**	**-**	**-**	**-**
2.1. Purchases	464,536	1,985	-	462,551	5,548	-	-	-
2.2. Gains recognised in:	11,422	-	-	11,422	-	-	-	-
2.2.1. Income Statement	11,422	-	-	11,422	-	-	-	-
- of which capital gains	11,286	-	-	11,286	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	374	-	-	374	77	-	-	-
3. Decreases	**46,239**	**1,996**	**-**	**44,243**	**17,747**	**-**	**-**	**-**
3.1. Sales	32,973	1,906	-	31,067	17,717	-	-	-
3.2. Repayments	8,964	-	-	8,964	-	-	-	-
3.3. Losses recognised in:	2,298	90	-	2,208	-	-	-	-
3.3.1. Income Statement	2,298	90	-	2,208	-	-	-	-
- of which capital losses	2,176	90	-	2,086	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	2,004	-	-	2,004	30	-	-	-
4. Closing balance	**501,941**	**18**	**-**	**501,923**	**5,638**	**-**	**-**	**-**

A.4.5.3 - Annual changes in liabilities measured at fair value on a recurring basis (level 3)

There are no liabilities measured at fair value on a recurring basis (level 3).

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by levels of fair value

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2023				31/12/2022			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	4,761,729	624,830	55,243	4,056,184	4,386,730	451,776	2,993	3,940,048
2. Property and equipment held for investment	-	-	-	-	-	-	-	-
3. Non-current assets and groups of assets held for disposal	364,151	-	-	364,151	-	-	-	-
Total	**5,125,880**	**624,830**	**55,243**	**4,420,335**	**4,386,730**	**451,776**	**2,993**	**3,940,048**
1. Amounts due to customers	6,067,828	594,669	-	5,594,264	5,294,132	630,404	-	4,641,130
2 Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**6,067,828**	**594,669**	**-**	**5,594,264**	**5,294,132**	**630,404**	**-**	**4,641,130**

Key:

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

For the other financial instruments recognised at amortised cost and mainly classified among credits to banks or customers and among the financial liabilities, a fair value has been determined for the purposes of the Explanatory Notes, as required by the reference accounting standard, IFRS 7.

A.5 Information on “day one profit/loss”

According to paragraph 28 of IFRS 7, it is necessary to provide evidence of the “day one profit or loss” to be recognised on the income statement at year end, together with a reconciliation compared to the initial balance. “Day one profit or loss” refers to the difference between the fair value of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined on that date using a valuation technique.

There are no cases that require reporting in this section.

Part B – Information on the consolidated statement of financial position

ASSETS

Section 1 - Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2023	Total 31/12/2022
a) Cash and cash equivalents	1	1
b) Current accounts and on-demand deposits with central banks	367,351	670,374
c) Current accounts and on-demand deposits with banks	64,344	10,402
Total	**431,696**	**680,777**

The sub-item "b) On-demand deposits with Central Banks" records the liquidity deposited with the Bank of Italy.

Section 2 - Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown

Items/Values	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	-	-	18	-	-	29
4. Green Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**18**	**-**	**-**	**29**
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	-	25,899	-	-	31,117	-
1.1 held for trading	-	25,899	-	-	31,117	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**25,899**	**-**	**-**	**31,117**	**-**
Total (A+B)	**-**	**25,899**	**18**	**-**	**31,117**	**29**

Key:

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

2.2 Financial assets held for trading: borrower/issuer/counterparty breakdown

Items/Values	Total 31/12/2023	Total 31/12/2022
A. Cash assets		
1. Debt securities	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. Units of UCIs	18	29
4. Green 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)	**18**	**29**
B. Derivatives		
a) Central counterparties	-	-
b) Others	25,899	31,117
Total (B)	**25,899**	**31,117**
Total (A+B)	**25,917**	**31,146**

2.3 Financial assets at fair value: breakdown by product type

The Group does not hold financial assets carried at fair value.

2.4 Financial assets at fair value: breakdown by borrower/issuer

The Group does not hold financial assets carried at fair value.

2.5 Other financial instruments mandatorily measured at fair value: breakdown

Items/Values	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**3,779**	**1,980**	**-**	**5,809**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	3,779	1,980	-	5,809
2. Equity securities	**-**	**-**	**4,291**	**-**	**-**	**9,115**
3. Units of UCIs	**-**	**-**	**448,085**	**98**	**-**	**20,834**
4. Green Loans	**-**	**-**	**45,768**	**-**	**-**	**36,061**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	45,768	-	-	36,061
Total	**-**	**-**	**501,923**	**2,078**	**-**	**71,819**

Key:

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

Financial assets mandatorily measured at fair value through profit and loss amounted to EUR 501.9 million as of 31 December 2023, up by EUR 428 million on 31 December 2022. These financial assets consist primarily of units of UCIs for EUR 448.1 million, a considerable increase on the comparative figure due to asset transformations carried out in 2023 by the Distressed Credit Division.

Loans measured at fair value refer primarily to loans pertaining to the Growth Credit Division (around EUR 35 million) and loans of the Energy Business pertaining to the Distressed Credit Division, mandatorily measured at fair value (EUR 10.8 million), held via the securitisation vehicle Spicy Green SPV.

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

	Total 31/12/2023	Total 31/12/2022
1. Equity securities	**4,291**	**9,115**
of which: banks	-	-
of which: other financial companies	-	-
of which: other non-financial companies	4,291	9,115
2. Debt securities	**3,779**	**7,789**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	32	477
d) Other financial companies	3,680	5,709
of which: insurance companies	-	-
e) Non-financial companies	67	1,603
3. Units of UCIs	**448,085**	**20,932**
4. Green Loans	**45,768**	**36,061**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	45,768	36,061
f) Households	-	-
Total	**501,923**	**73,897**

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 type

Items/Values	Total 31/12/2023			Total 31/12/2022 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**405,860**	**45,145**	**5,172**	**373,950**	**-**	**17,741**
1.1 Structured securities	3,902	-	-	4,673	-	-
1.2 Other debt securities	401,958	45,145	5,172	369,277	-	17,741
2. Equity securities	**-**	**-**	**466**	**-**	**-**	**19**
3. Green Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**405,860**	**45,145**	**5,638**	**373,950**	**-**	**17,760**

Key:

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

The debt securities in the financial statement item were issued by governments (EUR 254.5 million), credit institutions (EUR 83.5 million), financial companies (EUR 75.1 million) and non-financial companies (EUR 43 million).

Equity instruments classified as "Financial assets measured at fair value through other comprehensive income (IAS)" are represented by equity holdings not qualifying as investments in subsidiaries, associates or joint ventures.

3.2 Financial assets measured at fair value through comprehensive income: breakdown by borrower/issuer

Items/Values	Total 31/12/2023	Total 31/12/2022
1. Debt securities	**456,177**	**391,691**
a) Central banks	-	-
b) Public administrations	254,544	222,047
c) Banks	83,485	77,485
d) Other financial companies	75,149	44,546
of which: insurance companies	-	-
e) Non-financial companies	42,999	47,613
2. Equity securities	**466**	**19**
a) Banks	-	-
b) Other issuers:	466	19
- other financial companies	11	11
of which: insurance companies	-	-
- non-financial companies	455	8
- other	-	-
3. Green Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**456,643**	**391,710**

3.3 Financial assets measured at fair value through comprehensive income: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs				Total partial write-offs
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired	
Debt securities	456,758	331,074	-	1,497	363	1,525	-	917	-	-
Green Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2023	**456,758**	**331,074**	**-**	**1,497**	**363**	**1,525**	**-**	**917**	**-**	**-**
Total 31/12/2022	**393,235**	**241,955**	**768**	**-**	**-**	**2,017**	**295**	**-**	**-**	**-**

With regard to the approach used in the representation of the gross amount and total write-downs/write-backs of non-performing financial assets, refer to Part A - Accounting policies.

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

Type of operations/Values	Total 31/12/2023						Total 31/12/2022					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	-	-	-	X	X	X	-	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**112,702**	**-**	**-**	**-**	**-**	**112,702**	**57,213**	**-**	**-**	**-**	**-**	**57,675**
1. Green Loans	112,702	-	-	-	-	112,702	57,213	-	-	-	-	57,675
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Time deposits	71,164	-	-	X	X	X	22,884	-	-	X	X	X
1.3. Other loans:	41,538	-	-	X	X	X	34,329	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Others	41,538	-	-	X	X	X	34,329	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**112,702**	**-**	**-**	**-**	**-**	**112,702**	**57,213**	**-**	**-**	**-**	**-**	**57,675**

Key:

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

The obligations to maintain the Compulsory reserve are fulfilled indirectly through BFF Bank S.p.A., with the balance recognised in the sub item "Time deposits".

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of operations/ Values	Total 31/12/2023						Total 31/12/2022					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
1. Green Loans	**2,539,386**	**140,589**	**806,771**	**-**	**-**	**3,458,832**	**2,172,119**	**41,047**	**1,135,933**	**-**	**-**	**3,380,474**
1.1. Current accounts	8,299	4,259	99,019	X	X	X	7,575	5,076	179,535	X	X	X
1.2. Reverse Repurchase agreements	60,940	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	326,966	11,604	551,448	X	X	X	208,029	7,379	577,238	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	1,129	-	363	X	X	X	940	53	2,197	X	X	X
1.5 Loans for leases	13,938	-	97,946	X	X	X	17,726	-	153,457	X	X	X
1.6. Factoring	571,919	2,393	-	X	X	X	467,067	2,859	-	X	X	X
1.7. Other loans	1,556,195	122,333	57,995	X	X	X	1,470,782	25,680	223,506	X	X	X
2. Debt securities	**1,047,743**	**14,202**	**100,336**	**624,830**	**55,243**	**484,650**	**875,618**	**2,693**	**102,108**	**451,776**	**2,993**	**501,899**
1. Structured securities	-	2,691	-	-	2,993	-	-	2,693	-	-	2,993	-
2. Other debt securities	1,047,743	11,511	100,336	624,830	52,250	484,650	875,618	-	102,108	451,776	-	501,899
Total	**3,587,129**	**154,791**	**907,107**	**624,830**	**55,243**	**3,943,482**	**3,047,737**	**43,739**	**1,238,041**	**451,776**	**2,993**	**3,882,373**

Key:

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

The sub-item "Other performing debt securities" primarily includes government bonds for EUR 585 million, as well as securities connected to securitisation operations relating to the Distressed Credit Division. The "Purchased or originated impaired (*POCI*)" item under "Debt securities" also includes EUR 12.2 million of securities classified as "unlikely-to-pay" relating to the Growth Credit Division, as well as EUR 88.1 million of securities classified as "unlikely-to-pay" relating to the Distressed Credit Division.

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

Type of operations/Values	Total 31/12/2023			Total 31/12/2022		
	Stage one and Stage two	Stage three	Assets purchased or originated impaired	Stage one and Stage two	Stage three	Assets purchased or originated impaired
1. Debt securities	**1,047,743**	**14,202**	**100,336**	**875,618**	**2,693**	**102,108**
a) Public administrations	585,009	-	-	428,309	-	-
b) Other financial companies	421,885	11,511	89,690	403,217	-	91,497
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	40,849	2,691	10,646	44,092	2,693	10,611
2. Loans to:	**2,539,386**	**140,589**	**806,771**	**2,172,119**	**41,047**	**1,135,933**
a) Public administrations	11,935	3,393	-	11,030	3,099	65
b) Other financial companies	234,098	16	5,384	282,006	13	11,811
of which: insurance companies	2,405	-	-	468	-	-
c) Non-financial companies	2,234,855	135,007	738,754	1,831,111	35,922	975,758
d) Households	58,498	2,173	62,633	47,972	2,013	148,299
Total	**3,587,129**	**154,791**	**907,107**	**3,047,737**	**43,740**	**1,238,041**

4.4 Financial assets measured at amortised cost: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs				Total partial write-offs
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired	
Debt securities	1,050,458	668,668	-	15,042	100,336	2,715	-	840	-	-
Green Loans	2,568,165	469,987	293,206	171,857	806,771	206,518	2,765	31,268	-	-
Total 31/12/2023	**3,618,623**	**1,138,655**	**293,206**	**186,899**	**907,107**	**209,233**	**2,765**	**32,108**	**-**	**-**
Total 31/12/2022	**3,603,205**	**856,029**	**103,600**	**63,943**	**1,238,699**	**599,180**	**2,674**	**20,204**	**659**	**-**

With regard to the approach used in the representation of the gross amount and total write-downs/write-backs related to impaired financial assets, refer to Part A – Accounting policies.

Regarding existing loans as of 31 December 2023 that constitute new liquidity granted through mechanisms of public guarantees issued in relation to the COVID-19 context, the situation is as follows: that type of loan classified in Stage 1 and in Stage 2 of risk amounted to a gross total of EUR 643 million, for total adjustments/recoveries of EUR 3 million; that type of loan classified in Stage 3 of risk amounted to a gross total of EUR 82 million, for total adjustments/recoveries of EUR 4.7 million. There were no loans of that type classified among “purchased or originated impaired” assets.

Section 5 - Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2023			NV 31/12/2023	Fair Value 31/12/2022			NV 31/12/2022
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value	-	21,393	-	195,000	-	29,874	-	195,000
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**21,393**	**-**	**195,000**	**-**	**29,874**	**-**	**195,000**

Key:

NV = Nominal Value
L 1= Level 1
L 2= Level 2
L 3= Level 3

5.2 Hedging derivatives: breakdown by portfolios hedged and hedge type

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and share indices	currencies and gold	credit	goods	other				
1. Financial assets measured at fair value through other comprehensive income	21,393	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**21,393**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 - Fair value change of financial assets in hedged portfolios – Item 60

The Group has no generic hedge operations.

Section 7 - Equity investments – Item 70

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Type of relationship	Ownership relationship		Votes %
				Held by	Holding %	
A. Jointly-owned subsidiaries						
Hype S.p.A.	Biella	Biella	Joint control	illimity Bank S.p.A.	50%	50%
B. Companies in which significant influence is exercised						
SpicyCo S.r.l.	Milan	Milan	Significant influence	illimity Bank S.p.A.	49%	49%
LAISA – Società tra Avvocati per Azioni	Milan	Milan	Significant influence	ARECneprix S.p.A.	9.99%	9.99%

illimity acquired a 50% stake in Hype, as part of a joint venture with the Sella Group. The partnership was established at the beginning of 2021, with the aim of creating and developing a digital platform for financial and payment services that is more innovative than traditional banking models. The price paid was defined by the parties based on the partnership's shared growth and development goals.

Due to the life cycle stage of the company and of the joint venture project on which the investment is based, at the time the stake in Hype was acquired, no intangible assets could be identified that were distinguishable from goodwill, i.e. from the overall expectations of the future economic benefits generated by the investment in the context of the partnership.

As required by IAS/IFRS, the equity investment was tested for impairment to check for objective evidence that its recognition value may not be fully recoverable. If the test shows a recoverable value that is less than the book value, the difference constitutes an impairment loss to be recognised in the income statement by aligning the book value with the recoverable value determined.

For the purposes of the impairment test, the recoverable value is defined as the greater of value in use and fair value net of sales costs. Value in use expresses the current value of the future cash flows expected to be generated by the continued use of the asset. Fair value represents the price that would be received for the sale of the asset in a regular transaction between market operators on the valuation date, less sales costs.

Pursuant to IAS 36, it is not always necessary to determine both configurations of recoverable value, if one of the two is greater than the book value. It is therefore sufficient for at least one of the two configurations of recoverable value to be greater than the book value for the impairment test to be considered to have been passed.

Criteria for the determination of Value in Use

The value in use was determined using the *Discounted Dividend Model*, in the *"Excess Capital"* variant, commonly used in valuation practices in the financial industry, on the basis of which the economic value is equal to the sum of the following elements:

- the current value of the dividends potentially available for distribution over a certain period of time, maintaining a minimum level of capitalisation consistent with the growth of the business and with the regulatory requirements;
- the current value of a perpetual yield defined on the basis of a sustainable dividend for the years following the planning period.

For the purposes of the consolidated financial statements as of 31 December 2023, the prospective financial information used to determine the value in use was inferred from the financial position as of 31 December 2023 and the 2024--2028 prospective data relating to the subsidiary.

In order to corroborate the results of the impairment test achieved by estimating the value in use, the fair value net of sales costs was also estimated, using (i) the Stock Market Multiples method and (ii) the Transaction Multiples method.

Estimates of cash flows

To extrapolate the cash flows beyond the analytical forecasting period, consideration was given to the market context in which the forward-looking scenario is defined.

With regard to the impairment test as of 31 December 2023 (consistent with the methodology adopted in the previous financial year), the projections for the key economic, financial and regulatory data and KPIs for Hype took into account the factors and assumptions that form the basis of the 2024-2028 Strategic Plan drawn up by the Group's management. The test also took into account a two-year phase of convergence of the growth rate (observed in the last year of explicit planning) towards the long-term sustainable rate, assumed to be equal to the expected rate of inflation for the Italian market.

In order to determine the terminal value, the cash flows for the last year of the analytical forecast were projected in perpetuity based on a growth factor g determined as the average rate of growth of Italy's nominal GDP, which is equal to 2%. Lastly, the cash flows were defined by considering fulfilment of the minimum capital requirements in relation to the specific reference regulation. Specifically, from a prudential perspective, a capital requirement equal to 130% of the regulatory minimum was used, with a buffer of 30%.

Cash flow discounting rate

In determining the value in use, cash flows have to be discounted at a rate that reflects the current market valuations, the current value of money, and the specific risks of the business. In the case of a banking business, it is estimated using the *"equity side"* approach, which means considering only the cost of own capital (Ke), in line with the method used to determine the cash flows which, as mentioned, include the cash flows from the financial assets and liabilities.

The cost of capital was determined by using the *"Capital Asset Pricing Model"* (CAPM). According to that model, the cost of capital is determined as the sum of the return on risk-free investments and of a risk premium, which in turn depends on the specific risk of the activity (which means the risk level of the operating unit and the geographical risk level, which is the so-called "country risk").

The cost of capital is determined after taxes, to be consistent with the discounted cash flows. As the cash flows have been determined in nominal terms, the discounted rates have also been determined in the same way, in other words by incorporating the expectations on inflation.

Looking in detail at the various components that go towards determining the discounting rate, the following decisions were made:

1. as regards the *ri*sk free rate, the average monthly yield (average of the preceding 6 months) on 10-year Italian government bonds (BTP) was used;
2. with regard to the market risk premium, which represents the premium that an investor would require when investing in the equities market compared to the risk-free rate, the data in the international databases generally used for such valuations, were utilised;
3. with regard to the beta coefficient, which measures the specific risk of an individual company, this was determined by identifying a sample of comparable businesses (in terms of business), and the average beta recorded was then utilised by means of weekly observations over a five-year period.

The Ke discounting rate used for the impairment test for the year ending 31 December 2023 was 14.45% (13.87% as of 31 December 2022).

Results of the impairment test

The results of the impairment test showed that the value in use of the subsidiary is higher than the carrying amount. Therefore, no write-down was necessary for the purposes of the financial statement for the year ended as of 31 December 2023.

The criteria and information used for the impairment tests are significantly influenced by the macroeconomic scenario and by the trends on the financial markets, which could show changes that are not currently foreseeable. If the macroeconomic scenario does deteriorate compared to the current forecast, this would impact the estimates of cash flows and the main assumptions, which could lead to results other than those prospected in these accounts, over the coming years.

7.2 Significant shareholdings: book values, fair values and dividends received

Name	Book value	Dividends received
A. Jointly-owned subsidiaries		
Hype S.p.A.	81,075	-
B. Companies in which significant influence is exercised		
SpicyCo S.r.l.	-	-
LAISA – Società tra Avvocati per Azioni	124	-
Total	**81,199**	**-**

7.3 Significant shareholdings: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest margin	Write-downs/write-backs on property and equipment and intangible assets	Profit (loss) from continuing operations before tax	Profit (loss) from continuing operations after tax	Net profit (loss) from assets held for sale	Profit (loss) for the year (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1)+(2)
A. Jointly-owned associates														
Hype S.p.A.	219,453	335,240	41,013	542,947	21,915	37,614	14,482	(2,982)	(8,218)	(6,204)	-	(6,204)	-	(6,204)
B. Companies in which significant influence is exercised													-	
SpicyCo S.r.l.	11	2,490	2	2,787	156	-	(330)	-	(649)	(649)	-	(649)	-	(649)
LAISA - Società tra Avvocati per Azioni	93	-	1,106		764	2,078	-	(3)	562	385	-	385	-	385

7.4 Non-significant shareholdings: accounting information

The Group does not hold interests in shareholdings that can be classified as non-significant as of the reporting date.

7.5 Equity investments: annual changes

	Total 31/12/2023	Total 31/12/2022
A. Opening balances	**76,375**	**79,953**
B. Increases	**8,124**	**4,000**
B.1 Purchases	8,005	4,000
- from business combinations	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	119	-
C. Decreases	**(3,300)**	**(7,578)**
C.1 Sales	-	-
- from business combinations	-	-
C.2 Write-downs/write-backs	-	-
C.3 Depreciation	-	-
C.4 Other changes	(3,300)	(7,578)
D. Closing balance	**81,199**	**76,375**
E. Total revaluations	**-**	**-**
F. Total write-downs	**-**	**-**

7.6 Significant assessments and assumptions to establish the existence of joint control or significant influence

With regard to significant assessments and assumptions to establish the existence of joint control or significant influence, please refer to the information contained in A.2 Section on the main financial statement items, under the heading Equity investments within Section A of the Explanatory Notes.

7.7 Commitments related to equity investments in jointly-controlled subsidiaries

The Group does not hold any commitments related to equity investments in jointly-controlled subsidiaries as of the reporting date.

7.8 Commitments related to equity investments in companies subject to significant influence

The Group does not hold any commitments related to equity investments in companies subject to significant influence as of the reporting date.

7.9 Significant restrictions

There are no significant restrictions as of the reporting date.

7.10 Other information

There is nothing to report as of the reporting date.

Section 8 - Insurance assets – Item 80

The Group does not conduct insurance business.

Section 9 - Property and equipment – Item 90

9.1 Property and equipment with functional use: breakdown of assets measured at cost

Assets/Values	Total 31/12/2023	Total 31/12/2022
1. Proprietary assets	**876**	**1,021**
a) land	-	-
b) buildings	-	-
c) furniture and fittings	391	511
d) electronic systems	442	442
e) others	43	68
2. Rights of use acquired through lease agreements	**22,663**	**22,624**
a) land	-	-
b) buildings	21,164	21,534
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	1,499	1,090
Total	**23,539**	**23,645**
of which: obtained by enforcement of guarantees received	-	-

9.2 Property and equipment held for investment: breakdown of assets measured at cost

The Group does not hold Property and equipment measured at cost and held for investment as of the reporting date.

9.3 Property and equipment with functional use: breakdown of revalued assets

The Group does not hold Property and equipment with functional use as of the reporting date.

9.4 Property and equipment held for investment: breakdown of assets measured at fair value

The Group does not hold Property and equipment held for investment measured at fair value as of the reporting date.

9.5 Inventories of property and equipment governed by IAS 2: breakdown

Assets/Values	Total 31/12/2023	Total 31/12/2022
1. Inventories of property and equipment obtained through enforcement of guarantees received	**64,684**	**104,738**
a) land	-	-
b) buildings	64,684	104,738
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	-	-
2. Other assets inventories	**-**	**-**
Total	**64,684**	**104,738**
of which: measured at fair value net of costs to sell	-	-

9.6 Property and equipment with functional use: annual changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total
A. Gross opening balance	**-**	**28,598**	**2,122**	**2,439**	**3,250**	**36,409**
A.1 Total net write-downs	-	7,064	1,611	1,997	2,092	12,764
A.2 Opening net balance	**-**	**21,534**	**511**	**442**	**1,158**	**23,645**
B. Increases:	**-**	**3,193**	**97**	**280**	**1,617**	**5,187**
B.1 Purchases	-	114	97	280	1,617	2,108
- from business combinations	-	-	73	105	655	833
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	3,079	-	-	-	3,079
C. Decreases:	**-**	**3,563**	**217**	**280**	**1,233**	**5,293**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Depreciation	-	2,596	172	236	677	3,681
C.3 Write-downs/write-backs from impairment charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property and equipment held for investment	-	-	X	X	X	-
b) non-current assets and groups of assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	967	45	44	556	1,612
D. Closing net balance	**-**	**21,164**	**391**	**442**	**1,542**	**23,539**
D.1 Total net write-downs	-	9,746	1,331	1,804	1,107	13,988
D.2 Gross closing balance	**-**	**30,910**	**1,722**	**2,246**	**2,649**	**37,527**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

9.7 Property and equipment held for investment: annual changes

The Group does not hold Property and equipment held for investment as of the reporting date.

9.8 Inventories of property and equipment regulated by IAS 2: annual changes

	Inventories of property and equipment obtained through enforcement of guarantees received					Other assets inventories	Total
	Land	Buildings	Furnishings	Electronic systems	Others		
A. Opening balance	**-**	**104,738**	**-**	**-**	**-**	**-**	**104,738**
B. Increases	**-**	**7,966**	**-**	**-**	**-**	**-**	**7,966**
B.1 Purchases	-	7,878	-	-	-	-	7,878
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	-	88	-	-	-	-	88
C. Decreases	**-**	**48,020**	**-**	**-**	**-**	**-**	**48,020**
C.1 Sales	-	41,804	-	-	-	-	41,804
C.2 Write-downs/write-backs from impairment	-	6,216	-	-	-	-	6,216
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. Closing balance	**-**	**64,684**	**-**	**-**	**-**	**-**	**64,684**

9.9 Commitments to purchase property and equipment

The Group does not hold commitments to purchase property and equipment as of the reporting date.

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown

Assets/Values	Total 31/12/2023		Total 31/12/2022	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	X	**69,992**	X	**65,372**
A.1.1 attributable to the group	X	69,992	X	65,372
A.1.2 attributable to minorities	X	-	X	-
A.2 Other intangible assets	**83,776**	**-**	**69,729**	**-**
of which: software	76,781	**-**	58,266	**-**
A.2.1 Assets measured at cost:	83,776	-	69,729	-
a) Intangible assets generated internally	14,489	-	7,987	-
b) Other assets	69,287	-	61,742	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**83,776**	**69,992**	**69,729**	**65,372**

Identification of the CGU of the illimity Group

The estimate of the value in use, for impairment testing purposes, in keeping with provisions in IAS 36, of intangible assets with an indefinite life (including goodwill), that do not generate cash flows unless with the contribution of other company assets, requires the preliminary allocation of such intangible assets to organisational units that are fairly autonomous in management terms, that can generate flows of financial resources widely independent of those produced by other areas of activities, but interdependent within the organisational unit generating them. According to IFRS, these organisational units are called Cash Generating Units (CGU).

According to IAS 36, when identifying whether incoming cash flows originating from an asset (or group of assets) are widely independent of those arising from other assets (or groups of assets), the entity considers various factors, including the way in which company management controls the operations of the entity or how company management takes decisions on keeping the goods and assets of the entity operational or on their disposal.

In line with provisions in IAS 36, the level at which goodwill is tested must be correlated with the level of reporting within which management controls the dynamics that increase and decrease this value. Under this profile, the definition of such a level depends closely on the organisational models and allocation of management responsibilities for the purposes of defining guidance for operating activities and consequent monitoring. The organisational models may leave aside the structure of the legal entities through which operations take place and, very often, are closely related to the definition of operating segments used in the segment reporting contemplated in IFRS 8.

Moreover, each CGU or group of CGUs to which goodwill is allocated must:

a) represent the minimum level within the entity at which the goodwill is monitored for internal operational purposes; and
b) must not be larger than an operating segment, as defined in section 5 of IFRS 8, before the combination.

Paragraph 5 of IFRS 8 indicates that an operating segment is a component of an entity:

a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses concerning transactions with other components of the same entity);
b) whose operating results are reviewed regularly by the entity’s chief operating decision maker for the purposes of adopting decisions on resources to allocate to the sector and evaluating results; and
c) for which discrete financial information is available.

Based on the regulatory references in the aforementioned IAS 36 and IFRS 8, a factor to consider in identifying CGUs is the organisation of the IT system outlined by the entity in keeping with IFRS 8 for management to evaluate results achieved by various operating segments and in order for strategic decisions to be taken.

The illimity Group, in accordance with IFRS 8 - Operating Segments, presents certain consolidated financial information, in line with the procedures used periodically by the entity's chief operating decision maker for the purposes of adopting decisions on resources to allocate to individual sectors and the assessment of results.

The operating segments were identified taking into consideration the procedures whereby the Bank opted for an organisation also based on the differences in products and services offered.

In view of the above, the illimity Group identified operating segments in accordance with provisions in IFRS 8 and, subsequently determined the segments with the characteristics of a CGU. As described in Part L - Segment reporting, the following operating segments were identified: (i) *Distressed Credit*; (ii) *Growth Credit*; (iii) *Investment Banking*; (iv) b-ilty; (v) *Digital* (vi) *Corporate Center*; (vii) Hype and (viii) SGR.

Considering the quantitative and qualitative analyses carried out, the operating segments with the characteristics of a CGU correspond to the operating divisions, excluding what is stated below, that generate incoming cash flows for the Bank and benefit from the synergies arising from business combinations.

Given the particular activity of *Quimmo Prestige Agency*, which consists of luxury real estate brokerage, the Distressed Credit operating segment has been subdivided into two separate CGUs:

- *Distressed Credit*
- *Quimmo Prestige Agency*

The Bank therefore identified the following CGUs: (i) *Distressed Credit*; (ii) *Growth Credit*; (iii) *Quimmo Prestige Agency* (iv) *Investment Banking*; (v) b-ilty; (vi) *Digital*; (vii) Hype and (viii) SGR.

Allocation of goodwill to the CGUs identified

Following the completion of the process to define the organisation of the information system outlined by the Bank, for management to assess the results achieved by the various operating segments and consequently to adopt strategic decisions, in compliance with IFRS 8 and analyses to understand which operating segments have the characteristics of CGUs, eight CGUs were identified that correspond to the operating divisions, excluding what is stated above for the Distressed Credit Division, that generate incoming cash flows for the Bank and benefit from the synergies arising from business combinations, as mentioned above.

The goodwill arising from the *purchase price allocation* (PPA) process for the purchase price of Banca Interprovinciale, equal to EUR 21.6 million, previously attributed to a single CGU by the illimity Bank Group, was reallocated to the CGUs Distressed Credit (EUR 17.6 million) and Growth Credit (EUR 4 million) based on the percentage of the value in use of each CGU during PPA.

The reallocation was carried out in compliance with paragraph 87 of IAS 36, according to which when an entity changes the composition of the CGUs, the reallocation must be based on a criterion of the relative value, at the reorganisation date (similarly to that used when an entity disposes of an asset which is part of the unit generating cash flows), unless the entity can demonstrate that other methods better reflect the goodwill associated with the reorganised units.

Goodwill resulting from the *purchase price allocation* process for the purchase price of the IT Auction Group, equal to EUR 14.6 million, was allocated in full to the CGU Distressed Credit, based on the organisational and operational integration of activities acquired with those of the DC division.

Similarly, the specific intangible assets deriving from the acquisition of IT Auction S.r.l., now recognised within Abilio S.p.A. and *Industrial Discount* S.r.l., in relation to the spin-off of the *neprix sales* unit to Abilio S.p.A., which took place during the year, were allocated in full to the DC CGU. The carrying amount of said specific intangible assets was subject to impairment testing, initially on an individual basis; these analyses confirmed that the intangible assets in question had retained the values assigned to them. Subsequently, these intangible assets were included in the carrying amount of the DC CGU and tested during the *impairment testing* of this CGU.

A similar analysis was carried out in the allocation of goodwill arising from the acquisition of controlling stakes in the securitisation vehicles Aporti S.r.l., Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l., Kenobi SPV S.r.l. and River SPV S.r.l., for a total of EUR 37 thousand.

Goodwill resulting from the *purchase price allocation* process for the purchase price of AREC S.p.A., equal to EUR 29.1 million, and the specific intangible assets, for a residual value of EUR 5.2 million as of 31 December 2023, was allocated in full to the CGU Distressed Credit, based on the organisational and operational integration of activities acquired with those of the DC division.

The goodwill arising from the purchase price allocation of the purchase price of Residenze Porta Nuova S.r.l. (now *Quimmo Prestige Agency* S.r.l.), equal to EUR 4.6 million, was allocated in full to the *Quimmo Prestige Agency* CGU.

The next table shows the allocation of goodwill to the CGUs of the illimity Group.

€/thousand	Distressed Credit	Growth Credit	Quimmo Prestige Agency	Total
Goodwill arising from the BIP and Spaxs business combination	17,643	4,000	-	**21,643**
Goodwill arising from the acquisition of IT Auction	14,581	-	-	**14,581**
Goodwill arising from the acquisition of equity investments in securitisation vehicles	37	-	-	**37**
Goodwill arising from the acquisition of AREC	29,115	-	-	**29,115**
Goodwill arising from the acquisition of RPN	-	-	4,616	**4,616**
Total Goodwill	**61,376**	**4,000**	**4,616**	**69,992**

Impairment Tests

The impairment test is governed by accounting standard IAS 36 – Impairment of Assets, which requires that, at least annually and, in any case, whenever events arise suggesting a potential impairment, a test must be carried out to verify the adequacy of the value of goodwill subject to recognition.

The impairment test is carried out identifying the units generating financial flows (CGU) to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any losses in value must be recognised in the income statement, they are not susceptible to future value recoveries. As required by IAS 36, goodwill was tested for impairment to check for evidence that its recognition value may not be fully recoverable.

The process of recognising impairment requires checking impairment indicators and determining any impairment losses. There are essentially two categories of impairment indicators: qualitative indicators such as a negative profit/loss result or a significant deviation from the budget targets or the targets in long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans; quantitative indicators show a carrying amount of the entity's net assets higher than its market capitalisation, or a carrying amount of the investment in the separate financial statement higher than the carrying amount of the net assets and goodwill of the subsidiary on the consolidated financial statement, or the distribution by the latter of a dividend that is higher than its total income.

The illimity Group carries out first level impairment testing, individually considering the cash flows of the CGUs to which the goodwill was allocated (Distressed Credit, Quimmo Prestige Agency and Growth Credit CGUs), and second level impairment testing, considering the overall cash flows of the Bank, in order to ensure the recoverability of all net assets of the Bank.

The purpose of second level testing is to consider the Group's overall cash flows (consolidated level) to verify the recoverability of the value of any net assets not allocated to the CGUs identified (i.e. corporate center, etc.).

This approach is consistent with the guidelines suggested by the Italian Valuation Authority that defines second level impairment testing as the comparison between the carrying amount and the recoverable value of the business considered as a whole.

The Investment Banking, b-ilty, Digital, Hype and SGR CGUs were not considered for impairment testing purposes as they did not hold non-current assets as of 31 December 2023, and were not subject to the allocation of goodwill or other intangibles, and therefore were excluded from the scope of IAS 36. Any current assets allocated to them were measured separately according to the main applicable IAS/IFRS.

Criteria for the determination of Value in Use

The value in use was determined using the *Discounted Dividend Model*, in the *"Excess Capital"* variant, commonly used in valuation practices in the financial industry, on the basis of which the economic value is equal to the sum of the following elements:

- the current value of the dividends potentially available for distribution over a certain period of time, maintaining a minimum level of capitalisation consistent with the growth of the business and with the regulatory requirements;
- the current value of a perpetual yield defined on the basis of a sustainable dividend for the years following the planning period.

For the purposes of the consolidated financial statements as of 31 December 2023, the prospective financial information used to determine the value in use was inferred from the financial position as of 31 December 2023 and the 2024-2028 prospective data relating to the individual CGUs.

Estimates of cash flows

To extrapolate the cash flows beyond the analytical forecasting period, consideration was given to the market context in which the forward-looking scenario is defined. With regard to the impairment test of 31 December 2023 (consistent with the methodology adopted in the previous financial year), in order to determine the terminal value, the cash flows for 2028, the last year of the analytical forecast, were projected in perpetuity based on a growth factor g determined as the average long-term rate of growth of Italy's nominal GDP, which is equal to 2%.

In accordance with provisions in section 33 of IAS 36, new initiatives not yet started at the *test* date were excluded from the estimate of financial flows. Instead, initiatives already underway at the reporting date were included.

The projections for the key economic, financial and regulatory data and KPIs for each individual CGU of the illimity Group have taken into account the factors and assumptions that form the basis of the 2024--2028 Projections drawn up by the Group's management.

As regards provisions of prudential supervision, in the development of *business* volumes for the various divisions, the Bank assumed a capitalisation profile with a Tier1 ratio equal to 13.1%, in line with that reported in the latest SREP letter, for the 2024-2028 time horizon, in order to develop projections.

Cash flow discounting rate

In determining the value in use, cash flows have to be discounted at a rate that reflects the current market valuations, the current value of money, and the specific risks of the business. In the case of a banking business, it is estimated using the *"equity side"* approach, which means considering only the cost of own capital (Ke), in line with the method used to determine the cash flows which, as mentioned, include the cash flows from the financial assets and liabilities.

The cost of capital was determined by using the *"Capital Asset Pricing Model"* (CAPM). According to that model, the cost of capital is determined as the sum of the return on risk-free investments and of a risk premium, which in turn depends on the specific risk of the activity (which means the risk level of the operating unit and the geographical risk level, which is the so-called "country risk").

The cost of capital is determined after taxes, to be consistent with the discounted cash flows. As the cash flows have been determined in nominal terms, the discounted rates have also been determined in the same way, in other words by incorporating the expectations on inflation.

Looking in detail at the various components that go towards determining the discounting rate, the following decisions were made:

1. as regards the risk free rate, the average monthly yield (average of the preceding 6 months) on 10-year Italian government bonds (BTP) was used;

2. with regard to the *market risk premium*, which represents the premium that an investor would require when investing in the equities market compared to the risk-free rate, the data in the international databases generally used for such valuations, were utilised;
3. with regard to the beta coefficient, which measures the specific risk of an individual company, this was determined by identifying a sample of comparable businesses (in terms of business), and the average beta recorded was then utilised by means of weekly observations over a five-year period.

The Ke discounting rate used for the impairment test at Bank level for the year ending 31 December 2023 was 9.88% (10.56% as of 31 December 2022).

Carrying amount of the CGUs

To carry out first level *impairment testing*, the carrying amount of each CGU of the illimity Group was determined considering the equity attribution framework as the reference, determining the value of each CGU based on the RWA assigned to each CGU multiplied by the *Fully Loaded CET1 ratio*, i.e. the level of capitalisation assigned to each CGU, and to the goodwill directly or indirectly attributable to each CGU, or the specific intangibles allocated to it.

To carry out second level impairment testing, the carrying amount at a Group CGU level is represented by the shareholders' equity arising from the consolidated financial statements as of 31 December 2023, representing the value of the group's *net assets*. This approach is consistent with IAS 36, which requires the *impairment testing* of net assets which, in the Bank's second level *test*, refer entirely to shareholders' equity.

The next table shows the carrying amount of the CGUs of the illimity Group:

€/thousand

	First level impairment testing			Second level impairment testing
	Distressed Credit	*Growth Credit*	*Quimmo Prestige Agency*	illimity Group
Carrying amount	444,846	284,130	4,989	**950,491**

Results of the impairment tests

The results of first level impairment testing showed that the value in use of the cash generating units Distressed Credit, Quimmo Prestige Agency and Growth Credit is higher than the carrying amount. Similar conclusions were also reached in the second level test, with reference to the Bank as a whole. Therefore, no write-down was necessary for the purposes of the financial statement for the year ended as of 31 December 2023.

The criteria and information used for the impairment tests are significantly influenced by the macroeconomic scenario and by the trends on the financial markets, which could show changes that are not currently foreseeable. If the macroeconomic scenario does deteriorate compared to the current forecast, this would impact the estimates of cash flows and the main assumptions, which could lead to results other than those prospected in these accounts, over the coming years.

Sensitivity tests

As the value in use is determined by using estimates and assumptions that may contain uncertainties, sensitivity tests were carried out as required by IAS/IFRS, aimed at verifying the sensitivity of the results obtained, if certain parameters or underlying assumptions should vary.

From a *stress test* perspective, analyses were carried out in order to highlight the limit values of main assumptions, beyond which the impairment tests would require an impairment of assets to be recognised; in particular, the rate of growth g and the discounting rate that would, assuming the same flows to be discounted, lead to values in use that would be reduced but still greater than the recognition values in the financial statements, both at CGU level and at the level of the Bank as a whole.

		Sensitivity	
		g	Ke
CGU	*Distressed Credit*	1.2%	11.9%
	Growth Credit	>-100%	15.7%
	Quimmo Prestige Agency	-66.1%	28.8%
Digital	*Illimity Bank*	-3.1%	11.2%

Furthermore, an impact was verified on the value in use of the CGUs of a change of up to 50 bps for the discounting rates, the g growth coefficient used to determine cash flows for the purposes of the terminal value, and the capital requirement. The sensitivity analysis also included scenarios in which the terminal value net profit is subject to a contraction of 5%.

For the *Distressed Credit* CGU, the table below shows how an increase in the ke rate of 50 bps to 12.19%, given a limit of 11.9% on the rate, would result in a potential scenario of impairment. This scenario is considered remote, however, considering that market interest rates, which are used to determine the ke, are expected to fall in the near future according to market estimates.

The tables below show the sensitivity analysis of the value in use of the CGUs, to a change in the rate of growth g or in the discounting rate.

TABLE 1 - SENSITIVITY ANALYSIS OF THE DISTRESSED CREDIT CGU

		Ke		
		11.19%	11.69%	12.19%
g	1.50%	4%	-1%	-6%
	2.00%	6%	0%	-5%
	2.50%	8%	2%	-4%

TABLE 2 - SENSITIVITY ANALYSIS OF THE GROWTH CREDIT CGU

		Ke		
		9.82%	10.32%	10.82%
g	1.50%	4%	-2%	-7%
	2.00%	6%	0%	-6%
	2.50%	9%	2%	-4%

TABLE 3 - SENSITIVITY ANALYSIS OF THE QUIMMO PRESTIGE AGENCY CGU

		Ke		
		9.71%	10.21%	10.71%
g	1.50%	2%	-5%	-11%
	2.00%	8%	0%	-7%
	2.50%	14%	6%	-2%

TABLE 4 - SENSITIVITY ANALYSIS OF THE CGU ILLIMITY GROUP

		Ke		
		9.38%	9.88%	10.38%
g	1.50%	5%	-3%	-9%
	2.00%	8%	0%	-7%
	2.50%	11%	3%	-5%

Furthermore, in order to develop a method of control, in the context of second level impairment testing analyses, the progress of the illimity Group's market capitalisation and the relative implied Price/Book Value multiple were observed. With regard to the valuations expressed by the market, the Group's value in use is higher than its market capitalisation.

In any case, it is important to stress that the valuations expressed by the market and financial analysts typically present characteristics that distinguish them from a “fundamental” valuation represented by the value in use. With regard to the underlying objectives of these latter valuations, it should be pointed out that they are intended for financial investors and are therefore carried out from the perspective of defining prices and short-term values.

Such valuations represent the value that can potentially be obtained from the sale, on the stock exchange, of limited quantities of securities, or from the disposal of minority interests, and therefore are strictly anchored in current prices and market conditions. The fair value calculated by analysts typically represents the price of a single share, unlike the value in use, which values the bank’s entire capital.

Conversely, the value in use responds to a general logic according to which the value of an asset is a direct expression of the cash flows that it is capable of generating throughout the period of its use. This value is therefore based partly on the company’s internal expectations, unlike market valuations, which are rooted in the short-term expectations of the market, taking into account elements outside of the Group’s capacity to generate profits in order to remunerate its shareholders.

In conclusion, the impairment tests should be carried out with the awareness that the current economic situation, influenced by the current macroeconomic context, impacts the expected cash flows from operating activities in the short and medium term, but without impairing the main sources of income generation and the competitive advantages that the illimity Group has, as the results from recent years have shown.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**65,372**	**13,335**	**-**	**84,677**	**-**	**163,384**
A.1 Total net write-downs	-	5,348	-	22,935	-	28,283
A.2 Opening net balance	**65,372**	**7,987**	**-**	**61,742**	**-**	**135,101**
B. Increases	**4,620**	**11,331**	**-**	**25,791**	**-**	**41,742**
B.1 Purchases	4,620	4,759	-	20,729	-	30,108
- from business combinations	4,620	-	-	-	-	4,620
B.2 Increases in internal intangible assets	X	3,900	-	2,198	-	6,098
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	2,672	-	2,864	-	5,536
C. Decreases	**-**	**4,829**	**-**	**18,246**	**-**	**23,075**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Write-downs/write-backs	-	2,432	-	15,848	-	18,280
- Amortisation	X	2,003	-	15,406	-	17,409
- Write-downs	-	429	-	442	-	871
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	429	-	442	-	871
C.3 Negative changes in fair value:	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	2,397	-	2,398	-	4,795
D. Closing net balance	**69,992**	**14,489**	**-**	**69,287**	**-**	**153,768**
D.1 Total net write-downs/write-backs	-	4,788	-	36,414	-	41,202
E. Gross closing balance	**69,992**	**19,277**	**-**	**105,700**	**-**	**194,969**
F. Valuation at cost	**-**	**-**	**-**	**-**	**-**	**-**

Legend
DEF: definite useful life
INDEF: indefinite useful life

10.3 Other information

The following information is provided in accordance with IAS 38:

1) there are no revalued intangible assets nor impediments to the distribution of the related gains to shareholders;
2) there are no intangible assets acquired through government concession;
3) there are no intangible assets provided as a guarantee to secure own liabilities nor commitments to buy such assets;
4) there are no leases pertaining to intangible assets.

Section 11 - Tax assets and tax liabilities – Item 110 of assets and Item 60 of liabilities

11.1 Deferred tax assets: breakdown

Tax assets amounted to approximately EUR 61 million as of 31 December 2023, down from the EUR 71 million recognised as of 31 December 2022. Details of the breakdown of tax assets are shown below.

Main deductible temporary differences: IRES	31/12/2023	31/12/2022
Depreciation of loans and receivables with customers	772	1,150
Tax losses	384	317
ACE	-	-
Write-down of securities HTCS/FVOCI	13,542	20,619
Goodwill	32,326	34,465
Others	3,091	2,404
Total	**50,115**	**58,956**

Main deductible temporary differences: IRAP	31/12/2023	31/12/2022
Depreciation of loans and receivables with customers	95	142
Write-down of securities HTCS/FVOCI	2,743	4,176
Goodwill	6,463	6,875
Others	1,504	616
Total	**10,804**	**11,809**

Deferred tax assets refer primarily to the effects of the exercise of the tax relief option on goodwill and other intangible assets recognised in the financial statements following extraordinary operations and purchases of equity investments, and of the write-downs recorded on the portfolio of securities measured at fair value through other comprehensive income.

Deferred tax assets other than those convertible into tax credits (Article 2, paragraph 55 *et seq.* of Italian Legislative Decree no. 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences.

11.2 Deferred tax liabilities: breakdown

As regards tax liabilities, relating to deferred taxes, as of 31 December 2023 they amounted to Euro 3.2 million, compared to Euro 3.4 million as of 31 December 2022.

Main taxable temporary differences: IRES	31/12/2023	31/12/2022
Gains by instalments	-	-
Revaluation of securities FVOCI	91	8
Others	3,089	3,176
Total	**3,180**	**3,184**

Main taxable temporary differences: IRAP	31/12/2023	31/12/2022
Revaluations of FVOCI securities	19	2
Others	67	166
Total	**86**	**168**

Deferred tax liabilities are recognised to reflect the temporary differences between the book value of an asset or liability, and its fiscal value. This recognition takes place in accordance with current tax laws.

11.3 Changes in deferred tax assets (through profit or loss)

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**45,866**	**35,680**
2. Increases	**4,338**	**16,297**
2.1 Deferred tax assets recognised during the year	4,338	16,297
a) related to previous years	-	2,989
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) others	4,338	13,308
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**5,684**	**6,111**
3.1 Deferred tax assets cancelled during the year	4,931	5,961
a) reversals	4,293	5,961
b) write-downs of non-recoverable items	-	-
c) changes in accounting criteria	343	-
d) others	295	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions:	754	150
a) conversion into tax credits pursuant to Italian Law no. 214/2011	-	-
b) other	754	150
4. Final amount	**44,520**	**45,866**

11.4 Changes in deferred tax assets pursuant to Italian Law no. 214/2011

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**1,292**	**1,488**
2. Increases	**-**	**-**
3. Decreases	**425**	**196**
3.1 Reversals	425	196
3.2 Conversion into tax credits	-	-
a) arising from losses for the year	-	-
b) arising from tax losses	-	-
3.3 Other reductions	-	-
4. Final amount	**867**	**1,292**

11.5 Changes in deferred tax liabilities (through profit or loss)

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**31**	**160**
2. Increases	**1,143**	**389**
2.1 Deferred tax liabilities recognised during the year	1,143	-
a) related to previous years	412	-
b) due to changes in accounting criteria	-	-
c) other	-	389
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	731	-
3. Decreases	**80**	**518**
3.1 Deferred taxes derecognised during the year	-	-
a) reversals	80	518
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**1,094**	**31**

11.6 Changes in deferred tax assets (recognised in shareholders' equity)

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**24,898**	**4,824**
2. Increases	**13**	**21,554**
2.1 Deferred tax assets recognised during the year	13	21,554
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	13	21,554
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**8,512**	**1,480**
3.1 Deferred tax assets cancelled during the year	8,512	1,480
a) reversals	8,512	889
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting criteria	-	-
d) others	-	591
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**16,399**	**24,898**

11.7 Changes in deferred taxes (recognised in shareholders' equity)

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**3,321**	**940**
2. Increases	**222**	**2,410**
2.1 Deferred tax liabilities recognised during the year	222	2,410
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	222	2,410
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,371**	**29**
3.1 Deferred taxes derecognised during the year	-	-
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	1,371	29
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**2,172**	**3,321**

11.8 Other information

Current taxes for the year and for prior years, where unpaid, are recognised as liabilities; any surplus paid in terms of an advance on the amount due, is recognised as an asset. The current fiscal liabilities (assets) for the current year and for prior years are determined at the value expected to be paid/recovered from the tax authorities, applying the current tax rates and regulations. Current fiscal assets and liabilities are derecognised in the year in which the assets are realised or the liabilities are discharged.

The tables below show the amounts of the current fiscal assets and liabilities.

Current fiscal assets: breakdown

Type of operations/Values	31/12/2023	31/12/2022
Deferred taxes paid to tax authority	689	7,534
Withholding taxes	18	74
Other receivables from the Treasury	1,130	220
Total	**1,837**	**7,828**

Current fiscal liabilities: breakdown

Main taxable temporary differences: IRAP	31/12/2023	31/12/2022
Balance for the previous year	32,629	16,064
Provision for taxes	21,704	33,372
Withdrawals to pay taxes	(32,629)	(16,064)
Total	**21,704**	**33,372**

Section 12 - Non-current assets held for sale and discontinued operations and associated liabilities – Item 120 of assets and Item 70 of liabilities

12.1 Non-current assets and asset groups held for sale: breakdown by asset type

	Total 31/12/2023	Total 31/12/2022
A. Assets held for sale		
A.1 Financial assets	364,151	-
A.2 Equity investments	-	-
A.3 Property and equipment	-	-
of which: obtained by enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total (A)	**364,151**	**-**
of which measured at cost	364,151	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property and equipment	-	-
of which: obtained by enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total (B)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
C. Liabilities associated with assets held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total (C)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
D. Liabilities associated with discontinued operations		
D.1 Amounts due to customers	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Funds	-	-
D.5 Other liabilities	-	-
Total (D)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-

12.2 Other information

There is nothing to report as of the reporting date.

Section 13 - Other assets – Item 130

13.1 Other assets: breakdown

Items	31/12/2023	31/12/2022
Ecobonus tax credits	119,237	99,390
Miscellaneous items	37,822	78,956
Various borrowers	115,581	111,813
Items being processed	32,562	45,106
Accrued income and prepaid expenses	2,482	5,165
Leasehold improvements	1,965	2,110
Total	**309,649**	**342,540**

The item is largely composed of ecobonus tax credits, miscellaneous items and items being processed, linked to normal banking operations, which will be properly recorded in the days following their generation, and balances due from various borrowers.

LIABILITIES

Section 1 – Amounts due to customers– Item 10

1.1 Amounts due to customers: breakdown of amounts due to banks

Type of operations/Values	Total 31/12/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**100,050**	X	X	X	**382,290**	X	X	X
2. Due to banks	**841,945**	X	X	X	**822,758**	X	X	X
2.1 Current accounts and on-demand deposits	10,172	X	X	X	9,848	X	X	X
2.2 Time deposits	38,387	X	X	X	30,092	X	X	X
2.3 Loans	783,319	X	X	X	751,815	X	X	X
2.3.1 Repurchase agreements - payable	783,319	X	X	X	751,815	X	X	X
2.3.2 Others	-	X	X	X	-	X	X	X
2.4 Liabilities in respect of commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	10,067	X	X	X	31,003	X	X	X
Total	**941,995**	**-**	**-**	**941,995**	**1,205,048**	**-**	**-**	**1,205,048**

Key:

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

The explanation of the criteria for determining fair value is reported in Part A – Accounting policies. Repurchase agreements payables against financial assets sold and not derecognised are detailed in Part E – Section E of the Explanatory notes.

1.2 Amounts due to customers: breakdown of amounts due to customers

Type of operations/Values	Total 31/12/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	779,750	X	X	X	858,461	X	X	X
2. Time deposits	3,567,950	X	X	X	2,542,884	X	X	X
3. Green Loans	139,202	X	X	X	7,125	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	139,202	X	X	X	7,125	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	26,844	X	X	X	26,779	X	X	X
6. Other payables	346	X	X	X	833	X	X	X
Total	**4,514,092**	**-**	**-**	**4,514,092**	**3,436,082**	**-**	**-**	**3,436,082**

Key:

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

1.3 Amounts due to customers: breakdown of securities issued

Type of securities/Values	Total 31/12/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	611,741	594,669	-	-	653,002	630,404	-	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	611,741	594,669	-	-	653,002	630,404	-	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**611,741**	**594,669**	**-**	**-**	**653,002**	**630,404**	**-**	**-**

Key:

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

Securities issued amounted to EUR 611.7 million, down by EUR 41.3 million compared with the end of the 2022 financial year, due to the maturity of a bond in December, which was only partially offset by a new issue for a lower nominal amount.

1.4 Breakdown of subordinated payables/securities

	31/12/2023	31/12/2022
B.1 Subordinated securities	**201,137**	**200,787**
- banks	-	-
- customers	201,137	200,787

1.5 Breakdown of structured debts

The Group does not hold such debts as of the reporting date.

1.6 Payables for leases

At the reporting date, the Group had outstanding payables for leases equal to EUR 26.8 million, divided between EUR 25.2 million relating to property and EUR 1.6 million relating to company cars.

Section 2 - Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product type

Type of operations/Values	Total 31/12/2023					Total 31/12/2022				
	NV	Fair Value			Fair Value	NV	Fair Value			Fair Value
		L1	L2	L3			L1	L2	L3	
A. Cash and cash equivalents liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	-	19,476	-	-	-	-	27,244	-	-
1.1 Held for trading	X	-	19,476	-	X	X	-	27,244	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**-**	**19,476**	**-**	**X**	**X**	**-**	**27,244**	**-**	**X**
Total (A+B)	**X**	**-**	**19,476**	**-**	**X**	**X**	**-**	**27,244**	**-**	**X**

Key:

NV = Nominal Value
L 1 = Level 1
L 2 = Level 2
L 3 = Level 3
Fair value(*) = Fair value calculated excluding changes in value due to a change in the issuer's creditworthiness compared with the issue date.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

The Group does not hold such liabilities as of the reporting date.

2.3 Breakdown of "Financial liabilities held for trading": structured debts

The Group does not hold such liabilities as of the reporting date.

Section 3 - Financial liabilities designated at fair value – Item 30

The Group does not hold such liabilities on the reporting date.

Section 4 - Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2023			NV 31/12/2023	Fair Value 31/12/2022			NV 31/12/2022
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value	-	19,770		497,100	-	32,646	-	624,336
2) Cash flows	-	--	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**19,770**		**497,100**	**-**	**32,646**	**-**	**624,336**

Key:

NV = Nominal Value
L 1 = Level 1
L 2 = Level 2
L 3 = Level 3

4.2 Hedging derivatives: breakdown by portfolios hedged and hedge type

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and share indices	currencies and gold	credit	goods	other				
1. Financial assets measured at fair value through other comprehensive income	1,868	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1,868**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	17,902	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**17,902**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 5 - Fair value change of financial liabilities in hedged portfolio – Item 50

The Group does not hold financial liabilities in hedged portfolio on the reporting date.

Section 6 - Tax liabilities – Item 60

For details of tax liabilities, see *Section 11 – Tax assets and tax liabilities – Item 110 of assets and Item 60 of liabilities*

Section 7 - Liabilities associated with non-current assets held for sale and discontinued operations – Item 70

The Group did not hold liabilities associated with non-current assets held for sale and discontinued operations at the balance sheet date.

Section 8 - Other liabilities – Item 80

8.1 Other liabilities: breakdown

Items	31/12/2023	31/12/2022
Miscellaneous items	54,027	47,582
Due to suppliers	40,601	28,901
Due to the Treasury	27,787	15,446
Due to employees	22,468	12,435
Accrued expenses and deferred income	8,476	4,957
Due to social security and welfare bodies	4,252	3,802
Total	**157,611**	**113,123**

The item consists mainly of miscellaneous items, including tax payables, and trade payables to suppliers.

Section 9 – Employee severance pay – Item 90

Following the reforms to supplementary pensions in Italian legislative decree no. 252 of 5 December 2005, post-employment benefits accruing from 1 January 2007 can be allocated either to supplementary pension schemes or transferred to the INPS pension fund, at the employee's discretion. The provisions take into account the actuarial valuations.

9.1 Employee severance pay: annual changes

	Total 31/12/2023	Total 31/12/2022
A. Opening balance	**3,575**	**3,695**
B. Increases	**2,480**	**2,648**
B.1 Provision for the year	1,116	1,167
B.2 Other changes	1,364	1,481
- from business combinations	25	444
C. Decreases	**1,025**	**2,768**
C.1 Payments made	230	271
C.2 Other changes	795	2,497
- from business combinations	-	1,014
D. Closing balance	**5,030**	**3,575**
Total	**5,030**	**3,575**

The following criteria were used to calculate the TFR for IAS purposes:

SUMMARY OF TECHNICAL ECONOMIC ASSUMPTIONS

	31/12/2023	31/12/2022
Annual discount rate	3.36%	4.17%
Annual inflation rate	2.00%	2.30%
Annual rate of TFR increase	3.00%	3.23%
Annual rate of salary increase	1.00%	1.00%

It should be noted that:

- the annual discount rate used to determine the current value of the obligation is taken, in accordance with paragraph 83 of IAS 19, from the Iboxx Corporate A index with a duration of 10+ as recorded on the measurement date. The yield with a comparable duration to that of the collective body of workers being valued was chosen for this purpose;
- the annual rate of increase in TFR as provided for in Article 2120 of the Italian civil code is 75% of inflation +1.5 percentage points;

The technical demographic assumptions used are illustrated below.

SUMMARY OF TECHNICAL DEMOGRAPHIC ASSUMPTIONS

Death	RG 48 mortality tables published by the State General Accounting Office
Incapacity	INPS tables by age and gender
Retirement	100% on reaching the AGO requirements

9.2 Other information

With regard to the additional information required pursuant to IAS 19, for post-employment defined-benefit plans, please see the paragraph in Section B - Explanatory note of the parent company, illimity Bank S.p.A. – Section 9 – Employee severance pay – Item 90 - “9.2 Other Information”.

Section 10 - Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: breakdown

Items/Components	Total 31/12/2023	Total 31/12/2022
1. Allowances for credit risk relating to commitments and financial guarantees given	5,374	4,863
2. Provisions for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	37	28
4. Other allowances for risks and charges	2,849	1,468
4.1 legal and tax disputes	1,661	767
4.2 personnel cost	1,148	651
4.3 others	40	50
Total	**8,260**	**6,359**

10.2 Allowances for risks and charges: annual changes

	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other allowances for risks and charges	Total
A. Opening balance	**-**	**28**	**1,468**	**1,496**
B. Increases	**-**	**21**	**2,001**	**2,022**
B.1 Provision for the year	-	-	1,915	1,915
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to variations in the discount rate	-	-	-	-
B.4 Other changes	-	21	86	107
- from business combinations	-	-	-	-
C. Decreases	**-**	**12**	**620**	**632**
C.1 Utilisations for the year	-	-	10	10
C.2 Changes due to variations in the discount rate	-	-	-	-
C.3 Other changes	-	12	610	622
- from business combinations	-	-	-	-
D. Closing balance	**-**	**37**	**2,849**	**2,886**

10.3 Allowances for credit risk relating to commitments and financial guarantees given

	Allowances for credit risk relating to commitments and financial guarantees given				
	Stage one	Stage two	Stage three	Purchased or originated impaired	Total
Commitments to disburse funds	519	58	-	4,459	5,036
Financial guarantees	103	235	-	-	338
Total	**622**	**293**	**-**	**4,459**	**5,374**

10.4 Allowances for other commitments and guarantees issued

The Group does not make any provision for other commitments and guarantees issued as of the reporting date.

10.5 Defined-benefit pension funds

Company retirement funds, amounting to EUR 37 thousand, refer to the supplementary benefits of agents of Group companies.

10.6 Allowances for risks and charges – other provisions

The item mainly includes other allowances for risks and charges undertaken in the year related to operations of the Distressed Credit and Growth Credit Divisions.

Section 11 - Insurance liabilities - Item 110

The Group does not conduct insurance business.

Section 12 – Redeemable shares – Item 130

The Group does not hold redeemable shares as of the reporting date.

Section 13 - Group's shareholders' equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Capital" and "Treasury shares": breakdown

As of 31 December 2023, the Bank's share capital amounted to EUR 54,690,661.10, fully subscribed and paid up, divided into 83,916,330 ordinary shares, without indication of the par value.

13.2 Capital - Number of parent company shares: annual changes

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**83,556,663**	**-**
- fully paid-up	83,645,108	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	(88,445)	-
A.2 Shares outstanding: initial balance	**83,556,663**	**-**
B. Increases	**271,222**	**-**
B.1 New issues	-	-
- against payment:	-	-
- bonds converted	-	-
- warrants exercised	-	-
- others	-	-
- free:	-	-
- for employees	-	-
- for directors	-	-
- others	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	271,222	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**83,827,885**	**-**
D.1 Treasury shares (+)	88,445	-
D.2 Shares existing at the end of the year	83,916,330	-
- fully paid-up	83,916,330	-
- not fully paid-up	-	-

13.3 Capital: other information

See Part B - Explanatory notes of the parent company illimity Bank S.p.A. – Section 12 – Bank assets – Items 110, 130, 140, 150, 160, 170 and 180 – "12.3 Capital: other information", which is fully disclosed here.

13.4 Profit reserves: other information

	Balance as of 31/12/2023
Legal reserve	9,082
Extraordinary reserve	10,288
Other Provisions	141,194
Total	**160,564**

13.5 Equity instruments: breakdown and annual changes

The Group does not hold equity instruments.

13.6 Other information

Basic and diluted earnings (loss) per consolidated share

Basic and diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings (loss) per share
Year ended 31 December 2023	104,400	83,712,134	1.25
Year ended 31 December 2022	75,326	81,149,186	0.93

The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the potential shares in service of the Long-Term Incentive (LTI) plan.

Diluted earnings (losses) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (losses) per share
Year ended 31 December 2023	104,400	85,470,710	1.22
Year ended 31 December 2022	75,326	83,180,280	0.91

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 31 December 2023:

	Shareholders' equity	Result
illimity Bank S.p.A.	**958,650**	**102,307**
Effect of consolidation of subsidiaries	4,287	-
Result of subsidiaries	(16,864)	(16,864)
Consolidation adjustments	23,397	22,569
Dividends	-	-
Effect of measuring associates and joint ventures using the equity method	(18,979)	(3,612)
Group	**950,491**	**104,400**

Section 14 - Equity of minority interests – Item 190

14.1 Breakdown of item 210 "shareholders' equity attributable to minority interests"

Company names	Total 31/12/2023	Total 31/12/2022
Investments in consolidated subsidiaries with significant minority interests	-	-
Other equity investments	5,611	5
Total	**5,611**	**5**

14.2 Equity instruments: breakdown and annual changes

The Group does not hold such instruments as of the reporting date.

Other information

1. Commitments and financial guarantees issued

	Nominal value on commitments and financial guarantees given				Total 31/12/2023	Total 31/12/2022
	Stage one	Stage two	Stage three	Purchased or originated impaired		
1. Commitments to disburse funds	**199,804**	**18,841**	**9,502**	**53,819**	**281,966**	**142,770**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	-	-	-	-	-	-
d) Other financial companies	131,757	-	-	1,675	149,825	54,186
e) Non-financial companies	66,168	18,794	9,497	49,973	128,038	156,816
f) Households	1,879	47	5	2,171	4,102	2,409
2. Financial guarantees issued	**15,704**	**13,020**	**103**	**12,291**	**41,118**	**7,270**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	84	-	-	-	84	84
d) Other financial companies	-	-	-	-	-	-
e) Non-financial companies	15,601	13,020	103	11,004	39,728	13,522
f) Households	19	-	-	1,287	1,306	19

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2023	Nominal value Total 31/12/2022
1. Other guarantees issued		
of which: non-performing loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments		
of which: non-performing loans	2,687	2,295
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	12,589	8,843
e) Non-financial companies	24,357	37,742
f) Households	-	-

3. Assets given as collateral for own liabilities and commitments 3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2023	Amount 31/12/2022
1. Financial assets measured at fair value through profit or loss	79,612	1,634
2. Financial assets measured at fair value through other comprehensive income	281,654	217,196
3. Financial assets measured at amortised cost	1,258,651	419,684
4. Property and equipment	-	-
of which: Property and Equipment held as inventories	-	-

4. Administration and brokerage for third parties

Type of service	Amount
1. Execution of orders for customers	**-**
a) purchases	-
1. settled	-
2. not settled	-
b) sales	-
1. settled	-
2. not settled	-
2. Portfolio management	**-**
a) individual	-
b) collective	-
3. Custody and administration of securities	**4,697,637**
a) third-party securities held in deposit: relating to depositary bank activities (excluding portfolio management)	-
1. securities issued by companies included in the consolidation	-
2. other securities	-
b) third party securities deposited (excluding portfolio management): others	-
1. securities issued by companies included in the consolidation	-
2. other securities	11,767
c) third party securities deposited with third parties	951,094
d) proprietary securities deposited with third parties	3,734,776
4. Other transactions	**-**

5. Assets subject to offsetting in financial statements, or subject to master netting agreements or similar agreements

Technical formats	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Related amounts not offset in the financial statements		Net amount (f=c-d-e) 31/12/2023	Net amount 31/12/2022
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	70,989	-	70,989	-	70,989	-	-
2. Repurchase agreements	60,940	-	60,940	60,940	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 31/12/2023	**131,929**	**-**	**131,929**	**60,940**	**70,989**	**-**	**X**
Total 31/12/2022	**60,788**	**-**	**60,788**	**-**	**60,788**	**X**	**-**

6. *Financial liabilities subject to offsetting in financial statements, or subject to master netting agreements and or similar agreements*

Technical formats	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Related amounts not subject to accounting offsetting		Net amount (f=c-d-e) 31/12/2023	Net amount 31/12/2022
				Financial instruments (d)	Cash deposits as guarantees (e)		
1. Derivatives	49,301	-	49,301	-	49,301	-	
2. Repurchase agreements	783,319	-	783,319	783,319	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2023	**832,620**	**-**	**832,620**	**783,319**	**49,301**	**-**	**X**
Total 31/12/2022	**799,650**	**-**	**799,650**	**751,815**	**47,835**	**-**	**-**

Since 1 January 2013, the changes to IFRS 7 concerning disclosures on set-off agreements, as approved with Regulation no. 1256 of 13 December 2012, came into mandatory application. IFRS 7 requires specific disclosures to be given about financial instruments that have been offset in the statement of financial position under IAS 32, and which can potentially be offset under certain conditions, but presented in the statement of financial position with opening balances as they are regulated by "master netting agreements or similar" which do not however meet the criteria of IAS 32 to make the set off in the financial statements.

In providing *disclosures* of these agreements, the standard also requires that consideration be given to the effects of the real financial guarantees (including guarantees in cash) received and given.

7. *Securities lending transactions*

There are no securities lending transactions at the reference date.

8. *Disclosure on joint control activities*

The 2021 financial year saw Hype S.p.A. enter the illimity Group's scope of consolidation using the equity method, pursuant to the Bank's 50% stake in the company.

The information pursuant to IFRS 12, paragraphs 3 and 21 a), is provided in sections 7.1 and 7.3 of part B (statement of financial position - assets) of these Explanatory Notes.

Part C – Information on the consolidated income statement

Section 1 - Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Green Loans	Other transactions	Total 31/12/2023	Total 31/12/2022
1. Financial assets measured at fair value through profit or loss:	**377**	**402**	**-**	**779**	**1,782**
1.1 Financial assets held for trading	77	-	-	77	-
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	300	402	-	702	1,782
2. Financial assets measured at fair value through other comprehensive income	**10,726**	**-**	**X**	**10,726**	**8,135**
3. Financial assets measured at amortised cost:	**53,351**	**296,007**	**-**	**349,358**	**220,948**
3.1 Due from banks	-	15,762	X	15,762	1,284
3.2 Loans to customers	53,351	280,245	X	333,596	219,664
4. Hedging derivatives	**X**	**X**	**32,089**	**32,089**	**4,394**
5. Other assets	**X**	**X**	**3,130**	**3,130**	**2,220**
6. Financial liabilities	**X**	**X**	**X**	**1,209**	**1,214**
Total	**64,454**	**296,409**	**35,219**	**397,291**	**238,693**
of which: interest income on impaired assets	8,544	119,075	-	127,619	134,044
of which: interest income on finance leasing	X	1,237	X	1,237	1,345

1.2 Interest income and similar income: other information

1.2.1 Interest income on assets denominated in foreign currency

Items/Values	31/12/2023	31/12/2022
Interest income on assets denominated in foreign currency	4,091	2,149

1.3 *Interest expense and similar charges: breakdown*

Items/Technical forms	Debt	Securities	Other transactions	Total 31/12/2023	Total 31/12/2022
1. Amounts due to customers	**(131,991)**	**(36,901)**	**X**	**(168,892)**	**(68,418)**
1.1 Amounts due to central banks	(2,464)	X	X	(2,464)	(406)
1.2 Amounts due to banks	(35,799)	X	X	(35,799)	(5,549)
1.3 Amounts due to customers	(93,728)	X	X	(93,728)	(41,703)
1.4. Securities issued	X	(36,901)	X	(36,901)	(20,760)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**-**	**-**	**-**
5. Hedging derivatives	**X**	**X**	**(32,909)**	**(32,909)**	**(4,435)**
6. Financial assets	**X**	**X**	**X**	**(928)**	**(1,705)**
Total	**(131,991)**	**(36,901)**	**(32,909)**	**(202,729)**	**(74,558)**
of which: interest expense relative to leasing liabilities	(1,771)	X	X	(1,771)	(1,675)

1.4 *Interest expense and similar charges: other information*

1.4.1 Interest expense on liabilities denominated in foreign currency

Items/Values	31/12/2023	31/12/2022
Interest expenses on liabilities denominated in foreign currency	-	(14)

1.5 *Differentials arising from hedging transactions*

Items	Total 31/12/2023	Total 31/12/2022
A. Differentials arising from hedging transactions	32,089	4,394
B. Negative differentials arising from hedging transactions	(32,909)	(4,435)
C. Balance (A-B)	**(820)**	**(41)**

Section 2 - Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Values	Total 31/12/2023	Total 31/12/2022
a) Financial instruments	100	1
1. Placement of securities	100	1
1.1 With underwriting and/or on the basis of an irrevocable commitment	-	-
1.2 Without an irrevocable commitment	100	1
2. Receipt and transmission of orders and execution of orders for customers	-	-
2.1 Receipt and transmission of orders of one or more financial instruments	-	-
2.2 Execution of orders for customers	-	-
3. Other fees and commissions connected with activities related to financial instruments	-	-
of which: proprietary trading	-	-
of which: individual portfolio management	-	-
b) Corporate Finance	3,653	5,419
1. Consultancy on mergers and acquisitions	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	3,653	5,419
c) Investment consultancy activities	-	-
d) Netting and settlement	-	-
e) Collective portfolio management	5,569	3,697
f) Custody and administration	-	1
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	-	1
g) Central administrative services for collective portfolio management	-	-
h) Fiduciary activities	-	-
i) Payment services	1,854	1,259
1. Current accounts	777	375
2. Credit cards	634	491
3. Debit cards and other payment cards	104	97
4. Bank transfers and other payment orders	140	112
5. Other fees and commissions related to payment services	199	184
j) Distribution of third party services	134	216
1. Collective portfolio management	-	-
2. Insurance products	2	4
3. Other products	132	212
of which: individual portfolio management	-	-
k) Structured finance	-	-
l) Servicing activities for securitisation operations	18,108	5,811
m) Commitments to disburse funds	-	-
n) Financial guarantees issued	1,298	250
of which: credit derivatives	-	-
o) Loan operations	37,060	31,423
of which: for factoring operations	9,435	6,947
p) Currency trading	56	60
q) Goods	-	-
r) Other fee and commission income	14,416	17,564
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading systems	-	-
Total	**82,248**	**65,701**

The item “r) Other fee and commission income” refers primarily to ecobonus commissions (operations carried out by the Bank), as well as those deriving from the specific business of the Group companies Abilio, Quimmo Agency, Quimmo Prestige Agency and Industrial Discount – and, in particular, commissions from auctions and associated services accrued for the use of the companies’ property portals.

2.2 Fee and commission expenses: breakdown

Type of service/Values	Total 31/12/2023	Total 31/12/2022
a) Financial instruments	-	-
of which: trading in financial instruments	-	-
of which: placement of financial instruments	-	-
of which: individual portfolio management	-	-
- Proprietary	-	-
- Delegated to third parties	-	-
b) Netting and settlement	-	-
c) Collective portfolio management	-	-
1. Proprietary	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(356)	(239)
e) Collection and payment services	(2,009)	(1,595)
of which: credit cards, debit cards and other payment cards	(1,709)	(1,292)
f) Servicing activities for securitisation operations	(103)	(398)
g) Commitments to receive funds	-	-
h) Financial guarantees received	(81)	-
of which: credit derivatives	-	-
i) Off-site distribution of financial instruments, products and services	-	-
j) Currency trading	-	-
k) Other fee and commission expense	(5,287)	(4,219)
Total	**(7,836)**	**(6,451)**

Section 3 - Dividends and similar income – Item 70

Items/Income	Total 31/12/2023		Total 31/12/2022	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	45	-	200
C. Financial assets measured at fair value through other comprehensive income	-	-	-	-
D. Equity investments	-	-	-	-
Total	**-**	**45**	**-**	**200**

Section 4 - Profits (losses) on trading – Item 80

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**(10)**	**(80)**	**(90)**
1.1 Debt securities	-	-	-	(80)	(80)
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	(10)	-	(10)
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**(2,990)**
4. Derivatives	**66,607**	**40,935**	**(65,489)**	**(41,666)**	**2,621**
4.1 Financial derivatives:	66,607	40,935	(65,489)	(41,666)	2,621
- On debt securities and interest rates	66,607	40,935	(65,489)	(41,666)	387
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	2,234
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	-
Total	**66,607**	**40,935**	**(65,499)**	**(41,746)**	**(459)**

Section 5 - Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income items/Amounts	Total 31/12/2023	Total 31/12/2022
A. Income relating to:		
A.1 Fair value hedging derivatives	63,657	17,624
A.2 Hedged financial assets (fair value)	31,770	8,770
A.3 Hedged financial liabilities (fair value)	11,876	3,266
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total income from hedging (A)	**107,303**	**29,660**
B. Costs relating to:		
B.1 Fair value hedging derivatives	(56,355)	(12,036)
B.2 Hedged financial assets (fair value)	(20,540)	(16,421)
B.3 Hedged financial liabilities (fair value)	(30,794)	(1,203)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total costs from hedging (B)	**(107,689)**	**(29,660)**
C. Fair value adjustments in hedge accounting (A - B)	**(386)**	**-**
of which: result of hedging of net positions	-	-

Section 6 - Profits (Losses) on disposal/repurchase – Item 100

6.1 Profits (Losses) on disposal/repurchase: breakdown

Item/Income item	Total 31/12/2023			Total 31/12/2022		
	Profit	Loss	Net profit/loss	Profit	Loss	Net profit/loss
Financial assets						
1. Financial assets measured at amortised cost	30,788	(30,919)	(131)	296	(285)	11
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	30,788	(30,919)	(131)	296	(285)	11
2. Financial assets measured at fair value through other comprehensive income	1,960	(2,684)	(724)	869	(1,043)	(174)
2.1 Debt securities	1,960	(2,684)	(724)	869	(1,043)	(174)
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**32,748**	**(33,603)**	**(855)**	**1,165**	**(1,328)**	**(163)**
Amounts due to customers	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	(304)	(304)
Total liabilities (B)	**-**	**-**	**-**	**-**	**(304)**	**(304)**

Section 7 - Profits (losses) on other financial assets and liabilities measured at *fair value* through profit or loss – Item 110

7.1 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

Group did not record any profits or losses from such financial assets or liabilities at fair value in 2023.

7.2 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transaction/Income items	Capital gains (A)	Realised profits (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**3,626**	**6,350**	**(316)**	**(2,164)**	**7,496**
1.1 Debt securities	-	29	-	(7)	22
1.2 Equity instruments	-	6,321	-	(433)	5,888
1.3 UCITS units	574	-	(316)	(1)	257
1.4 Loans	3,052	-	-	(1,723)	1,329
2. Financial assets: foreign exchange differences	X	X	X	X	-
Total	**3,626**	**6,350**	**(316)**	**(2,164)**	**7,496**

Section 8 – Net losses/recoveries for credit risk – Item 130

8.1 Net losses/recoveries for credit risk relating to financial assets measured at amortised cost: breakdown

Transaction/ Income items	Write-downs (1)						Write-backs (2)				Total 31/12/2023	Total 31/12/2022
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Due from banks	**(86)**	**-**	**-**	**-**	**-**	**-**	**2**		**-**	**-**	**(84)**	**214**
- Loans	(86)	-	-	-	-	-	2	-	-	-	(84)	214
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(6,778)**	**(2,386)**	**-**	**(13,977)**	**-**	**(150,315)**	**51,922**	**3,186**	**1,980**	**182,128**	**65,760**	**49,969**
- Loans	(5,708)	(2,386)	-	(13,444)	-	(150,315)	50,225	2,889	1,980	166,197	49,438	52,616
- Debt securities	(1,070)	-	-	(533)	-	-	1,697	297	-	15,931	16,322	(2,647)
Total	**(6,864)**	**(2,386)**	**-**	**(13,977)**	**-**	**(150,315)**	**51,924**	**3,186**	**1,980**	**182,128**	**65,676**	**50,183**

The sub-item "purchased or originated *impaired* financial assets" refers to the amount of write-downs/ write-backs of loans classified as purchased or originated impaired loans as a result of receipts or revisions of business plans.

8.2 Net losses/recoveries for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transaction/ Income items	Write-downs (1)						Write-backs (2)				Total 31/12/2023	Total 31/12/2022
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Debt securities	(320)	-	-	(917)	-	-	812	295	-	-	(130)	(1,291)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(320)**	**-**	**-**	**(917)**	**-**	**-**	**812**	**295**	**-**	**-**	**(130)**	**(1,291)**

Section 9 - Profits/losses on changes in contracts without derecognition – item 140

No profits or losses on changes in contracts without derecognition were recognised as of 31 December 2023.

Section 10 – Profit (loss) from insurance services - Item 160

The Group does not conduct insurance business.

Section 11 - Balance of financial revenues and costs relating to insurance management - Item 170

The Group does not conduct insurance business.

Section 12 – Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of expense/Amount	Total 31/12/2023	Total 31/12/2022
1) Employees	(100,878)	(81,805)
a) wages and salaries	(49,767)	(43,609)
b) social security contributions	(14,017)	(12,568)
c) provision for employee severance pay	-	-
d) pension costs	-	-
e) provision for employee severance pay	(1,863)	(1,637)
f) provision for post-employment benefits and similar provisions:	(142)	(112)
- defined contribution	(142)	(112)
- defined benefits	-	-
g) payments to external supplementary pension funds:	(1,626)	(1,349)
- defined contribution	(1,626)	(1,349)
- defined benefits	-	-
h) costs related to share-based payments	(1,966)	(984)
i) other employee benefits	(31,497)	(21,546)
2) Other personnel in service	(1,162)	(1,580)
3) Directors and statutory auditors	(3,017)	(2,484)
4) Early retirement costs	-	-
Total	**(105,057)**	**(85,869)**

12.2 Average number of employees per category

Category	2023
a) senior managers	80
b) middle managers	380
c) other employees	431
Total employees	**891**
Other personnel	**65**

12.3 Defined-benefit pension funds: costs and revenues

This item includes retirement funds for supplementary benefits of agents of a Group company.

12.4 Other employee benefits

The other benefits to employees mainly relate to remunerated benefits, canteen vouchers and various insurance policies.

12.5 Other administrative expenses: breakdown

Type of expense/Amount	31/12/2023	31/12/2022
Insurance	(3,506)	(3,236)
Various consulting services	(12,366)	(11,024)
Sundry contributions	(7,899)	(6,703)
Cost of services	(5,904)	(4,889)
Financial information	(4,429)	(3,315)
Adverts and advertising	(5,817)	(6,206)
Financial statement audit	(1,213)	(802)
IT and software expenses	(25,361)	(25,425)
Legal and notary's fees	(9,536)	(9,177)
Property management expenses	(4,030)	(3,946)
Expenses for professional services	(13,876)	(10,571)
Utilities and services	(1,437)	(1,706)
Other indirect taxes and duties	(10,951)	(9,355)
Others	(6,170)	(4,773)
Total 31/12/2023	**(112,495)**	**(101,128)**

Section 13 – Net provisions for allowances for risks and charges – Item 200

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

Items/Values	Write-downs/write-backs			Recoveries			Total 31/12/2023
	Stage one and Stage two	Stage three	Impaired	Stage one and Stage two	Stage three	Impaired	
Guarantees issued	(285)	-	-	60	-	-	(225)
Irrevocable commitments to disburse funds	(476)	-	(3,381)	94	-	3,477	(286)
Total 31/12/2023	**(761)**	**-**	**(3,381)**	**154**	**-**	**3,477**	**(511)**
Total 31/12/2022	**(154)**	**-**	**(2,746)**	**193**	**5**	**2,033**	**(669)**

13.2 Net provisions relating to other commitments and guarantees issued: breakdown

The Group did not make any net provisions relating to other commitments and guarantees issued over the course of the year.

13.3 Net provisions for other allowances for risks and charges: breakdown

The item "Net provisions for allowances for risks and charges", which has a negative balance of EUR 272 thousand (compared with a negative balance of EUR 38 thousand as of 31 December 2022), includes provisions for legal disputes for the year, as well as other risks and charges, net of reallocations.

Section 14 - Net adjustments/recoveries on property and equipment - Item 210

14.1. Net adjustments/recoveries on property and equipment: breakdown

Asset/Income items	Amortisation (a)	Write-downs/ write-backs for impairment (b)	Recoveries (c)	Net profit/loss (a + b - c)
A. Property and equipment				
1 For business use	(3,681)	-	-	(3,681)
- Owned	(388)	-	-	(388)
- Rights of use acquired through lease agreements	(3,293)	-	-	(3,293)
2 Held for investment purposes	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through lease agreements	-	-	-	-
3 Inventories	X	(6,214)	-	(6,214)
Total	**(3,681)**	**(6,214)**	**-**	**(9,895)**

Section 15 - Net adjustments/recoveries on intangible assets – Item 220

15.1 Net write-downs/write-backs on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Write-downs/ write-backs for impairment (b)	Recoveries (c)	Net profit/loss (a + b - c)
A. Intangible assets				
of which: software	(17,409)	-	-	(17,409)
A.1 Owned	(17,409)	(871)	-	(18,280)
- Generated internally by the company	(2,003)	(429)	-	(2,432)
- Other	(15,406)	(442)	-	(15,848)
A.2 Rights of use acquired through lease agreements	-	-	-	-
B. Assets held for sale	**-**	**-**	**-**	**-**
Total	**(17,409)**	**(871)**	**-**	**(18,280)**

Section 16 - Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

Items/Technical forms	31/12/2023	31/12/2022
Amortisation of expenses for improvements on third party assets	(232)	(155)
Other operating expenses	(8,143)	(1,087)
Total	**(8,375)**	**(1,242)**

Other operating expenses includes non-recurring adjustments relating to trade receivables for approximately EUR 4.3 million.

16.2 Other operating income: breakdown

Items/Technical forms	31/12/2023	31/12/2022
Recoveries of expenses from other customers	6,260	7,785
Other income	59,518	17,966
Rental income	2,986	3,206
Total	**68,764**	**28,957**

The increase in other operating expenses is mainly attributable to the commercial agreement with the Engineering Group for EUR 54 million, recognised in the second quarter of the current year, in addition to EUR 0.4 million recognised in the 2023 financial year in relation to the time value component associated with the deferral of part of the consideration. This agreement, which brought non-recurring economic benefits in the 2023 financial year, involves a long-term industrial partnership relating to the IT platform. Other main components refer to recoveries of expenses and rental income for the management of real-estate complexes, recognised under Property and Equipment, acquired through Datio in solutum operations.

Section 17 – Profits (losses) on equity investments – Item 250

17.1 Profits (losses) on equity investments: breakdown

Income items/Sectors	Total 31/12/2023	Total 31/12/2022
1) Jointly controlled companies		
A. Income	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Costs	(3,102)	(7,339)
1. Write-downs	(3,102)	(7,339)
2. Write-downs/write-backs for impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net profit/loss	**(3,102)**	**(7,339)**
2) Companies in which significant influence is exercised		
A. Income	119	-
1. Revaluations	119	-
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Costs	(510)	(294)
1. Write-downs	(510)	(294)
2. Write-downs/write-backs for impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net profit/loss	**(391)**	**(294)**
Total	**(3,493)**	**(7,633)**

Section 18 – Net gains/losses on the measurement at fair value of property and equipment and intangible assets - Item 260

The Group did not hold property and equipment and intangible assets measured at fair value during the year.

Section 19 - Write-downs/write-backs of goodwill – Item 270

There is no write-down/write-back of goodwill.

Section 20 - Profits (losses) on disposal of investments – Item 280

20.1 Profits (losses) on disposal: breakdown

Income items/Sectors	Total 31/12/2023	Total 31/12/2022
A. Property	994	18
- Gains on disposal	1,001	18
- Losses on disposal	(7)	-
B. Other assets	-	248
- Gains on disposal	-	343
- Losses on disposal	-	(95)
Net profit/loss	**994**	**266**

Section 21 - Income tax for the year on continuing operations – Item 300

21.1 Income tax for the year on continuing operations: breakdown

Income items/Sectors	Total 31/12/2023	Total 31/12/2022
1. Current tax (-)	(47,657)	(35,828)
2. Adjustment to current taxes for prior years (+/-)	2,139	(22)
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current tax for the year due to tax credits (Italian Law 214/2011 (+))	-	-
4. Change in deferred tax assets (+/-)	(1,346)	(10,186)
5. Change in deferred taxes (+/-)	(1,063)	128
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(47,927)**	**(25,536)**

Total income tax for the year amounts to EUR 47,927 thousand, broken down as follows: an expense of EUR 47,657 thousand relating to current taxes and substitute taxes, an income of EUR 2,139 thousand relating to current taxes for the previous financial year, an expense of EUR 1,346 thousand relating to the change in prepaid IRES and IRAP taxes, and an expense of EUR 1,063 thousand relating to the change in deferred IRES taxes.

21.2 Reconciliation of theoretical tax charge with actual tax charge

Items/Components	31/12/2023
Profit (loss) from continuing operations before tax	**151,744**
IRES - theoretical tax charge (27.5%)	(41,730)
effect of lower rate	188
effect of non-deductible expenses and other increases - permanent	(1,547)
effect of non-taxable income and other decreases - permanent	2,702
Non-current IRES	1,780
IRES - actual tax charge	**(38,607)**
IRAP - theoretical tax charge (5.57%)	(8,452)
effect of lower rate	208
effect of income/charges that to not contribute to the taxable base	(1,435)
Non-current IRAP	359
IRAP - actual tax charge	**(9,320)**
Other taxes	**-**
Financial statements actual tax charge	**(47,927)**

The theoretical tax charge, considered on an individual basis, was equal to 33.07% (27.5% ordinary and additional IRES and 5.57% IRAP), for banks and financial entities, and equal to 27.9% (24% ordinary and additional IRES and 3.9% IRAP) for industrial and service companies. The effective tax rate in 2023 was 31.58%. The effective tax rate is lower than the theoretical tax rate due to the positive effects primarily of the tax relief measure resulting from the "Patent Box" regime and the "ACE" deduction, as well as the negative effects of the loss generated by the joint venture Hype S.p.A.

Section 22 - Profit (loss) from discontinued operations after tax – Item 320

The group does not have any discontinued operations after tax.

Section 23 - Profit (loss) for the financial year attributable to minority interests – Item 340

23.1 Breakdown of item 340 "Profit (loss) for the financial year attributable to minority interests"

Company names	Total 31/12/2023	Total 31/12/2022
Investments in consolidated subsidiaries with significant minority interests	-	-
Other equity investments	586	-
Total	**586**	**-**

Section 24 - Other information

No information other than that already provided in the previous sections is reported.

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

The basic earnings (losses) per share is calculated by dividing the Group's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

Basic and diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings (loss) per share
Year ended 31 December 2023	104,400	83,712,134	1.25
Year ended 31 December 2022	75,326	81,149,186	0.93

The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the potential shares in service of the Long-Term Incentive (LTI) plan.

Diluted earnings (losses) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (losses) per share
Year ended 31 December 2023	104,400	85,470,710	1.22
Year ended 31 December 2022	75,326	83,180,280	0.91

25.2 Other information

There is no other information as of the reporting date.

Part D - Consolidated Comprehensive Income

ANALYTICAL STATEMENT OF THE CONSOLIDATED COMPREHENSIVE INCOME

		31/12/2023	31/12/2022
10.	**Profit (loss) for the year**	**103,814**	**75,326**
	Other income components not transferred to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income:	-	1
	a) fair value changes	-	1
	b) transfers to other items of shareholders' equity	-	-
30.	Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)	-	-
	a) fair value changes	-	-
	b) transfers to other items of shareholders' equity	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income		-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(597)	1,277
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity	(48)	49
100.	Financial revenues or costs relating to insurance policies issued	-	-
110.	Other income components without recycling to the income statement	171	(328)
	Other income components with recycling to the income statement		
120.	Hedging of foreign investments		-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
130.	Foreign exchange differences		-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
140.	Cash flow hedges		-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes of which: result of net positions	-	-
150.	Hedging instruments (undesignated elements)		-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
160.	Financial assets (other than equities) measured at fair value through other comprehensive income:	26,166	(63,973)
	a) fair value changes	26,760	(65,057)
	b) reclassification through income statement	(594)	1,084
	- adjustments for credit risk	130	1,292
	- profits/losses on disposals	(724)	(208)
	c) other changes	-	-
170.	Non-current assets and asset groups held for sale:		-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
180.	Share of valuation reserves for equity investments measured at equity:		-
	a) fair value changes	-	-
	b) reclassification through income statement		-
	- adjustment due to impairment	-	-
	- profits/losses on disposals	-	-
	c) other changes	-	-
190.	Financial revenues or costs relating to insurance policies issued		
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
200.	Financial revenues or costs relating to disposals in reinsurance		
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
210.	Income taxes relating to other income components with recycling to the income statement	(7,845)	21,156
220.	**Total other income components**	**17,847**	**(41,818)**
230.	**Other comprehensive income (Item 10+220)**	**121,661**	**35,508**
240.	Consolidated comprehensive income attributable to minority interests	**594**	-
250.	**Consolidated comprehensive income attributable to the Parent Company**	**122,255**	**35,508**

Part E - Information on risks and related hedging policies

Introduction

Risk Management Process and Internal Control System

The illimity Group has a structured Risk Management Process (PGR), used as a reference model in the organisational and procedural development and systematic performance of all operations and business activities put in place - which may be standard, or non-systematic or contingent. In line with the mission assigned, strategies and objectives pursued, these operations and activities entail undertaking and continually managing risks, in order to contribute to a sustainable value creation process, while also ensuring regulatory compliance and, among others, a coordinated use of human resources, technologies and methodologies.

In fact, at a general level, the Group implements the aforementioned process through an organisation model that requires the coordinated use of human resources, technologies and methodologies based on a set of internal rules that define the structure of management controls, the policies (rules, authorities, objectives and limits in governing risks of various operating and business segments), and the processes in which the activities are carried out, including the control activities.

The Board of Directors of the Parent Company plays a fundamental role in risk control. It sets the strategic guidelines, approves the risk management policies and assesses the level of efficiency and adequacy of the Internal Control System. The Board of Directors relies on the Risks Committee and the Management Committee to carry out the preparatory and advisory work relating to internal control and the monitoring of business risks. In collaboration with the Chief Executive Officer, it is also responsible for the implementation of strategic guidelines, the Risk Appetite Framework ("RAF") and risk governance policies.

The Audit and Internal Control Committee monitors the adequacy and concrete functioning of the company's organisational structure and internal control system and supports the Board of Directors in defining the guidelines for the internal control and risk management system, in line with the Bank's strategies and in assessing, at least annually, the adequacy of that system with respect to the characteristics of the Bank and the risk profile assumed, as well as the efficacy of the system.

The CRO Division oversees the "second level" control activities as a Risk Management Function, ensuring, through the support of the technical functions concerned, constant control of the risks assumed by the Group, governing the process of identification, analysis, modelling, assessment, measuring, controlling and reporting.

The Chief Compliance & AFC Officer, as a function of second-level control, oversees regulatory compliance, with a view to preventing, managing and mitigating the risk of incurring legal or administrative penalties, major financial losses or damage to reputation resulting from violations of mandatory regulations or self-regulation, as well as preventing money laundering and terrorist financing risk and the risk of breach of financial sanctions. The Chief Compliance & AFC Officer is also responsible for overseeing issues relating to the processing of personal data and supports the Data Protection Officer, in accordance with the applicable regulations in force.

The Internal Audit Department oversees the so-called "third level" control activities as the Internal Audit Function. Specifically, it monitors the regular performance of operations and the evolution of risks, and assesses the completeness, adequacy, functionality and reliability of the organisational structure and the internal control system, notifying the company bodies of possible improvements, with specific regard to the RAF, the risk management process and the risk measurement and monitoring tools.

To ensure that the Risk Management Process functions efficiently and effectively, and can fully cover all existing or potential risks, also in accordance with regulatory requirements, the Group has implemented:

- a system of risk limits and objectives of the RAF, that represents an organic and structured approach which has implications on integrated risk management and governance processes, producing impacts on nearly all company functions. The RAF is structured and set out at an operational level by Company, Business Division and business segment, and covers escalation processes, metrics and quantitative limits, as well as qualitative guidelines, indicated annually in the Risk Appetite Statement (RAS). The formalisation of the risk management process is fundamental to ensure a sound and prudent company management;
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process ILAAP), which have the objective of providing an internal assessment of the assets with respect to exposure to the risks that characterise their operations and the operational and structural liquidity profile, under ordinary and stressed conditions, also on a forward-looking basis on achievement of the objectives of the Strategic Plan and the Budget;
- a process for the ex ante assessment of Major Transactions (OMR), with a prior opinion on their sustainability at a credit and income level and coherence with the RAF.

In conjunction with these processes to manage and control risk under normal operating conditions, the Group has implemented a process connected with drawing up the Recovery Plan, which governs the management of crisis situations, and strategies and options for intervention designed to restore ordinary operations, as well as the Contingency Funding Plan procedure (emergency plan to manage liquidity in crisis situations).

In accordance with the prudential regulatory provisions, the Group has defined the way in which information is provided to the public about its capital adequacy, risk exposure and the general characteristics of the systems it uses to identify, measure, manage and control these risks (so-called Third pillar of Basel 2 – "Pillar 3"), a separate report in addition to the information given in this financial report. The report is published in accordance with the rules laid down by the Bank of Italy on its website at www.illimity.com (Investor Relations section).

The Group has defined, codified and continually adopted an operational risk mapping process based on quali-quantitative metrics and rules shared within the organisation, which identifies the individual types of risk that the Group is or might be exposed to, and also assesses these risks according to specific drivers which may represent the materiality of the risk itself.

The result of the identification process is contained in the "Risk Radar" risk map, the objective of which is to represent, in relative terms, the risks inherent in the Group's operations, and to structure them according to the business lines that generate these risks, as a functional requirement to determine the overall risk exposure.

The execution of the process to identify material risks for the Group is overseen by the CRO Division, together with the Chief Financial Officer (CFO) and with the support of other organisational units of the Parent Company and subsidiaries.

The results of this process represent the assessment and input measures used to develop processes related to the ICAAP and ILAAP, i.e. the Strategic Plan, Budget and RAF, and are therefore validated by top management, discussed and analysed by the Risks Committee, and subject to approval by the Board of Directors of the Parent Company.

Below is comprehensive information about the risk governance system and specific information about material risks, indicated below, and the related management, control and hedging policies adopted by the Group:

- credit risk (which also includes concentration risk);
- market risk (interest rate risk and price risk - regulatory trading portfolio);
- interest rate (interest rate risk and price risk of banking portfolio);
- liquidity risk;
- operational risk;

- ICT and security risk;
- ESG risk (for further information, please refer to the information published in the Consolidated Non-Financial Statement of the illimity Group (pursuant to Italian Legislative Decree 254/2016).

The other risks considered relevant as a result of the *risk mapping* process described above are also subsequently reported and defined.

The Group also has a system of quantitative limits with reference to assets at risk towards related parties and others. In accordance with the relevant supervisory provisions, indication of the level of risk appetite required by the provisions for the determination and formalisation by banks and banking entities was planned, defined in terms of the maximum limit of the lines of credit granted to related parties deemed acceptable in relation to the total lines of credit granted by illimity Bank.

Further limits are envisaged with reference to the exposures granted to subjects in conflict of interest pursuant to Article 2391 of the Italian civil code, bankruptcy proceedings, as well as stricter limits than the regulations for the individual borrower or connected group.

Section 1 - Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

Portfolio/quality	Bad loans	Unlikely-to-pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	350,560	599,072	36,070	203,028	3,572,999	4,761,729
2. Financial assets measured at fair value through other comprehensive income	-	944	-	-	455,232	456,176
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	3,305	-	-	46,243	49,548
5. Financial assets held for sale	96,452	56,225	1,441	-	210,031	364,149
Total 31/12/2023	**447,012**	**659,546**	**37,511**	**203,028**	**4,284,505**	**5,631,602**
Total 31/12/2022	**624,893**	**649,973**	**1,010**	**79,903**	**3,466,492**	**4,822,271**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total write-downs/ write-backs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs/ write-backs	Net exposure	
1. Financial assets measured at amortised cost	1,017,809	(32,107)	985,702	-	3,988,026	(211,999)	3,776,027	4,761,729
2. Financial assets measured at fair value through other comprehensive income	1,861	(917)	944	-	456,757	(1,525)	455,232	456,176
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	3,305	-	3,305	-	X	X	46,243	49,548
5. Financial assets held for sale	154,118	-	154,118	-	1,847,171	(1,637,140)	210,031	364,149
Total 31/12/2023	**1,177,093**	**(33,024)**	**1,144,069**	**-**	**6,291,954**	**(1,850,664)**	**4,487,533**	**5,631,602**
Total 31/12/2022	**1,296,080**	**(20,204)**	**1,275,876**	**-**	**4,107,372**	**(604,827)**	**3,546,395**	**4,822,271**

Portfolio/quality	Assets of evident low credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	25,899
2. Hedging derivatives	-	-	21,393
Total 31/12/2023	**-**	**-**	**47,292**
Total 31/12/2022	**-**	**-**	**60,991**

B. Disclosure of structured entities (other than securitisation vehicles)

The Group does not have any structured entities as of the reporting date.

Section 2 - Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

Credit risk is the risk of incurring losses due to the breach of contractual obligations by a counterparty unable to repay interest and/or capital (default risk), expressed as the difference between the value of the credit and the value effectively recovered, or losses associated with impairment of the counterparty's credit rating (risk of migration).

Credit risk also includes the case of risk of concentration, arising from exposures to counterparties including central counterparties, groups of related parties and parties operating in the same economic sector, in the same geographical region, or exercising the same activity or dealing in the same goods, and from the application of techniques to mitigate credit risk including risks of indirect exposures, such as those towards individual guarantors. There are two main components of concentration risk:

- single name, arising from the fact that significant parts of the portfolio are allocated to a single counterparty (or groups of counterparties that share specific characteristics in terms of legal and economic ties);
- geo-sectorial, arising from concentrations with counterparties that have a high correlation terms of the default risk as they come from the same economic sector or the same geographical area.

The Group attributes great importance to the control of credit risk and to the relative control systems, which are necessary to create the conditions to:

- ensure a structural, significant creation of value in a controlled risk environment;
- protect the Group's asset and financial solidity, as well as its image and reputation;
- allow a proper, transparent representation of the risk level inherent in its lending portfolio.

The main operational factors that contribute to determining and managing credit risk relate to:
- loan application processes;
- credit risk management;
- monitoring of exposures;
- debt recovery.

The quality of the lending portfolio is preserved by adopting specific operational methods at every stage of the loan management process (contact, application stage, decision and disbursement, monitoring and litigation). Credit risk is controlled right from the first stage of the application process, by means of:
- checking creditworthiness, with particular attention to the customer's current and forward-looking capacity to produce income and, above all, sufficient cash flows to honour the debt;
- an assessment of the nature and scope of the required loan in relation to the actual needs and the financial and economic capacity of the applicant, the performance of the account if already in existence, and the sources of repayment;
- the membership in Legal and Economic Groups.

Surveillance and monitoring activity is based on a system of internal controls aimed at optimising the management of credit risk. This is done by using measurement and control methods called "performance". These methods take into consideration every aspect of the customer relationship, such as the general details (information about the customer's place of residence, business, legal status, the last decision taken on their account, adverse events, corporate structure, irregularities in the Central Risk Register, status and doubtful outcome, the persons managing the account and finally, information about whether the account has been in default), information about credit facilities (form of loan, authorised credit limit, overdraft credit line, utilisation, overrun/availability and credit expiry date), details of the guarantees backing the loans, plus information about any other significant factors. "Performance" monitoring interacts with the credit control and management procedures, making the credit monitoring process more efficient by enhancing the information available, and makes the recovery process more effective.

The opening and granting of a new line of credit is based on a process of analysing the applicant's financial and business data supported by qualitative information about their company, the purpose of the loan, the market they operate in, and the presence and assessment of any collateral guarantees.

With regard to the Risk Appetite Framework, the Group verifies aspects including the following, in relation to the risk in question and certain aspects of the relative concentration risk:
- the ratio of the volume of non-performing exposures to the total portfolio, the cost of the risk and the coverage ratio of performing exposures and non-performing exposures;
- the level of concentration, with regard to exposures to a counterparty or group of connected counterparties (single name exposures), and at sectoral level (paying attention to real estate exposures), including in relation to Own Funds;
- the collections made compared with those forecast with regard to non-performing exposures for which there is a Business Plan;
- the assumption of exposures classified as "Large Risks", direct acquisition of real estate and the assumption of assets classified as level 3;
- the Group's level of exposure to repossessed real estate;
- the Bank's level of exposure to related parties (IAS 24) and parties in conflict of interests (pursuant to Article 2391 of the Italian Civil Code);
- observance of the limits provided for by the supervisory regulations.

For the purposes of determining internal capital in relation to credit risk, the Group uses the standardised methodology adopted for the calculation of prudential requirements in relation to said risk.

Impacts of the Russia - Ukraine conflict

The continuous monitoring of credit exposure makes it possible to promptly identify situations of potential difficulty deriving from the economic and geopolitical context. At the start of the hostilities between Russia and Ukraine, careful analyses were conducted that made it possible to identify the borrowers impacted by sanctions, trade freezes and commodities costs, even indirectly. Following the initial months of the conflict, it can be affirmed that many counterparties have implemented mitigation actions sufficient to preserve their credit risk profiles. In some cases the continuation of the crisis has made it necessary to revise the classifications and allowances, effects which, in any event, are mitigated by the state guarantees on those loans.

2. Credit risk management policies

2.1 Organisational aspects

Refer to the following paragraph.

2.2 Management, measurement and control systems

Distressed Credit Division

The Distressed Credit Division is the business area operating in the following segments:

- purchase of secured and unsecured corporate distressed loans in competitive processes or off-market purchases, on both the primary and secondary markets;
- financing services, mainly in the form of senior financing, to investors in distressed loans;
- management (servicing) of corporate NPL portfolios and underlying assets, through a specialised servicing platform developed internally or under commercial agreements with specialised operators.

The Distressed Credit Division has the following structure:

1. The Investments perimeter (Senior Financing, Special Situations – Real Estate, Special Situations – Energy and Unit Claims Solutions Areas), responsible for the origination of the investment opportunities in distressed loans, in the area of litigation (Public Procurement Claims) and in Senior Financing operations, as well as the coordination of the entire negotiation and bidding process, until the final closing phase;
2. The Portfolio & Asset Optimisation Area, which is responsible for optimising portfolio, single name and repossessed property management by identifying market opportunities for their sale (or redevelopment in the case of properties), in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase to post-sales;
3. The Pricing Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models of portfolios/single name (special situations)/ senior financing and the capital structure of all investments, as well as the activities of Due Diligence Coordination;
4. Monitoring & Analytics Area, responsible for governing and managing the cost monitoring process, the income statement and the portfolios/single names or the trend in performance of the Division;
5. The Operating Model & Servicing Coordination Area, tasked with coordinating and monitoring the Division's activities, overseeing and coordinating the Servicing companies, relations with other Bank units and decision-making bodies and providing legal advice related to individual investment opportunities and initiatives.

In more detail, the "Investments" perimeter, which includes the two areas Special Situations – Real Estate and Special Situations – Energy, and the Claims Solutions unit, is responsible for overseeing the market for opportunities to acquire distressed credit assets (financial receivables classified as bad loans or unlikely-to-pay positions ("UTPs") from corporate counterparties, partly backed by first-degree mortgage guarantees or leased assets ("secured") and partly devoid of underlying real estate or secured by second-degree mortgages ("unsecured"), in addition to Public Procurement Claims). Credits are acquired both in the "primary" market, i.e. directly from the credit intermediaries that originally granted the credit to the counterparties, and in the "secondary" market, i.e. from other investors who in turn purchased the credits from the aforementioned credit intermediaries.

The Investments perimeter is divided into three organisational units, described below:

1. Special Situations – Real Estate, aimed at investment opportunities in "single name" real estate receivables, meaning exposures to a single borrower or, at most, a cluster of corporate counterparties, both secured and unsecured and, where existing, investments in portfolios of distressed loans, mainly or fully represented by corporate loans (any retail loans acquired are held for sale on the secondary market);
2. Special Situations – Energy, aimed at investment opportunities in single name loans involving corporate counterparties operating in the renewable energy sector;
3. Claims Solutions, aimed at seeking out, assessing, investing in and managing investment opportunities in the area of litigation (Public Procurement Claims) and at intervening in all the phases of the process of investment and management of disputes.

On the other hand, the Senior Financing Area is responsible for overseeing, both at the commercial and product level, the market of asset-backed financing opportunities to third-party investors who purchase or have purchased non-performing loans (bad loans/UTPs) and for monitoring the related operations in their structuring and throughout all phases until finalisation of the contractual documentation and disbursement.

At the organisational level, the aforementioned structures report to the Head of the Distressed Credit Division and interact with the other areas/units of the Division (Pricing, Operating Model & Servicing Coordination and Portfolio Monitoring & Analytics and Portfolio & Asset Optimization) and the Bank's structures (Legal & Corporate Affairs, Administration, Accounting & Control, Risk Compliance & AFC), acting as an interface between internal units and investors.

In line with illimity's business model of internalising the entire value chain, the Bank is supported by Arec neprix S.p.A., created through the merger by incorporation of Arec S.p.A. (acquired on 30 June 2022) by neprix S.r.l. with legal effect from 1 January 2023, for the management of distressed loans, which also enters into commercial agreements with servicers selected from time to time on the basis of the characteristics of the assets acquired.

Arec neprix, the company where servicing activities for NPLs acquired by illimity are centralised, relies on the services of professionals with specific experience and know how in due diligence and in managing non-performing loans.

The Bank is also supported by Abilio S.p.A., a company formed by the proportional partial spin-off of neprix S.r.l. that is wholly owned by the Bank and became operational on 1 April 2022. The company manages and sells property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a network of professionals operating nationwide.

To carry out its operations concerning distressed credit, illimity works with the vehicles Aporti, Friuli SPV, Doria SPV, River SPV, Pitti SPV, Maui SPE, Kenobi SPV, Dagobah SPV and Spicy Green SPV, Sileno SPV, Ortensia SPV, Metafora SPV, Montes SPV and with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, Dagobah LeaseCo, Montes LeaseCo, River Immobiliare, Mida RE, SpicyCo and SpicyCo 2.

With effect from 1 January 2024, some changes were approved to the organisational structure of the Division (which changed its name on that date to Specialised Credit), with the aim of optimising oversight of the origination and underwriting business and simplifying internal processes.

Growth Credit Division

The objective of the Growth Credit Division is to serve businesses, usually medium-sized, with a credit standing that is not necessarily high, but that have a good industrial potential and which, due to the complex nature of operations to finance, or their financial difficulties, require a specialist approach to supporting business development programmes or plans to rebalance and relaunch industrial activities.

Therefore the Division mainly focuses on structuring detailed funding operations that meet the complex needs of its clients, directly supporting companies and, if considered appropriate, acquiring credit positions with third-party banks, mainly at a discount, for turnaround operations.

The Growth Credit Division is active in the following segments:

1. Factoring: financing of the supply chain of the operators of Italian chains and industrial districts through the activity of recourse and non-recourse purchasing of customers' trade receivables, through a dedicated digital channel;
2. Crossover & Acquisition Finance: financing to high-potential businesses with a suboptimal financial structure and/or with a low rating or no rating; the crossover segment also includes financing solutions dedicated to acquisition activities (so-called acquisition finance);
3. Turnaround: the purchase of loans classified as unlikely-to-pay (UTP), with the aim of recovering and restoring them to performing status by identifying optimal financial solutions, which may include new loans or the purchase of existing loans.

The Growth Credit Division is organised by specialised business areas, on the basis of the segments and products defined above, each of which is responsible for managing activities for its own customers. Each Area is tasked with analysing the customers and sector within its portfolio to design the optimal financing solution, assess the risk level of each position, define product pricing or transaction specifications, interface with customers to monitor the risk profiles of counterparties and intervene promptly, where necessary, in the event of problems, in coordination with the Bank unit responsible for monitoring loans.

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the Legal SME area supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support area manages the annual reporting of the Division, and provides support to the business areas by defining instruments and processes.

Investment Banking Division

The Investment Banking Division is responsible for defining and executing capital markets operations (both in the equity segment and the debt segment for corporate customers), for derivatives trading on own behalf and for third parties, for structuring structured finance transactions for funding and capital optimisation purposes to support the other units of the Bank.

The Division's Value Proposition provides:

- alternative solutions for companies in addition to those already offered by the Bank, exploiting the synergies with the other Group divisions (i.e. Basket Bonds, Basket Loans, Securitisations of secured and unsecured single tranche loans, IPOs, M&A, derivatives);
- structuring funding transactions and capital optimisation (i.e. SRTs), also supporting other Company Divisions and Functions.

The Division is divided into three organisational units, described below:

1. Capital Markets, which provides strategic development solutions for businesses, also through access to capital markets;
2. Corporate Solutions, which manages the “Corporate Bonds” and “Alternative Debt Securities” portfolio and offers solutions to SMEs and Mid Caps to hedge market risks;
3. Structuring, which takes care of implementing alternative financial transactions for the Bank and for companies.

In order to conduct its Investment Banking business, illimity also works with the vehicle Piedmont SPV and Mia SPV.

With effect from 1 January 2024, some changes were approved to the organisational structure of the Division, which will involve the evolution of the business and a reorganisation of the activities within its remit.

b-ilty Division

illimity, via the b-ilty Division, offers digital banking and digital lending products and services to Business customers or to small and medium-sized enterprises with turnover of EUR 2 million to EUR 10 million, with the goal of improving their financial management. The Division aims to develop a range of products and services that can fulfil the needs of the market. It is responsible for designing the Value Proposition and its relative commercial and pricing components.

The b-ilty Value Proposition currently extends to the following products and services categories:

- Deposit accounts with competitive rates and a simple, customisable product structure;
- Current accounts, offered through an innovative, digital User Experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
- Account Aggregator Service, a feature that enables aggregation in each customer’s home banking of accounts held with other banks, providing an overview of the customer’s financial situation within a single screen;
- Digital credit, which includes factoring and green financing operations;
- Insurance products offered to customers through partnerships with selected market operators.

The Division is divided into the organisational units described below:

1. Digital Lending & Special Projects, which focuses primarily on defining the target market for corporate credit customers;
2. Digital Products & Business Processes, which focuses primarily on structuring products and services for the Division and designing the relevant disbursement processes;
3. Data & Strategy, which is responsible primarily for the Division’s strategic planning, monitoring the achievement of cost management targets, defining the development strategies for partnerships and managing and developing the Division’s information assets;
4. Sales & Account Management, which focuses on achieving profit targets, defining business models and developing the commercial network.

In conducting its business in b-ilty, illimity also avails of the INGENII Open Finance fund and the vehicles GRO SPV and Farky SPV.

Digital Division

The Digital Division (headed by the CIO) is responsible for managing IT infrastructure as well as managing the funding platform, i.e. the web and app channel for retail customers.

Through ICT Platforms & Data Monetization, illimity offers digital banking products and services to retail customers. The objective of this structure is to manage the technological platforms and initiatives for developing and monetising the platforms.

The Direct Banking Value Proposition for retail customers currently extends to the following products and services categories:
- Current accounts, offered through an innovative, digital user experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
- Deposit accounts with competitive rates and a simple, customisable product structure;
- Spending projects, to simply and automatically save to achieve goals;
- Account Aggregator and Payment Initiation Service, i.e. features that enable the aggregation in each customer's home banking of accounts held with other banks, making it possible to perform transactions;
- Offer of a complete range of products (i.e. personal loans, American Express credit cards and insurance products).

Asset Management Company

illimity SGR S.p.A. is the Asset Management Company ("SGR") of the illimity Bank Group which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

The SGR was set up with the aim of operating and developing activities in the strategic areas indicated by its parent company illimity Bank S.p.A. and the Banking Group of which the latter is the parent, and is a professional operator for establishing, administering, managing, organising, promoting and selling alternative investment funds.

To pursue its business objectives in an effective and consistent manner, the SGR has adopted a "traditional" governance model, which has a structure comprising a Board of Directors and a Board of Statutory Auditors. The structure, described below, has been set up for the best management possible of the operational model defined for the Company in line with regulatory principles and guidelines, and also with guidance from the Parent Company. In accordance with the characteristics of its own operations, with future planned developments and with the guidelines of the long-term business plan of the SGR and the Group it belongs to, the SGR has the following organisation:

"Business Areas" comprising:
- The UTP & Turnaround Funds Area, focused on setting up and managing AIFs with investment strategies and policies centred on the turnaround market and on businesses in financial difficulty with prospects for relaunch;
- The Private Capital Funds Area, focused on setting up and managing AIFs with investment strategies and policies targeting asset classes with underlying financial instruments issued by performing companies;
- The NPL Small Medium Tickets Funds Area, focused on setting up and managing AIFs with investment strategies and policies in the granular (typically unsecured) Non-Performing Loans (NPL) market, with potential counterparties both small corporates and retail businesses, and different areas of origination (utilities, consumer, commercial credit, etc.).

A transversal support area named Operations & Administration supports the organisation as a whole in all formal, administrative and operational aspects connected with managing AIFs and the SGR.

Lastly, the SGR's organisation comprises the establishment of Compliance and Anti-Money Laundering, Risk Management and Internal Audit functions, outsourced to the respective central units of the parent company illimity Bank, in order to have a structured system to monitor internal controls. It also appoints a Supervisory Body pursuant to Legislative Decree 231/01, whose composition, in accordance with the approach adopted by the Group, consists of the Company's Board of Statutory Auditors.

Other functions - Corporate Centre

The organisation also monitors risk management and support activities through functions directly reporting to the Chief Executive Officer:

- The CFO, responsible for coordinating the complex process of planning, control and administration, managing strategic planning and relations with the financial community, as well as developing the Corporate Social Responsibility Plan;
- HR & Organization, responsible for optimising operating and procurement costs, managing human resources, as well as managing the organisational activities of supervision and transversal coordination for the Bank.
- Legal & Corporate Affairs, responsible for legal and corporate support and managing the corporate secretariat, as well as general affairs and relations with authorities;
- Risk Management, responsible for guaranteeing the strategic oversight and definition of risk management policies;
- Lending, which monitors credit analysis and approval activities;
- Digital, responsible for managing IT infrastructure, Back Office activities and the Contact Centre. The Digital Competence Line is also responsible for the platforms owned by illimity (illimity.com) and related development opportunities, as well as the customers managed through those platforms;
- Compliance & AFC, responsible for compliance risk management and oversight of money laundering and terrorist financing risk;
- Communication & Marketing,responsible for promoting and supporting the development of a single, shared identity of the Bank among the stakeholders and formulating the Bank's communications plan and brand development strategy to ensure positioning, customer acquisition results and optimal customer management.

The pricing structure of all credit transactions proposed, prepared by specific areas of the business, is first submitted to the Risk Division for an independent assessment of the main underlying risks, in ordinary and stress conditions, and also considering the regulatory compliance, reputational and ESG factors, and the connected impact on RAF indicators (Risk Opinion), with the formalisation of sustainability and coherence analyses, in particular for Major Transactions. The CFO is also involved in considerations on the control and compliance with the capital and liquidity limits allocated to each Division, the funding structure associated with the transaction and accounting treatment of the transaction, as well as the start of the income recognition phase according to of amortised cost method adjusted for credit risk.

The approval of the above pricing structure to be submitted to the decision-making body identified on the basis of the approval thresholds is the responsibility of the head of the proposing business Division.

The controls and relative reporting of the Risk Management Department also operate, an overall Group portfolio level, as regards compliance with the credit risk limits and objectives defined in the RAF, through indicators referred to different analysis profiles (for example the cost of credit, expected loss, hedging rates, effectiveness of the recovery process, the concentration profiles of credit exposures).

For management purposes in order to support the assessment of own client reliability, as well as for the calculation of collective write-downs related to performing loans, internal rating models are used.

The Risk Management Division also carries out second-level controls, through the Risk Management and Risk Strategy & Group Controls Areas, for example in terms of portfolio quality evolution (transition matrices), capital absorptions, monitoring compliance with the objectives and risk limits (RAF) and effectiveness of the recovery process (comparing the estimated recovery rates and those achieved).

2.3 Methods of measuring expected losses

Expected losses are estimated in line with the accounting standard IFRS 9. Among the main elements characterising this standard are:

- the classification of credits into three different levels (or "Stages") to which different methods of calculating the losses to be recognised correspond: Stage 1 includes performing positions that have not undergone a significant increase in credit risk since they were disbursed, Stage 2 includes performing

exposures that have undergone a significant increase in credit risk compared to their first entry in the Bank's books and Stage 3 includes all exposures classified as non-performing;
- for Stage 2 exposures, it is necessary to assess the expected loss over the entire residual life of the credit (i.e. and not only with a time horizon of one year as for Stage 1 exposures);
- whereas, it is necessary to take into account the conditions of the current business cycle (Point in Time) in place of a calibration of parameters along the business cycle (Through the Cycle) required for regulatory purposes;
- the introduction of forecast information regarding the future dynamics of the macroeconomic factors (forward looking) considered potentially able to influence the situation of the borrower.

The staging methodology has been defined on the basis of qualitative and quantitative drivers, identified for the analysis of the significant increase in credit risk and, therefore, for the identification of the exposures to be included in the different stages. It should be noted that, when verifying the increase in credit risk compared to origination, no account is taken of the guarantees that assist the individual exposure, which play a key role in determining write-downs/write-backs. Below are the criteria adopted by the Group to capture the significant increase in credit risk.

Significant increase in credit risk

Below are the criteria adopted by the Group to capture the significant increase in credit risk.

Quantitative criteria

Negative change in the rating class (so-called delta notch): in order to identify the "significant increase in credit risk", for the exposures of the credit portfolio, an approach was used that determines the classification in Stage 2 if the change in rating classes between the origination and the detection date shows a worsening above certain thresholds.

Qualitative criteria

- Rebuttable presumption - 30 days past due: consistent with IFRS9, there is a relative presumption that the credit risk of the financial asset has increased significantly – compared to the initial recognition – when contractual payments have expired for more than 30 days. The accounting standard provides that this presumption can be contradicted in the presence of reasonable information demonstrating that the credit risk has not significantly increased since the initial recognition, even if the contractual payments have expired for more than 30 days. To date, the Group has not used this possibility;
- Forbearance: this criterion provides that a credit exposure is allocated to Stage 2 when a concession measure (forbearance) is granted for that exposure;
- Watchlist: the management classification (so-called Watchlist) aims to identify, on the basis of expert based indications, situations of significant increase in credit risk.

Once the financial assets have been classified in the different Stages, for each exposure, it is necessary to determine the relative write-downs/write-backs following the logic of Expected Credit Loss ("ECL"), using appropriate calculation models. The principle on which the ECL is based is to create a connection between improvement or worsening of the risk profile of the exposure compared to the date of initial recognition in the financial statements, respectively with the increase or decrease in the provision funds.

IFRS 9 defines loss on a financial instrument as the present value of the difference between the contractual cash flows due to the entity and the cash flows it expects to receive. The average of all losses weighted for the respective default risk represents the value of the expected loss.

The calculation method provides for two different measurement criteria based on the time horizon for calculating expected losses:
- limit to a time horizon of 12 months, if the financial assets are classified in Stage 1 (ECL 12 months);
- residual life of the financial asset, for positions classified in Stage 2 (Lifetime ECL).

With reference to debt securities, the methodology used by the Group for the allocation of relationships in the different Stages is based, contrary to the above for credit exposures, only on quantitative drivers (so-called delta notch) as well as on a practical rule expressly permitted by IFRS 9 (Low Credit Risk Exemption). With respect to the latter, the legislation provides that an entity may use its own internal credit risk ratings or other methodologies consistent with a globally shared definition of low credit risk to determine whether a financial instrument is low credit risk, taking into account the risks and type of financial instruments being measured. In particular, an exposure is considered to have “low credit risk” if the financial instrument presents a low risk of default, i.e. if the borrower has a strong ability to meet its obligations regarding short-term contractual cash flows and if unfavourable changes in longer-term economic and commercial conditions could reduce, but will not necessarily reduce, the borrower's ability to meet its obligations regarding contractual cash flows.

Consistent with the provisions of the standard, the Group has decided to adopt, even in the presence of information on credit risk measures at the date of origination, the assumption according to which the credit quality of a government “investment grade” rating can be assumed not to have significantly deteriorated, thus making use of the Low Credit Risk Exemption (LCRE) option. Therefore, only securities that, on the reporting date, have an "investment grade" rating are allocated to Stage 1, while single-tranche notes associated with defaulting securities are classified in Stage 3.

Specifically, the impairment calculation formula for Stage 1 and 2 tranches of securities is consistent with the approach adopted for credit exposures. The Stage allocation of performing debt securities presupposes the use of an external rating of the issue; the classification in the Stages is defined according to specific criteria related to this type of portfolio. Debt securities exposures are classified in Stage 3 in cases where credit risk has deteriorated to the point where the security is to be considered non-performing, i.e. classified as non-performing.

In accordance with IFRS9, the Group has defined a specific methodological framework aimed at modelling the following risk parameters, which are relevant for the calculation of IFRS 9 impairment:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD);
- stage allocation criteria;
- calculation of expected losses including point-in-time elements.

The methodologies developed for the estimation and calibration of the above parameters have been defined taking into account the complexity of the Group's portfolio. The credit portfolio of illimity Bank is broken down between the legacy portfolio originated by the former Banca Interprovinciale, the new exposures originated by illimity and the non-performing loans acquired by the Bank. The latter are broken down into medium/long-term exposures of the GC Division, factoring exposures of that Division and the medium/long-term exposures of the b-ilty Division. The specific characteristics of each aggregate differ significantly in terms, for example, of size, risk profile and management rules.

For this purpose, the illimity Bank Group has maintained a model (hereinafter, the “Main Model”) that implements the following approaches, differentiated by type of portfolio:

- application of an evolved model (Credit Scoring) for the assignment of ratings to counterparties financed by illimity, used in credit risk management processes (origination and risk control) for estimating Probabilities of Default/ratings of Growth Credit exposures and for the purposes of the financial statements (calculation of collective write-downs);
- application of an external rating to the remaining exposures (former Banca Interprovinciale Portfolio, b-ilty portfolio) and attribution of the relative probabilities of default based on historical default rates and expectations also linked to the macroeconomic scenario, using the PD forward looking Model;
- adoption of the new LGD model based on the estimate of recovery percentages in the case of bad loans calibrated based on the business plans of bad loans of the Distressed Credit Division;
- application of a model for collective impairment of factoring portfolios that uses ratings provided by the rating agency Crif as inputs. The Risk Management function has developed an engine for calculating Expected Credit Loss, so as to be able to manage in house any methodological choice relating to the application of Probability of Default (PD) and Loss Given Default (LGD) parameters, in line with the continuous developments in terms of business practices and obtaining greater alignment with the portfolio’s risk profile.

2.4 Credit risk mitigation techniques

To mitigate credit risk, when the loan is granted, various types of guarantee are usually required. These mainly consist of secured guarantees on property or assets, and personal guarantees, consortium guarantees or other types of commitments and covenants related to the structure and reason for the operation.

In general, the decision to obtain a guarantee is based on the customer's credit rating and the characteristics of the operation. After that, it may be appropriate to obtain additional guarantees to mitigate the risk, taking into account the presumed recoverable value offered by the guarantee.

The value of secured financial guarantees is periodically monitored. This involves comparing the current value of the guarantee with the initial value to allow the manager to intervene promptly if there is a significant reduction in the amount of the guarantee.

During 2023, the illimity Bank Group further increased the share of its portfolio represented by loans backed by state guarantees.

3. Non-performing credit exposures

3.1 Strategies and management policies – 3.2 Write-offs – 3.3 Purchased or originated credit impaired financial assets

The default portfolio is classified according to the regulatory definitions. In particular:

- "non-performing past due exposures", which correspond to on-balance sheet credit exposures other than those classified under bad loans or unlikely-to-pay positions, which on the reporting date were past-due or have been overrun continuously for more than 90 days;
- "unlikely-to-pay positions, which, rather, correspond to exposures for which it is considered unlikely that the borrower will fulfil their loan obligations without the recourse to actions such as enforcement of guarantees. This assessment is made regardless of whether or not there are any amounts or instalments overdue and unpaid. There is thus no need to wait for an express signal such as non-repayment, if there are factors that imply a risk of the borrower defaulting (for example a crisis in the industry they operate in). The total on- and off-balance sheet exposures to the same borrower in the above situation will be termed an unlikely to pay position unless there are conditions for classifying the borrower among bad loans.
- "bad loans", which correspond to on- and off-balance sheet exposures to a borrower in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Group. They do not, therefore, take into account any secured or personal guarantees given in respect of the loan. They exclude exposures where the irregularity relates to country risk aspects.

The EBA's Implementing Technical Standard (ITS) also introduced the concept of "forborne" which refers to exposures where a concession has been granted, in other words a change to the previous contractual conditions and/or a partial or total refinancing of the debt, given the customer's financial difficulties at the time of the concession.

When implementing the EC regulation, the Bank of Italy introduced, with reference to non-performing loans, what is known as "non-performing forborne exposures" means individual on-balance sheet exposures and revocable and irrevocable commitments to disburse funds, which are subject to a concession that meets the rules in paragraph 180 of the ITS. These exposures are cross-category and depending on the situation, they are included in bad loans, unlikely-to-pay positions or non-performing past due exposures. They do not form a separate category of non-performing assets.

The main forborne exposures or support measures are:

- changes to the terms and conditions of a loan that the counterparty cannot repay, by including new conditions that would not have been granted if the customer had not been in financial difficulty;
- total or partial refinancing, meaning the use of a loan disbursement intended to ensure the full or partial repayment of other existing loan agreements, which would not have been granted if the counterparty had not been in financial difficulty.

It should be noted that the forborne attribution distinguishes the individual line of credit and may relate to performing or non-performing lines.

In addition, as indicated by IFRS 9, in some cases a financial asset is considered to be non-performing at the time of initial recognition because the credit risk is very high and, in the case of acquisition, it has been acquired at a large discount compared to the initial loan value. If the financial assets in question, based on the application of the classification driver (the SPPI test and Business model), can be classified among assets measured at amortised cost or at fair value through other comprehensive income, they are classified as “Purchased or Originated Credit Impaired Asset” and undergo a special treatment with regard to the impairment process. In addition, for assets classified as POCI, a credit-adjusted effective interest rate is calculated on the date of initial recognition, the so-called “credit-adjusted effective interest rate”, which requires the inclusion of the expected initial losses, in the estimates of cash flows. To apply the amortised cost and the resulting calculation of interest, this credit-adjusted effective interest rate is applied.

The Group structures that manage the relationship with the borrower use objective and subjective criteria for the purpose of proposing the classification of credit exposures to non-performing exposures. The first objective criteria are triggered by the overrun of specific limits (as defined in the Bank of Italy Circular 272), while the second subjective criteria relate to other irregularities on the credit relationship, such as adverse events, central risk register irregularities, other sources of information, etc.

In 2021 criteria (sometimes stricter than in the past) required by prudential regulations for the identification of exposures in default were introduced. Among others, these include materiality thresholds for past due exposures, a criterion for onerous restructuring, and a prohibition on netting different credit lines. The impact of the new regulation on the cost of credit for the illimity Group has been very limited.

Bad loans correspond to on- and "off-balance sheet" credit exposures to a borrower in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, independently of any loss forecasts made by the Group.

These two statuses described above are determined independently of any consideration about the nature and extent of any guarantees supporting the loans. The write-downs/write-backs, which are valued in detail on each account, reflect prudential criteria relating to the possibility of recovery, which may also relate to any collateral guarantees. They are periodically verified.

A loan account will be reclassified as performing in accordance with the legal provisions.

4. Financial assets subject to commercial negotiations and forborne exposures

The forbearance and commercial renegotiation measures are governed by a specific internal policy, which defines the criteria for classifying forborne loans, in line with the reference external regulations.

Quantitative information

For the purposes of quantitative information on credit quality, the term "credit exposures" means financial assets excluding equity securities and units of UCIs.

A. Credit quality

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1 Prudential consolidation – Breakdown of financial assets by past due brackets (book value)

Portfolios/risk stages	Stage one			Stage two			Stage three			Purchased or originated impaired		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	144,854	3,288	-	96,062	4,513	1,033	3,616	33,422	111,935	34,749	11,984	650,279
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	580	-	-	363
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	252	122,263
Total 31/12/2023	**144,854**	**3,288**	**-**	**96,062**	**4,513**	**1,033**	**3,616**	**33,422**	**112,515**	**34,749**	**12,236**	**772,905**
Total 31/12/2022	**35,666**	**5**	**7**	**39,060**	**1,928**	**2,940**	**808**	**157**	**32,396**	**8,232**	**55,281**	**1,505,497**

A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees issued: trend in total write-downs/write-backs and total provisions

Description/risk stages	Total write-downs/write-backs											
	Assets in stage one						Assets in stage two					
	Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**8**	**11,878**	**2,017**	**-**	**-**	**13,615**	**-**	**2,674**	**295**	**-**	**-**	**2,969**
Increases in purchased or originated financial assets	-	6,461	260	-	-	6,721	-	565	-	-	-	565
Derecognitions other than write-offs	-	(3,826)	(550)	-	-	(4,376)	-	(621)	(295)	-	-	(916)
Net value adjustments/ write-backs for credit risk (+/-)	22	(416)	(202)	-	-	(589)	-	94	-	-	-	94
contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	(1,261)	-	-	-	(1,104)	-	52	-	-	-	52
Final total adjustments	**30**	**12,851**	**1,525**	**-**	**-**	**14,267**	**-**	**2,674**	**-**	**-**	**-**	**2,674**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-

A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees issued: trend in total write-downs/write-backs and total provisions

Total write-downs/write-backs															Total
Assets in stage three						Purchased or originated credit impaired financial assets					Total provisions on commitments to disburse funds and financial guarantees issued				
Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Stage one	Stage two	Stage three	Commitments to disburse funds and financial guarantees issued purchased or originated impaired	
-	20,204	-	-	19,629	575	659	-	-	-	659	258	48	-	4,556	42,597
-	7,156	-	-	6,885	271	-	-	-	-	-	480	273			15,195
-	(2,043)	-	-	(1,991)	(52)	(4)	-	-	-	(4)	(73)	(2)			(7,414)
-	310	917	-	1463	(236)	(596)	-	-	-	(596)	(44)	(29)		(96)	(25)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	6,481	-	-	5,927	554	(58)	-	-	-	(58)	(1)	2			5,215
-	**32,108**	**917**	**-**	**31,913**	**1,112**	**1**	**-**	**-**	**-**	**1**	**620**	**292**	**-**	**4,460**	**55,568**
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross values / nominal value					
	Transfer between Stage 1 and Stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	142,277	9,494	48,367	2	24,554	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	
3. Financial assets held for sale	-	-	-	-	-	
4. Commitments to disburse funds and financial guarantees issued	16,550	12	-	632	117	
Total 31/12/2023	**158,827**	**9,506**	**48,367**	**634**	**24,671**	**-**
Total 31/12/2022	**58,503**	**6,295**	**6,460**	**57**	**18,611**	**86**

A.1.4 Prudential consolidation – On and off-balance sheet credit exposures to banks: gross and net

Type of exposures/values	Gross exposure	Stage one	Stage two	Stage three	Purchased or originated impaired	Total write-downs/write-backs and total provisions	Stage one	Stage two	Stage three	Purchased or originated impaired	Net exposure	Total partial write-offs (*)
A. On-balance sheet exposures												
A.1 On demand	**431,726**	**431,726**	**-**	**-**	**-**	**30**	**30**	**-**	**-**	**-**	**431,696**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	431,726	431,726	-	X	-	30	30	-	X	-	431,696	-
A.2 Other	**196,442**	**195,615**	**827**	**-**	**-**	**224**	**219**	**4**	**-**	**-**	**196,218**	**-**
a) bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely-to-pay	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Non-performing past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	196,442	195,615	827	X	-	224	219	4	X	-	196,218	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**628,168**	**627,341**	**827**	**-**	**-**	**254**	**249**	**4**	**-**	**-**	**627,914**	**-**
B. Off-balance sheet exposures												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	84	84	-	X	-	-	-	-	X	-	84	-
Total (B)	**84**	**84**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84**	**-**
Total (A+B)	**628,252**	**627,425**	**827**	**-**	**-**	**254**	**249**	**4**	**-**	**-**	**627,998**	**-**

(*) Values to be stated for information purposes.

A.1.5 Prudential consolidation - On and off-balance sheet credit exposures to customers: gross and net

Type of exposures/values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A. On-balance sheet exposures												
a) bad loans	467,138	X	-	49,749	417,389	20,126	X	-	20,126	-	447,012	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely-to-pay	671,409	X	-	122,573	548,835	11,863	X	-	11,863	-	659,546	-
- of which: forborne exposures	131,294	X	-	5,769	125,525	1,066	X	-	1,066	-	130,228	-
c) Non-performing past due exposures	38,547	X	-	19,379	19,168	1,036	X	-	1,036	-	37,511	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	205,191	100,742	103,250	X	1,199	2,164	522	1,642	X	-	203,027	-
- of which: forborne exposures	44,411	-	44,411	X	-	323	-	323	X	-	44,088	-
e) Other performing exposures	5,936,517	5,672,388	189,129	X	74,999	1,848,228	1,847,109	1,119	X	-	4,088,289	-
- of which: forborne exposures	32,026	-	12,250	X	19,776	37	-	37	X	-	31,989	-
Total (A)	**7,318,802**	**5,773,130**	**292,379**	**191,701**	**1,061,590**	**1,883,417**	**1,847,631**	**2,761**	**33,025**	**-**	**5,435,385**	**-**
B. Off-balance sheet credit exposures												
a) Non-performing	55,875	X	-	12,291	43,584	3,627	X	-	-	3,627	52,248	-
b) Performing	246,098	167,897	32,058	X	22,527	978	400	293	X	285	245,120	-
Total (B)	**301,973**	**167,897**	**32,058**	**12,291**	**66,111**	**4,605**	**400**	**293**	**-**	**3,912**	**297,368**	**-**
Total (A+B)	**7,620,775**	**5,941,027**	**324,437**	**203,992**	**1,127,701**	**1,888,022**	**1,848,031**	**3,054**	**33,025**	**3,912**	**5,732,753**	**-**

A.1.6 Prudential consolidation – On-balance sheet credit exposures to banks: trend in gross non-performing exposures

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

A.1.6bis Prudential consolidation – On-balance sheet credit exposures to banks: trend of the gross forborne exposures, distinguished by credit quality

There are no forborne on-balance sheet exposures to banks.

A.1.7 Prudential consolidation – On-balance sheet credit exposures to customers: trend in gross non-performing exposures

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**639,245**	**645,717**	**11,117**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**433,327**	**431,446**	**69,190**
B.1 transfers from performing exposures	6,025	70,096	52,307
B.2 transfers from purchased or originated credit impaired financial assets	214,120	189,915	10,561
B.3 transfers from other non-performing exposures	29,988	32,567	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	183,194	138,868	6,322
C. Decreases	**605,434**	**405,754**	**41,761**
C.1 transfers to performing exposures	-	71,646	69
C.2 write-offs	287,132	7,116	-
C.3 collections	112,374	117,066	2,237
C.4 proceeds from disposals	79,804	138,394	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	419	27,958	34,178
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	125,705	43,574	5,277
D. Gross exposure closing balance	**467,138**	**671,409**	**38,546**
- of which: assets sold but not derecognised	-	10,529	14,508

A.1.7 On-balance sheet credit exposure to customers: trend in non-performing exposures (of which POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**618,740**	**601,725**	**10,774**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**399,828**	**317,967**	**16,901**
B.1 transfers from performing exposures	-	1	863
B.2 transfers from purchased or originated credit impaired financial assets	214,120	189,915	10,561
B.3 transfers from other non-performing exposures	3,355	1,546	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	182,353	126,505	5,477
C. Decreases	**601,178**	**370,857**	**8,508**
C.1 transfers to performing exposures	-	71,625	-
C.2 write-offs	287,132	7,116	-
C.3 collections	109,267	106,793	2,105
C.4 proceeds from disposals	79,804	138,394	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	419	3,355	1,127
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	124,556	43,574	5,276
D. Gross exposure closing balance	**417,390**	**548,835**	**19,167**

A.1.7 On-balance sheet credit exposure to Customers: trend of non-performing exposures (excluding POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**20,505**	**43,992**	**344**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**33,500**	**113,479**	**52,288**
B.1 transfers from performing exposures	6,025	70,095	51,444
B.2 transfers from purchased or originated credit impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures	26,633	31,021	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	842	12,363	844
C. Decreases	**4,256**	**34,897**	**33,253**
C.1 transfers to performing exposures	-	21	69
C.2 write-offs	-	-	-
C.3 collections	3,108	10,273	132
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	24,603	33,052
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	1,148	-	-
D. Gross exposure closing balance	**49,749**	**122,574**	**19,379**
- of which: assets sold but not derecognised	-	10,529	14,508

A.1.7bis Prudential consolidation – On-balance sheet credit exposures to customers: trend of the gross forborne exposures, distinguished by credit quality

Descriptions/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening balance - gross exposure	**94,562**	**41,407**
- of which: assets sold but not derecognised	-	-
B. Increases	**81,778**	**64,027**
B.1 transfers from performing exposures not forborne	26	879
B.2 transfers from performing forborne exposures	245	X
B.3 transfers from non-performing forborne exposures	X	-
B.4 inflows from non-performing, non-forborne exposures	-	-
B.5 other increases	81,507	63,148
C. Decreases	**45,046**	**28,998**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	-	X
C.3 outflows towards non-performing forborne exposures	X	245
C.4 write-offs	-	-
C.5 collections	27,894	838
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	17,152	27,915
D. Gross exposure closing balance	**131,294**	**76,436**
- of which: assets sold but not derecognised	-	-

A.1.8 Prudential consolidation – On-balance sheet non-performing credit exposures to banks: trend of the total write-downs/write-backs

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

A.1.9 Prudential consolidation – On-balance sheet non-performing credit exposures to customers: trend of total write-downs/write-backs

Descriptions/Categories	Bad loans		Unlikely-to-pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**14,353**	**-**	**5,788**	**1,689**	**64**	**-**
- of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**6,664**	**-**	**11,017**	**318**	**2,954**	**-**
B.1 write-downs/write-backs from purchased or originated credit impaired financial assets	(1)	X	-	X	-	X
B.2 other write-downs/write-backs	2,523	-	8,230	318	2,954	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures	4,142	-	1,604	-	-	-
B.5 contractual amendments without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	1,183	-	-	-
C. Decreases	**889**	**-**	**4,944**	**941**	**1,983**	**-**
C.1 write-backs from measurement	252	-	328	100	62	-
C.2 write-backs from recoveries	264	-	700	59	10	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs		-	-	-	-	-
C.5 transfers to other non-performing exposures	-	-	3,846	-	1,900	-
C.6 contractual amendments without derecognition	-	-	-	-	-	-
C.7 other decreases	373	-	70	782	11	-
D. Total closing adjustments	**20,128**	**-**	**11,861**	**1,066**	**1,035**	**-**
- of which: assets sold but not derecognised	-	-	500	-	290	-

A.2 Classification of exposures based on internal and external ratings

For the purposes of calculating the capital requirement for credit risk, illimity Bank uses the external rating agency (ECAI) Fitch Ratings only for positions included in the "Exposures to central governments or central banks" and "Exposures to institutions" classes; no external ratings are used for other asset classes.

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued: by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**21,597**	**2,011**	**14,723**	**6,810**	**153**	**-**	**4,960,541**	**5,005,835**
- Stage one	21,597	1,957	13,918	6,810	56	-	3,574,284	3,618,622
- Stage two	-	54	805	-	97	-	292,251	293,207
- Stage three	-	-	-	-	-	-	186,899	186,899
- Purchased or originated impaired	-	-	-	-	-	-	907,107	907,107
B. Financial assets measured at fair value through comprehensive income	**1,979**	**2,854**	**80,969**	**58,607**	**-**	**-**	**314.210**	**458,619**
- Stage one	1,979	2,854	80,969	58,607	-	-	312,349	456,758
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	1,498	1,498
- Purchased or originated impaired	-	-	-	-	-	-	363	363
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**2,001,291**	**2,001,291**
- Stage one	-	-	-	-	-	-	1,847,172	1,847,172
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	154,119	154,119
Total (A+B+C)	**23,576**	**4,865**	**95,692**	**65,417**	**153**	**-**	**7,276,042**	**7,465,745**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**262,982**	**262,982**
- Stage one	-	-	-	-	-	-	155,405	155,405
- Stage two	-	-	-	-	-	-	31,862	31,862
- Stage three	-	-	-	-	-	-	9,604	9,604
- Purchased or originated impaired	-	-	-	-	-	-	66,111	66,111
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**262,982**	**262,982**
Total (A+B+C+D)	**23,576**	**4,865**	**95,692**	**65,417**	**153**	**-**	**7,539,024**	**7,728,727**

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by category of internal rating (gross values)

p.1

Exposures	Internal rating classes							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	-	-
B. Financial assets measured at fair value through comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B+C+D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by category of internal rating (gross values)

p.2

Exposures	Internal rating classes							Total
	Class 9	Class 10	Class 11	Class 12	Class 13	Class 14	No rating	
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	5,005,835	5,005,835
- Stage one	-	-	-	-	-	-	3,618,622	3,618,622
- Stage two	-	-	-	-	-	-	293,207	293,207
- Stage three	-	-	-	-	-	-	186,899	186,899
- Purchased or originated impaired	-	-	-	-	-	-	907,107	907,107
B. Financial assets measured at fair value through comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	458,619	458,619
- Stage one	-	-	-	-	-	-	456,758	456,758
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	1,498	1,498
- Purchased or originated impaired	-	-	-	-	-	-	363	363
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	2,001,291	2,001,291
- Stage one	-	-	-	-	-	-	1,847,172	1,847,172
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	154,119	154,119
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**7,465,745**	**7,465,745**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	262,982	262,982
- Stage one	-	-	-	-	-	-	155,405	155,405
- Stage two	-	-	-	-	-	-	31,862	31,862
- Stage three	-	-	-	-	-	-	9,604	9,604
- Purchased or originated impaired	-	-	-	-	-	-	66,111	66,111
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**262,982**	**262,982**
Total (A+B+C+D)	**-**	**-**	**-**	**-**	**-**	**-**	**7,728,727**	**7,728,727**

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collaterals (1)			
			Real estate - mortgages	Real estate - Loans for leasing	Securities	Other real guarantees
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-

(CONT'D)

	Personal guarantees (2)									Total (1)+(2)
	Credit derivatives					Endorsement credits				
	CLN	Other derivatives				Public administrations	Banks	Other financial companies	Other entities	
		Central Counterparties	Banks	Other financial companies	Other entities					
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to customers

p.1

	Gross exposure	Net exposure	Collaterals (1)				Personal guarantees (2)	
							Credit derivatives	
			Real estate - liens	Real estate - Loans for leasing	Securities	Other real guarantees	CLN	Other derivatives Central Counterparties
1. Guaranteed on-balance sheet credit exposures:	**2,331,724**	**2,278,281**	**268,828**	**38,586**	**172,419**	**185,919**	**-**	**-**
1.1 totally secured	865,801	858,656	246,234	6,533	147,804	97,446	-	-
- of which non-performing	318,698	315,314	148,437	6,533	305	82,390	-	-
1.2 partially secured	1,465,923	1,419,625	22,594	32,053	24,615	88,473	-	-
- of which non-performing	154,975	151,187	329	787	442	403	-	-
2. Guaranteed "Off-Balance Sheet" credit exposures:	**39,025**	**38,976**	**16,426**	**-**	**248**	**2,684**	**-**	**-**
2.1 totally secured	19,843	19,821	14,066	-	248	1,358	-	-
- of which non-performing	17,968	17,968	13,834	-	-	103	-	-
2.2 partially secured	19,182	19,155	2,360	-	-	1,326	-	-
- of which non-performing	12,005	12,005	2,360	-	-	1,154	-	-

A.3.2 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to customers

p.2

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Endorsement credits				
	Other derivatives			Public administrations	Banks	Other financial companies	Other entities	
	Banks	Other financial companies	Other entities					
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**250,801**	**33,684**	**56,766**	**1,098,994**	**2,105,997**
1.1 totally secured	-	-	-	46,688	-	49,538	271,788	866,031
- of which non-performing	-	-	-	1,350	-	1,070	86,318	326,403
1.2 partially secured	-	-	-	204,113	33,684	7,228	827,206	1,239,966
- of which non-performing	-	-	-	13,426	3,150	18	70,977	89,532
2. Guaranteed “Off-Balance Sheet” credit exposures:	**-**	**-**	**-**	**710**	**-**	**1,014**	**5,528**	**26,610**
2.1 totally secured	-	-	-	338	-	25	3,563	19,598
- of which non-performing	-	-	-	338	-	25	3,449	17,749
2.2 partially secured	-	-	-	372	-	989	1,965	7,012
- of which non-performing	-	-	-	-	-	1	1,957	5,472

A.4 Prudential consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross amount	Total write-downs/write-backs	Book value	
					of which obtainesd during the financial year
A. Property and equipment	**-**	**65,861**	**1,177**	**64,684**	**5,563**
A.1. Used in the business	-	-	-	-	-
A.2. For investment purposes	-	-	-	-	-
A.3. Inventories	-	65,861	1,177	64,684	5,563
B. Equity securities and debt securities	**-**	**-**	**-**	**-**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and asset groups held for sale	**-**	**-**	**-**	**-**	**-**
D.1. Property and equipment	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
Total 31/12/2023	**-**	**65,861**	**1,177**	**64,684**	**5,563**
Total 31/12/2022	**-**	**106,476**	**102**	**106,374**	**51,387**

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Prudential consolidation - Sector breakdown of on- and "off-balance sheet" credit exposures to customers

p.1

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs
A. On-balance sheet credit exposures						
A.1 Bad loans	663	-	3,369	31	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.2 Unlikely to pay	3,437	-	103,437	740	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	2	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	862,559	211,174	734,239	2,720	2,405	14
- of which: forborne exposures	-	-	-	-	-	-
Total (A)	**866,659**	**211,174**	**841,047**	**3,491**	**2,405**	**14**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures	-	-	1,675	-	-	-
B.2 Performing exposures	-	-	77,065	117	-	-
Total (B)	**-**	**-**	**78,740**	**117**	**-**	**-**
Total (A+B) 31/12/2023	**866,659**	**211,174**	**919,787**	**3,608**	**2,405**	**14**
Total (A+B) 31/12/2022	**664,550**	**886**	**899,785**	**4,166**	**468**	**8**

B.1 Prudential consolidation - Sector breakdown of on- and "off-balance sheet" credit exposures to customers

p.2

Exposures/Counterparties	Non-financial companies		Households	
	Net exposure	Total write-downs/write-backs	Net exposure	Total write-downs/write-backs
A. On-balance sheet exposures				
A.1 Bad loans	370,520	18,551	72,460	1,546
- of which: forborne exposures	-	-	-	-
A.2 Unlikely to pay	523,244	10,641	29,428	480
- of which: forborne exposures	127,491	888	2,738	178
A.3 Non-performing past due exposures	35,460	932	2,049	103
- of which: forborne exposures	-	-	-	-
A.4 Performing exposures	2,635,857	1,636,103	58,661	395
- of which: forborne exposures	75,311	342	765	19
Total (A)	**3,565,081**	**1,666,227**	**162,598**	**2,524**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	47,172	3,565	3,401	62
B.2 Performing exposures	166,112	860	1,943	1
Total (B)	**213,284**	**4,425**	**5,344**	**63**
Total (A+B) 31/12/2023	**3,778,365**	**1,670,652**	**167,942**	**2,587**
Total (A+B) 31/12/2022	**3,084,221**	**34,791**	**199,858**	**2,566**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures
A. On-balance sheet exposures					
A.1 Bad loans	447,010	20,128	-	-	-
A.2 Unlikely to pay	655,511	10,913	4,036	949	-
A.3 Non-performing past due exposures	37,511	1,035	-	-	-
A.4 Performing exposures	3,868,190	1,848,374	348,163	1,874	34,892
Total (A)	**5,008,222**	**1,880,450**	**352,199**	**2,823**	**34,892**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	52,249	3,627	-	-	-
B.2 Performing exposures	243,848	978	1,264	-	8
Total (B)	**296,097**	**4,605**	**1,264**	**-**	**8**
Total (A+B) 31/12/2023	**5,304,319**	**1,885,055**	**353,463**	**2,823**	**34,900**
Total (A+B) 31/12/2022	**4,601,237**	**39,628**	**240,392**	**2,671**	**17,918**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	94	18,434	33	21,637	17
Total (A)	**94**	**18,434**	**33**	**21,637**	**17**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2023	**94**	**18,434**	**33**	**21,637**	**17**
Total (A+B) 31/12/2022	**62**	**3,206**	**29**	**4,304**	**19**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs
A. On-balance sheet credit exposures								
A.1 Bad loans	51,193	2,747	125,808	14,470	146,808	2,380	123,200	531
A.2 Unlikely to pay	547,992	10,478	29,801	-	51,052	435	26,665	-
A.3 Non-performing past-due exposures	8,531	367	991	58	25,769	484	2,220	126
A.4 Performing exposures	1,613,194	7,601	503,756	2,921	1,459,709	1,835,995	291,531	1,857
Total (A)	**2,220,910**	**21,193**	**660,356**	**17,449**	**1,683,338**	**1,839,294**	**443,616**	**2,514**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	14,955	228	13,233	3,203	17,965	187	6,096	9
B.2 Performing exposures	118,115	562	63,269	201	53,569	170	8,895	45
Total (B)	**133,070**	**790**	**76,502**	**3,404**	**71,534**	**357**	**14,991**	**54**
Total (A+B) 31/12/2023	**2,353,980**	**21,983**	**736,858**	**20,853**	**1,754,872**	**1,839,651**	**458,607**	**2,568**
Total (A+B) 31/12/2022	**2,131,339**	**10,967**	**812,831**	**21,938**	**1,297,445**	**5,525**	**471,620**	**1,198**

B.3 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total write-downs/write-backs	Net exposures	Total write-downs/write-backs	Net exposures
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	597,786	238	30,129	15	-
Total (A)	**597,786**	**238**	**30,129**	**15**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2023	**597,786**	**238**	**30,129**	**15**	**-**
Total (A+B) 31/12/2022	**816,049**	**183**	**53,847**	**6**	**-**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	-	-	-	9	-
Total (A)	**-**	**-**	**-**	**9**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2023	**-**	**-**	**-**	**9**	**-**
Total (A+B) 31/12/2022	**-**	**-**	**-**	**9**	**-**

B.3 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to banks

Exposure/Geographic areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	183,052	177	16,308	22	398,426	39	-	-
Total (A)	**183,052**	**177**	**16,308**	**22**	**398,426**	**39**	**-**	**-**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2023	**183,052**	**177**	**16,308**	**22**	**398,426**	**39**	**-**	**-**
Total (A+B) 31/12/2022	**763,075**	**115**	**15,311**	**26**	**33,694**	**42**	**-**	**-**

B.4 Large exposures

	31/12/2023
Book value	4,394,537
Weighted value	565,573
Number	10

According to the regulations in force, the number of large exposures shown in the table is determined by referring to unweighted "exposures" exceeding 10% of the Eligible Capital, as defined by EU Regulation no. 575/2013 (so-called CRR), where "exposures" means the sum of on-balance sheet risk assets and off-balance sheet transactions (excluding those deducted from Eligible Capital) towards a client, or a group of connected clients, without the application of weighting factors. These exposure criteria lead to including subjects in the financial statements table relating to large exposures who - although weighted at 0% – have an unweighted exposure exceeding 10% of the Eligible Capital for the purposes of large risks.

C. SECURITISATION TRANSACTIONS

Qualitative information

With regard to third-party securitisations, below is a brief description, by Division.

Distressed Credit Division

For its NPL operations, the Parent Company uses some securitisation vehicles in accordance with Italian Law 130/99, comprising 130 Servicing, a financial intermediary and securitisation *master servicer*.

The Parent Company acquires loan portfolios from independent third parties through securitisation vehicles, which funds itself by issuing *single-tranche* notes fully subscribed by the Bank, replicating the entire return of the underlying portfolio.

Also within the Distressed Credit Division, the Parent Company also structures senior financing operations, represented by financing services to investors of *distressed* credits through the subscription of Senior, Mezzanine or Junior notes.

Investment Banking Division

To carry out its performing loan securitisation activities, the Parent Company works with the vehicle Piedmont SPV, which was established by Banca Finint, a financial intermediary and securitisation master services, pursuant to Law 130/99. The vehicle Piedmont SPV is subject to line-by-line consolidation. The division also carries out its operations through senior securitisation notes that do not fall within the scope of accounting or prudential consolidation.

b-ilty Division

To carry out its performing loan securitisation activities, the Parent Company works with the vehicle GRO SPV, which was established by SPE MANAGEMENT 2 S.R.L, pursuant to Law 130/99. The vehicle GRO SPV is subject to line-by-line consolidation.

Quantitative information

C.1 Prudential consolidation - Exposures resulting from the main originated securitisation transactions broken down by type of securitised asset and by type of exposure

The Group has no exposures in proprietary securitisations.

Information about "self-securitisation" operations can be found in Section E - "2 Risks of prudential consolidation" and "1.4 Liquidity risk". These are operations in which the Group has fully subscribed the securities issued by the vehicle, with the aim of using them to obtain liquidity, typically by means of repurchase agreements with market counterparties.

C.2 Prudential consolidation – Exposures resulting from the main “third party” securitisation transactions broken down by type of securitised asset and by type of exposure

Type of underlying asset/ Exposures	On-balance sheet exposures							
	Single tranche		Senior		Mezzanine		Junior	
	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs
Distressed Credit Division	88,081	-	144,965	(924)	4,859	(21)	2,146	-
Investment Banking Division	-	-	302,580	(346)	808	-	205	-

C.3 Prudential consolidation – Interests in securitisation vehicles

As described above, in order to carry out the activities of the DCIS and SME Divisions, the Group utilises securitisation vehicles pursuant to Italian Law 130/99.

NAME OF SECURITISATION/VEHICLE COMPANY	REGISTERED OFFICE	CONSOLIDATION	ASSETS			LIABILITIES			
			Receivables	Debt securities	Others	Single-tranche	Senior	Mezzanine	Junior
APORTI SRL - SEGMENT I	MILAN	a)	136,231	-	91,562	221,782			
APORTI SRL - SEGMENT II	MILAN	a)	2,344	-	5,068	8,611			
APORTI SRL - SEGMENT III	MILAN	a)	7,014	-	28,630	33,187			
APORTI SRL - SEGMENT IV	MILAN	a)	60,427	-	18,025	85,890			
APORTI SRL - SEGMENT VI	MILAN	a)	258	-	211,401	211,194			
FRIULI SPV SRL	MILAN	a)	2,912	-	6,478	4,779			
DORIA SPV SRL	MILAN	a)	3,723	-	91,577	23,841			
RIVER SPV SRL	MILAN	a)	1	-	7,812	2,307			
PITTI SPV SRL	MILAN	a)	17,449	-	10,409	20,129			
MAUI SPE	MILAN	b)	-	-	10,800	11,000			
PIEDMONT SPV	MILAN	b)	36,520	-	4,125	40,597			
DAGOBAH SPV	MILAN	a)	22,196	-	9,067	25,488			
Spicy Green SPV SRL	MILAN	b)	60,914	-	16,991	75,186			
SILENO SPV SRL	MILAN	a)	99,230	-	23,076	121,137			
Metafora SPV SRL	MILAN	b)	-	-	35,685	36,122			
GRO SPV SRL	MILAN	b)	42,762	-	12,295	-	31,349	4,493	9,798
FARKY SPV SRL	MILAN	b)	853	-	-	-			
MONTES SPV	MILAN	a)	15,492	-	3,825	-			

a) Company consolidated using the line-by-line method pursuant to the majority of voting rights at the Ordinary Shareholders' Meeting

b) Company consolidated using the line-by-line method pursuant to other forms of control

C.4 Prudential consolidation - Non-consolidated securitisation vehicles

In addition to the operations listed above, subject to line-by-line consolidation, the Convivio SPV securitisation must also be taken into account, in relation to which illimity subscribed 50% of the mono-tranching notes in a joint venture with Apollo Global Management.

C.5 Prudential consolidation – Servicer activities – originated securitisations: collections of securitised loans and redemptions of securities issued by the securitisation vehicles

The Group does not act as servicer of its own securitisations.

C.6 Prudential consolidation - Consolidated securitisation vehicles

The Special Purpose Vehicles used for securitisations relating to the Distressed Credit and Investment Banking Divisions subject to consolidation are the following:

- Aporti SPV (Distressed Credit - NPL);
- Doria SPV (Distressed Credit - NPL);
- River SPV (Distressed Credit - NPL);
- Pitti SPV (Distressed Credit - NPL);
- Friuli SPV (Distressed Credit - NPL);
- Dagobah SPV (Distressed Credit - NPL);
- Kenobi SPV (Distressed Credit – RE);
- MAUI SPE (Distressed Credit – RE);
- Spicy Green SPV (Distressed Credit - NPL);
- Sileno SPV (Distressed Credit - NPL);
- Metafora SPV (Distressed Credit - NPL);
- MONTES SPV (Distressed Credit - NPL);
- GRO SPV (b-ilty – Performing portfolios);
- FARKY SPV (b-ilty – Performing portfolios);
- Piedmont SPV (Investment Banking – Performing portfolios).

The operations subject to securitisation within that scope are therefore the following:

- Securitisations of NPLs attributable to the Distressed Credit Division;
- Real estate securitisations attributable to the Distressed Credit Division;
- Securitisations of performing loans attributable to the b-ilty Division;
- Securitisations of performing loans attributable to the Investment Banking Division.

D. DISPOSALS

A. Financial assets sold and not fully derecognised

Qualitative information

The sales connected to financial assets sold and not derecognised relate to repurchase agreements - payable, where the buyer has to resell on expiration of the assets (for example securities).

Quantitative information

D.1. Prudential consolidation – Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause	of which non-performing	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**29,878**	**-**	**29,878**
1. Debt securities	-	-	-	-	29,878	-	29,878
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	-	-	-	-
C. Financial assets carried at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Green Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**150,377**	**-**	**150,377**	**-**	**83,508**	**-**	**83,508**
1. Debt securities	150,377	-	150,377	-	83,508	-	83,508
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**1,415,975**	**720,617**	**135,918**	**10,029**	**669,933**	**-**	**669,933**
1. Debt securities	840,247	144,889	135,918	-	669,933	-	669,933
2. Green Loans	575,728	575,728	-	10,029	-	-	-
Total 31/12/2023	**1,566,352**	**720,617**	**286,295**	**10,029**	**783,319**	**-**	**783,319**
Total 31/12/2022	**875,559**	**513,472**	**362,087**	**-**	**751,815**	**-**	**751,815**

D.2 Financial assets sold and partially recognised and associated financial liabilities: book value

On the reporting date, the Group does not hold financial assets sold and partially recognised and associated financial liabilities.

D.3 Disposals with liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

In table D.1, the book value of the financial assets indicated may be considered a proxy of the fair value.

B. Financial assets sold and fully derecognised with recognition of continuing involvement

The Group has no such operations.

D.4 Covered bond transactions

The Group has no such operations.

E. PRUDENTIAL CONSOLIDATION – CREDIT RISK MEASUREMENT MODELS

For management purposes, as well as for the calculation of collective write-downs, internal rating models were developed by the Group. These models were developed with the aim of making the measurement metrics more risk-sensitive and more relevant to the Group's business. The most advanced component of these models is the credit scoring model of "organic" exposures originating from illimity, which has been calibrated using deep external databases (Corporate counterparties of the European market), including the forward looking component to incorporate the effect of the expected macroeconomic scenario and providing a documented override process downstream (with qualitative notching in the case of more information).

Rating models provided by external providers are also used to calculate the creditworthiness of the component of exposures arising from the operations of the former Banca Interprovinciale and the b-ilty Division, with the application of conservative margins.

Since the end of 2021, ratings have also been issued by external providers to assess the creditworthiness of the exposures of the Factoring portfolio.

With regard to the Loss Given Default (LGD) risk parameter, applied to the calculation of collective impairment, illimity maintained the model developed internally in 2020, based on estimated recovery percentages for bad loans, calibrated on the basis of the business plans for bad loans of the Distressed Credit Division.

Finally, a roadmap is planned for the evolution and consolidation of the aforementioned models (including external performance and calibration on internal data), which will see the use of the innovative component previously described also during origination, both for the definition of decision-making powers, and as a tool for analysis and simulation by business units also for the purpose of pricing.

1.2 Market risk

1.2.1 Interest rate risk and price risk - regulatory trading book

Qualitative information

General aspects

Market risk is the risk of changes in the market value of financial instruments held, as a result of unexpected changes in market conditions (adverse changes in market parameters such as interest rates, exchange rates, prices and volatility) and of the Group's credit rating.

Measurement and control of market risks are activities conducted daily by the Risk Management Area, taking as reference all positions subject to remeasurement at fair value through income statement and equity. The scope of the positions subject to this measurement is broader than the "regulatory trading book" (e.g. Trading book), also involving, in fact, part of the positions of the banking book.

The measurement and control of the market risks is performed with the Value at Risk methodology (hereinafter "VAR"); VAR is a probability indicator that measures the probable maximum loss of value (fair value) which the Group might be affected by with reference to a given time horizon and a specific confidence level, confirmed by historic scenarios (historic simulation approach).

The daily VAR measurement is accompanied by periodic stress test analyses, which simulate the impacts on the income statement and statement of financial position in the event of an unexpected shock in market values. These shocks can consist of scenarios based on extreme market events that actually happened (historical scenarios), or ad-hoc created scenarios (EBA scenarios).

The reliability of the risk measurement outputs through the VAR methodology is verified daily through the execution of back testing tests.

VAR measures are compared with the risk limits and objectives formalised in the RAF and with the operational limits, on a daily basis by the CRO Division. VAR measures are used together with other indicators such as sensitivities and greeks, as well as position measures, that form the basis of level two and early warning limits.

Processes for managing and methods for measuring interest rate risk and price risk

For instruments classified in the trading book, the IAS/IFRS require a fair value measurement, with a contra entry in the income statement. For financial instruments listed on active markets, the best estimate of the fair value is represented by the prices themselves (Mark to Market), taken from the information providers (Bloomberg, Thomson Reuters, etc.).

The value expressed by the relevant market for a listed financial instrument, even if admitted for trading on an organised market, should still be considered insignificant, for illiquid instruments. Illiquid instruments are financial products for which there are no suitably liquid or transparent trading markets available, which can provide immediate, objective reference benchmarks for the transactions. Therefore, due to the low volumes traded, the low frequency of trades and the concentration of free float, the Mark to Market does not express the actual “presumable realisation value” of the instrument.

For unlisted or illiquid financial instruments, the fair value is determined by applying measurement techniques aimed at determining the price that the instrument would have had on the market where freely negotiated between the parties motivated by usual commercial considerations. The techniques include:

- reference to market prices of similar instruments with the same risk profiles as those being valued (comparable approach);
- valuations based on generally accepted pricing models (i.e. Black & Scholes, Discount Cash Flow Model, etc.) or internal models, based on market input data and possibly on estimates or assumptions (Mark to Model).

The units in closed-end mutual funds held by the Group are valued periodically at fair value, in accordance with the rules set out by IFRS 13, based on specific methodologies that take into account the nature and type of the funds’ underlying assets, and also with reference to the net asset value periodically provided by the asset management company.

The valuation may also include a dedicated liquidity discount, depending primarily on the characteristics of the assets invested by the fund itself, in order to align the fair value of the instruments recognised in the financial statements with the price at which a potential third-party investor would be prepared to buy units of the fund (i.e. the “exit price”).

Some complex financial products (structured or synthetic) can be valued on the basis of:

- the breakdown of the product into its elementary components;
- valuation models that can generate numerical scenarios defined on the basis of a probability density function that identifies the simulated pay-offs for the complex product to be valued;
- valuation models used to value the components described in the previous points (elementary components or assimilated pay-offs), together with the operational market prices used to parametrise the models or to know the valuation of some of their components (for example implicit inflation, for inflation linked components).

Some complex financial products for which there is no commonly accepted valuation model nor the availability of all the descriptive information about the product, can be particularly hard to value. These products can be valued: (i) through the Bank’s internal valuation models able to produce a fair value for comparison, in any case, with the operating BIDs obtained by independent counterparties; (ii) if there are no validated internal models, reference is made to the operational BIDs obtained from independent market counterparties.

Quantitative information

1. Regulatory trading portfolio: distribution by residual maturity (repricing date) of financial assets and liabilities and financial derivatives

Type/Residual maturity	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. Cash assets	**-**	**-**	**35**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	35	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others								
+ Long positions	-	64,379	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security		-	-	-	-	-		
- Options		-	-	-	-	-		
+ Long positions	-	12,953	8,497	3,984	90,605	11,887	-	-
+ Short positions	-	13,790	5,448	2,897	91,908	13,883	-	-
- Other derivatives		-	-	-	-	-		
+ Long positions	-	365,482	156,709	186,017	403,711	49,305	-	-
+ Short positions	-	358,078	160,319	224,620	391,004	26,006	-	-

2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

The Group does not hold equity instruments and share indices in the trading portfolio, as of the reporting date.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

Over The Counter (OTC) derivatives, whose value cannot be directly observed on the market, are valued using specific models and inputs pursuant to the asset class and the characteristics of the specific financial product. The valuation of OTC derivatives takes into consideration, as well as the market variables to which the instruments are sensitive, the specific risks pertaining to the counterparties with which they are traded, in particular:

- for transactions negotiated within a netting and margining agreement (CSA), the counterparty risk is considered non-material and the valuation of the instruments is based exclusively on the underlying risk factors, in accordance with the principle of non-arbitrage;

- for transactions negotiated without a netting and margining agreement, the valuation is carried out by adding the valuation of the instrument, as if it were subject to netting and margining, to the adjustments associated with the counterparty risk (i.e. credit valuation adjustment and debt valuation adjustment).

1.2.2 Interest rate risk and price risk – banking book

The banking book consists of all the financial instruments, receivable and payable, not included in the trading book referred to in the "Market risks section".

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Banking portfolio interest rate risk consists of the risk that unexpected changes in interest rates will be negatively reflected on:

- formation of the net interest margin, and thus, the bank's earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk);
- relative to the assets other than those allocated to the trading book, in relation to the non-timing between the maturity and the re-pricing of assets and liabilities and the short and long term off-balance sheet positions (re-pricing risk), the risk arising from changes to the slope and shape of the yield (yield curve risk), the hedging of interest rate risk of an exposure using an exposure with a rate that reprices in different conditions (basis risk) and risks arising from options (for example, consumers redeeming fixed-rate products when the market rates change).

To measure, control and manage interest rate risk and the prices of all the cash flows in the banking book, the impact of any unexpected changes in market conditions will be analysed, and the risk-return alternatives will be evaluated, so that Group management decisions can be taken.

Exposure to interest rate risk is assessed from two different perspectives. In the short term view, the "earnings perspective" approach is adopted, which focuses on the impact of changes in interest rates on the profits accrued or recognised (cash flow risk), as regards the component represented by the net interest margin. For a long term view of the effects of changes in interest rates, the "economic performance perspective" approach is used, representing a method, in accordance with prudential supervisory regulations, used to assess the sensitivity of the Group's shareholders' equity to changes in rates (fair value risk).

Interest rate risk management is intended to limit the impact of adverse changes to the rates curve, both in terms of economic performance and in terms of the cash flow generated by the financial statement items, and is achieved primarily through the indexing of assets and liabilities to money market benchmarks, typically the Euribor, and the balancing of the duration of the asset and liability.

Quantitative information

1. Banking book: distribution by residual maturity (repricing date) of financial assets and liabilities

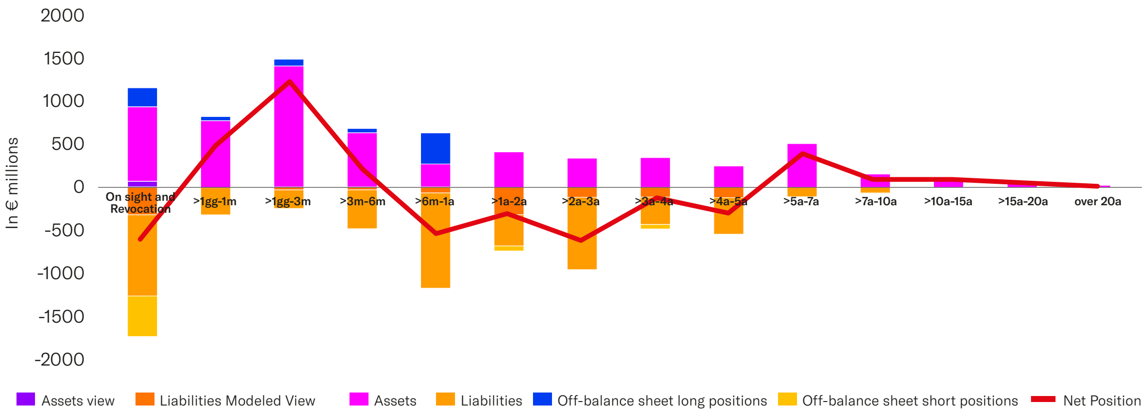
Type/Residual maturity	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. Cash assets	**1,040,053**	**2,228,941**	**642,553**	**245,079**	**1,297,800**	**492,348**	**115,368**	**1,202**
1.1 Debt securities	41,105	420,859	83,327	67,668	611,669	358,595	39,013	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	41,105	420,859	83,327	67,668	611,669	358,595	39,013	-
1.2 Loans to banks	472,975	26,449	-	-	-	-	44,714	260
1.3 Loans to customers	525,973	1,781,633	559,226	177,411	686,131	133,753	31,641	942
- current account	15,094	2,020	2,911	3,595	14,038	360	5	-
- other loans	510,879	1,779,613	556,315	173,816	672,093	133,393	31,636	942
- with early repayment option	108,525	914,131	375,515	13,774	47,557	3,669	-	-
- other	402,354	865,482	180,800	160,042	624,536	129,724	31,636	942
2. On-balance sheet liabilities	**1,726,601**	**543,414**	**461,620**	**1,153,757**	**2,177,915**	**3,504**	-	-
2.1 Amounts due to customers	923,043	404,977	461,620	1,153,757	1,566,174	3,504	-	-
- current account	745,324	-	-	-	-	-	-	-
- other payables	177,719	404,977	461,620	1,153,757	1,566,174	3,504	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	177,719	404,977	461,620	1,153,757	1,566,174	3,504	-	-
2.2 Amounts due to banks	803,558	138,437	-	-	-	-	-	-
- current account	10,172	-	-	-	-	-	-	-
- other payables	793,386	138,437	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	611,741	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	611,741	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**110,000**	**110,000**	-	**(50,000)**	**(170,000)**	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	110,000	110,000	-	(50,000)	(170,000)	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	110,000	110,000	-	(50,000)	(170,000)	-	-
+ Long positions	-	191,487	139,419	361,194	-	-	-	-
+ Short positions	-	81,487	29,419	361,194	50,000	170,000	-	-
4. Other off-balance sheet transactions	**(140,125)**	**20,212**	-	**15,240**	**80,873**	**22,648**	**1,110**	-
+ Long positions	15,412	20,212	-	15,240	80,873	22,648	1,110	-
+ Short positions	155,537	-	-	-	-	-	-	-

2. Bank portfolio: internal models and other methods of sensitivity analysis

The construction of a series of internal models, even if not validated (which do not consider scenarios of early termination), enables the bank to carry out sensitivity tests, usually associated with a parallel shifts in the rates curve of +/-200 bps.

To monitor compliance with the limit set in the RAF, and to ensure that risk is limited to 20% of the ratio between the change in economic performance and own funds, a value analysis is periodically carried out on the banking book (simplified methodology referred to in Annex C of Circular no. 285 issued by the Bank of Italy), both for a stress scenario with a parallel rate shock of +/- 200 bps, and in ordinary conditions using as a shock the 99th percentile (in the case of a rates rise) or the 1st percentile (in the case of a rates reduction). The interest rate risk of the banking book is therefore quantified based on gap analysis and sensitivity analysis models that identify all assets and liabilities of the banking book and group them based on the repricing period of the interest rate.

The following graphic shows the distribution by maturity bands of net imbalances of assets and liabilities in the banking book as of 31 December 2023, based on which the exposure to the interest rate risk was estimated.



On the reporting date, the measurements indicated a decrease in the value of equity equal to approximately EUR 15.9 million in relation to a parallel shock of the interest rates curve of 200 basis points; banking book exposure to interest rate risk is, therefore, marginal in terms of the ratio compared to the value of own funds, amounting to a minor level of approximately 1.7%.

In addition to the Sensitivity analysis, an estimate of the change in net interest margin is also carried out. The sensitivity of the margin is measured using a methodology that estimates the expected change in the net interest margin following a curve shock, produced by items that are sensitive to a change in the rate, within a gapping period set at 12 months from the date of the analysis. The analysis considers both the change in the margin of the exposed and term deposits. This measurement is carried out from a static financial statement perspective (constant assets and liabilities), thus excluding potential effects from new operations or future changes in the mix of assets and liabilities. In the scenario of positive rate shock of +100 bps, the change in the margin would amount to approximately EUR +7.2 million, while in the negative shock scenario of -100 bps, the estimated change would be equal to EUR -7.2 million.

1.2.3 Exchange risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk

The exchange risk is determined on the basis of the existing mismatching between currency assets and liabilities (spot and forward), for each currency other than the euro. The main sources of risk are:

- loans and deposits in foreign currency with corporate and retail customers;
- the holding of foreign currency financial instruments;
- the holding of any shares or units in UCIs still denominated in euros, for which it is not possible to determine the foreign currency composition of the underlying investments and/or for which the maximum foreign currency investment is not known and is binding;
- the trading of foreign banknotes.

The exchange risk is determined on the basis of the methodology proposed by the Bank of Italy and is quantified at 8% of the net foreign exchange position. This is determined as the highest component (in absolute values) between the sum of the net long positions and the sum of the net short positions (position per currency) to which is added the exposure to the exchange rate risk implied in any investments in UCIs. The internal VAR-based model is therefore not used in the calculation of capital requirements on market risks.

Exposure to exchange risk is thus determined on the basis of the net foreign exchange position using a methodology based on the supervisory regulations. Equity investments and property and equipment are not included in the net foreign exchange position.

B. Exchange rate risk hedging

The exchange risk arising from exposures on the banking book is generally cancelled using systematic balancing with funding/loan operations in the same currency as the original transaction, and marginally through exchange rate financial derivatives.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	USD	MXN	GBP	ZAR	CHF	OTHER CURRENCIES
A. Financial assets	**119,417**	**-**	**127**	**-**	**134**	**639**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	7	-	-	-	-	-
A.3 Loans to banks	20,642	-	119	-	134	639
A.4 Loans to customers	98,768	-	8	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**(32,481)**	**-**	**-**	**-**	**-**	**-**
C.1 Amounts due to banks	(18,387)	-	-	-	-	-
C.2 Amounts due to customers	(14,094)	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial assets	-	-	-	-	-	-
D. Other liabilities	**(100)**	**-**	**(293)**	**-**	**-**	**-**
E. Financial derivatives	**(101,651)**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	(101,651)	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	(101,651)	-	-	-	-	-
Total assets	**119,417**	**-**	**127**	**-**	**134**	**639**
Total liabilities	**(134,232)**	**-**	**(293)**	**-**	**-**	**-**
Difference (+/-)	**(14,815)**	**-**	**(166)**	**-**	**134**	**639**

2. Internal models and other methods of sensitivity analysis

Foreign currency activity is extremely limited, according to policy, and the net daily position tends to be zero, excluding any foreign currency cash deposits. No internal models or other methods have been developed for sensitivity analysis.

1.3 Derivative instruments and hedging policies

1.3.1 Trading derivatives

Trading in derivatives was authorised with effect from 2021: the main type of trading derivatives used is interest rate swaps (IRS), either plain or structured (with the presence of caps and floors).

Derivatives are mainly traded in the context of over-the-counter (OTC) agreements with customers in relation to financing operations. Those derivative operations are carried out within the trading portfolio and involve the active management of market risks, through the hedging of the derivatives with institutional counterparties.

A.1 Financial derivatives held for trading: end-of-period notional values

Underlying assets/ Types of derivatives	Total 31/12/2023				Total 31/12/2022			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**742,628**	**503,600**	**386,872**	**-**	**-**	**535,900**	**370,117**	**-**
a) Options	-	503,600	26,379	-	-	189,600	22,109	-
b) Swaps	742,628	-	296,114	-	-	346,300	318,379	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	64,379	-	-	-	29,629	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**101,652**	**-**	**-**	**-**	**60,566**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	101,652		-	-	60,566	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	-	-	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	-	-	**-**
Total	**742,628**	**605,252**	**386,872**	**-**	**-**	**596,466**	**370,117**	**-**

A.2 Financial derivatives held for trading: positive and negative gross fair value - distribution by products

Types of derivatives	Total 31/12/2023				Total 31/12/2022			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	8,133	-	-	-	12,950	-	-
b) Interest rate swaps	14,200	-	2,109	-	-	17,949	12	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	1,423	-	-	-	159	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**14,200**	**9,556**	**2,109**	**-**	**-**	**31,058**	**12**	**-**
2. Negative fair value								
a) Options	-	8,607	102	-	-	10,626	59	-
b) Interest rate swaps	5,539	-	5,114	-	-	4,564	11,996	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	113	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**5,539**	**8,720**	**5,216**	**-**	**-**	**15,190**	**12,055**	**-**

A.3 OTC financial derivatives held for trading - notional values, positive and negative gross fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
- notional value	X	64,379	47,750	275,734
- positive fair value	X		494	1,615
- negative fair value	X		224	4,993
2) Equity securities and share indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Others				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting agreements				
1) Debt securities and interest rates				
- notional value	-	1,246,228	-	-
- positive fair value	-	22,332	-	-
- negative fair value	-	14,146	-	-
2) Equity securities and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	101,652	-	-
- positive fair value	-	1,423	-	-
- negative fair value	-	113	-	-
4) Goods				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying assets/Residual life	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	399,682	1,026,512	206,905	1,633,099
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	101,652	-	-	101,652
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2023	**501,334**	**1,026,512**	**206,905**	**1,734,751**
Total 31/12/2022	**126,855**	**523,086**	**223,578**	**873,519**

1.3.2 Hedge accounting

Since the 2022 financial year, the illimity Group has implemented a hedge accounting framework to develop micro fair value hedges using financial derivatives.

For hedges, the Group applies the option, set out in introducing IFRS 9, to continue fully applying the provisions of the accounting standard IAS 39 on hedge accounting (the carve-out version endorsed by the European Commission).

Type of hedging

Risk hedging operations are aimed at neutralising potential losses attributable to a specific risk and recognisable on a given element or group of elements, if that particular risk should arise.

The type of hedging used by the Group is fair value hedging: it is intended to cover exposure to changes in the fair value (attributable to the different types of risk) of assets and liabilities recognised in the financial statements or portions thereof, of groups of assets/liabilities, of irrevocable commitments and of portfolios of financial assets and liabilities, including deposits. There are no macro fair value hedges.

There are no cash flow hedges.

There are no hedges of foreign investments.

Hedged instruments

The main types of hedged element are:

- Debt securities classified under assets: debt securities classified under assets at FVOCI are hedged through micro fair value hedges, using interest rate swaps (IRS). Interest rate risk is hedged for the entire duration of the obligation. The dollar offset method is used to verify the effectiveness of the hedge. This method is based on the relationship between the accumulated changes (from the start of the hedge) in the fair value of the hedging instrument, attributable to the hedged risk, and the changes in the fair value of the hedged element (the so-called delta fair value), net of accrued interest.
- Fixed-term funding: fixed-term funding comprised of deposits is hedged through micro fair value hedges, using interest rate swaps (IRS). The aim of this type of hedge is to protect the net interest margin against possible interest rate reductions that could narrow the spread between variable-rate loans and fixed-rate fixed-term funding. Risk Management performs ongoing monitoring and checks to assess the effectiveness of these hedges. The dollar offset method is used, in the terms indicated above, to verify the effectiveness of the hedge.

Recognition criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently accounted for at fair value. A relationship is classified as a hedge, and accounted for as such, only if all the following conditions set out in IAS 39 are met:

- at the start of the hedge, there is formal documentation of the hedging relationship that describes the company's objectives in managing the risk and its strategy in carrying out the hedge. This documentation

includes the identification of the hedging instrument, the hedged element or transaction, the nature of the hedged risk and how the Group assesses the effectiveness of the hedging strategy in offsetting the exposure to changes in the hedged element's fair value;
- the assessment concludes that the hedge is highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is assessed as a continuing hedging relationship and is effective for the financial years for which it was designated.

Measurement criteria

Hedging derivatives are measured at fair value: the change in the fair value of the hedged element is offset with the change in the fair value of the hedging instrument. This offsetting is measured through the recognition in the income statement of the changes in value of both the hedged element (specifically with regard to the changes generated by the risk factor for which the hedge was adopted) and the hedging instrument. Any difference or partial ineffectiveness of the hedge that may arise is then recognised in the income statement.

The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument are offset by those of the hedging instrument; the effectiveness is therefore measured by comparing the aforementioned changes, taking into account the company's intention when putting the hedge in place. The hedge is considered to be effective when the changes in the fair value of the financial hedging instrument offset, within the limits established by the 80-125% range, the changes in the hedged instrument due to the hedged risk factor.

The effectiveness assessment is carried out on a monthly basis, using:
- prospective tests, which assess the expected effectiveness of the hedge;
- retrospective tests, which assess the degree of effectiveness achieved by the hedge in the reference period.

Fair value hedges cease to be accounted for in the following cases:
- the hedging instrument reaches maturity;
- the hedge no longer meets the aforementioned hedging criteria;
- the Group revokes the designation.

Specifically, if the checks do not confirm the effectiveness of the hedge, from that moment the accounting of the hedging operations is suspended: the hedging derivative is reclassified under trading instruments and the hedged financial instrument reassumes the measurement criteria corresponding to its classification in the financial statements.

Fair value hedging activities

The hedging implemented by the illimity Group aims at immunising the banking book from changes in the fair value of funding through deposits and the use of securities at FVOCI caused by changes in the interest rate risk curve (interest rate risk). The Group adopts micro fair value hedging.

The type of derivatives used are interest rate swaps (IRS) executed with third parties. The derivatives are not listed on regulated markets, but are traded in over the counter (OTC) systems.

The main causes of ineffectiveness of the model adopted by the Group to verify hedge effectiveness could be attributable to the following:

- misalignment between the notional value of the derivative and the hedged underlying recognised on initial designation or generated subsequently, as in the case of partial redemption of deposits;
- different maturities between the set of hedged instruments and the hedging instruments (macro fair value hedges of time deposits);

Any ineffectiveness of the hedging is recognised for the purpose:

- of determining the effects to record in the income statement;
- of the assessment of the possibility of continuing to apply hedge accounting rules.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

Quantitative information

A. Hedging derivatives

A.1 Hedging derivatives: end-of-period notional values

Underlying assets/Types of derivatives	Total 31/12/2023				Total 31/12/2022			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**629,100**	**-**	**-**	**-**	**819,336**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	629,100	-	-	-	819,336	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	-	629,100	-	-	-	819,336	-	-

A.2 Hedging derivatives: positive and negative gross fair value - distribution by products

Types of derivatives	Positive and negative fair value								Change in the value used to recognise the ineffectiveness of the hedge	
	Total 31/12/2023				Total 31/12/2022				Total 31/12/2023	Total 31/12/2022
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	21,393	-	-	-	29,874	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**21,393**	**-**	**-**	**-**	**29,874**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	19,770	-	-	-	32,646	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**19,770**	**-**	**-**	**-**	**32,646**	**-**	**-**	**-**	**-**

A.3 OTC hedging derivatives- notional values, positive and negative gross fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and share indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Others				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting agreements				
1) Debt securities and interest rates				
- notional value	-	692,100	-	-
- positive fair value	-	21,393	-	-
- negative fair value	-	19,770	-	-
2) Equity securities and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Goods				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC hedging derivatives: notional values

Underlying assets/Residual life	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	472,100	50,000	170,000	**692,100**
A.2 Financial derivatives on equity securities and share indices	-	-	-	**-**
A.3 Financial derivatives on currencies and gold	-	-	-	**-**
A.4 Financial derivatives on goods	-	-	-	**-**
A.5 Other financial derivatives	-	-	-	**-**
Total 31/12/2023	**472,100**	**50,000**	**170,000**	**692,100**
Total 31/12/2022	**127,236**	**522,100**	**170,000**	**819,336**

B. Credit hedging derivatives

The Group does not hold credit derivatives classified as hedges.

C. Non-derivative hedging instruments

The Group does not hold non-derivative instruments classified as hedges.

D. Hedged instruments

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: book value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: Book value
			Cumulative changes in the fair value of the hedged instrument	Termination of hedging: residual cumulative changes in fair value	Changes in the value used to recognise the ineffectiveness of the hedge	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income - hedging of:	**208,246**	**-**	**33**	**-**	**-**	**-**
1.1 Debt securities and interest rates	208,246	-	33	-	-	X
1.2 Equity securities and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Receivables	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
2. Financial assets measured at amortised cost - hedging of:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities and interest rates	-	-	-	-	-	X
1.2 Equity securities and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Receivables	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
Total 31/12/2023	**208,246**	**-**	**33**	**-**	**-**	**-**
Total 31/12/2022	**193,818**	**-**	**8,445**	**-**	**-**	**-**
B. Liabilities						
1. Amounts due to customers - hedging of:	**599,338**	**-**	**(2,266)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	599,338	-	(2,266)	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Others	-	-	-	-	-	X
Total 31/12/2023	**599,338**	**-**	**(2,266)**	**-**	**-**	**-**
Total 31/12/2022	**398,150**	**-**	**(3,676)**	**-**	**-**	**-**

D.2 Cash flow hedges and foreign investments

The Group does not hold cash flow hedges or foreign investments.

E. Effects of hedging operations on Shareholders' equity

The Group does not hold cash flow hedges or foreign investments.

1.3.3 Other information on (trading and hedging) derivatives

A. Financial and credit derivatives

A.1 Over the counter financial and credit derivatives: net fair value for counterparties

The portfolio does not contain any netting carried out in the financial statements for derivatives whose netting agreements that meet the criteria set out in IAS 32, par. 42.

1.4 Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is the risk of defaulting on payment obligations. It arises due to the inability to source funds or the risk of sourcing them at above-market costs (funding liquidity risk), or to the risk of mobilising assets under unfavourable conditions (market liquidity risk), thus incurring capital losses. The liquidity risk derives from the misalignment in terms of amount and/or date of realisation, of the inflows and outflows relating to all the assets, liabilities and off-balance sheet items and is correlated to the conversion of expiry date which is typically done by the banks.

The reference framework of the measurement, monitoring and management of liquidity risk is defined in the liquidity risk policy, which sets out the rules aimed at pursuing and maintaining a sufficient diversified level of funding and an adequate structural balance of sources and invested assets, by means of coordinated, efficient funding and investment policies. The short-term liquidity risk management system set out in the policy is based on a series of early warning thresholds and limits that reflect the general principles on which liquidity management is based. The policy therefore defines the company functions and bodies responsible for liquidity management.

The ALM & Treasury Area, with the assistance of the Strategy & Planning Area, aims to maintain a low level of exposure to liquidity risk, by putting in place a system of controls and limits which are based on a gap analysis of financial inflows and outflows, according to categories of residual life. The primary objective of liquidity risk management is to meet payment obligations and to source additional funds from the market, while minimising costs and without affecting potential future earnings.

The liquidity risk is controlled by the Risk Management Area through the measurement, monitoring and management of the liquidity requirement using a model that analyses the net liquidity balance, supplemented by stress tests that assess the bank's capacity to cope with a series of crisis scenarios ranked by increasing levels of severity. The net liquidity balance is obtained from the operational maturity ladder, by comparing the projection of expected cash flows against the counter balancing capacity over a period of up to 12 months. The cumulative sum of the expected cash flows and the counter balancing capacity for each time band quantifies the liquidity risk, evaluated in different stress scenarios.

The stress tests are intended to assess the bank's vulnerability to exceptional but possible events, and give a better assessment of the exposure to liquidity risk, of the systems used to mitigate and control that risk and of the survival period in the case of adverse scenarios. In defining the stress scenarios, a series of risk factors are considered, that can either impact the cumulative imbalance in inflows and outflows, or the liquidity reserve, for example the risk that future unexpected events may require a liquidity that is far higher than expected (contingent liability risk), or the risk of not being able to obtain necessary funds or of obtaining them at costs above market costs (funding liquidity risk).

The monitoring of the level of coverage of the expected liquidity requirements through an adequate level of liquidity reserve is accompanied by the daily monitoring of exposure on the interbank market. The bank also monitors the structural liquidity profile with a long-term maturity ladder that incorporates behavioural models and assumptions.

When these limits and early warnings are exceeded, the Contingency Funding Plan is also activated.

In line with the supervisory provisions, the Group performs daily monitoring of the Liquidity Coverage Ratio (LCR) indicator for the purpose of strengthening the short-term liquidity risk profile by ensuring that enough high-quality liquid assets (HQLA) are available and can be immediately converted into cash on the private markets to meet the 30-day liquidity, requirements in a liquidity stress scenario.

The monitoring of structural balance is also pursued through the daily measurement and monitoring of the Net Stable Funding Ratio (NSFR) structural requirement, which is aimed at promoting greater recourse to stable funding, preventing that medium and long-term operations give rise to excessive imbalances, to be funded in the short term. It establishes the minimum necessary amount of funding longer than a year, in relation to the liquidity requirements and residual term of assets and off-balance sheet exposures.

On the reporting date, the Group does not present a high risk profile in terms of liquidity requirements; the liquidity profile of the Group is adequate in the medium/long term, reflecting the coherence between the process to construct assets and the adoption of relative funding policies, while complying with internal and regulatory risk limits.

At the reporting date, the Group had a level of LCR of NSFR in line with the internal limits defined in the RAF.

Impacts of the Russia - Ukraine War

Faced with the geopolitical context linked to the war in Ukraine, a communication channel was activated with the Management Committee by the treasury management and ALM units and the risk control function, with updates on market trends and an update on the RAF limits at times of greater financial tension.

The contribution to funding of depositors with exposures to Russia and Ukraine was negligible. No changes to the risk management strategy or objectives were recorded, nor significant changes to risk measurement and control systems, related to the pandemic.

Quantitative information

1. Breakdown of financial assets and liabilities by residual contractual maturity

EUROS

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 months to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
Cash assets	714,894	379,307	34,494	147,028	751,039	**398,374**	**478,936**	**2,551,427**	**1,197,227**	**27,684**
A.1 Government bonds	273	-	215	-	3,722	69,910	45,125	425,000	339,055	-
A.2 Other debt instruments	16,103	273	1,168	3,129	4,650	20,444	41,530	220,463	435,427	-
A.3 Units in UCIs	447,335	-	-	508	1,157	929	5,325	65,218	769	-
A.4 Loans	251,183	379,034	33,111	143,391	741,510	307,091	386,956	1,840,746	421,976	27,684
- Banks	75,874	367,228	-	-	23	-	-	-	44,777	26,742
- Customers	175,309	11,806	33,111	143,391	741,487	307,091	386,956	1,840,746	377,199	942
B. On-balance sheet liabilities	802,749	160,400	51,720	104,071	247,607	**488,406**	**1,276,258**	**2,850,233**	**207,851**	**89**
B.1 Deposits and current accounts	802,749	160,400	51,720	102,767	238,909	475,254	1,199,817	1,684,881	9,102	-
- Banks	14,616	120,000	-	20,000	147	-	-	-	-	-
- Customers	788,133	40,400	51,720	82,767	238,762	475,254	1,199,817	1,684,881	9,102	-
B.2 Debt instruments	-	-	-	-	-	3,128	31,878	408,525	198,749	-
B.3 Other liabilities	-	-	-	1,304	8,698	10,024	44,563	756,827	-	89
C. "Off-balance sheet" transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	39,868	2,683	25,128	89,783	28,407	-	-	-	-
- Short positions	-	38,824	2,579	25,068	89,605	28,597	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	911	319	1,253	12,398	9,562	-
- Short positions	-	-	-	-	106	-	123	10,098	9,036	-
C.3 Deposits and loans to be collected										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	3,841	-	-	-	20,212	85	15,230	91,914	24,255	-
- Short positions	3,841	-	-	-	20,212	85	15,230	91,914	24,255	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Breakdown of financial assets and liabilities by residual contractual maturity

OTHER CURRENCIES

p.1

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 months to 3 months
A. Cash assets	**21,610**	**332**	**737**	**25,900**	**21,711**
A.1 Government bonds	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-
A.3 Units in UCIs	-	-	-	-	-
A.4 Loans	21,610	332	737	25,900	21,711
- Banks	21,328	-	-	-	-
- Customers	282	332	737	25,900	21,711
B. On-balance sheet liabilities	**14,151**	**-**	**-**	**18,100**	**-**
B.1 Deposits and current accounts	14,151	-	-	18,100	-
- Banks	-	-	-	18,100	-
- Customers	14,151	-	-	-	-
B.2 Debt instruments	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
C. "Off-balance sheet" transactions					
C.1 Financial derivatives with exchange of principal					
- Long positions	-	18,593	-	-	-
- Short positions	-	20,348	2,579	25,068	25,226
C.2 Financial derivatives without exchange of principal					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposits and loans to be collected					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	-	-	41	-	-
- Short positions	41	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with exchange of capital					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without exchange of capital					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1. Breakdown of financial assets and liabilities by residual contractual maturity

p.2

Items/Time bands	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
A. Cash assets	**13,288**	**5,998**	**23,554**	**7,360**	**-**
A.1 Government bonds	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-
A.3 Units in UCIs	-	-	-	-	-
A.4 Loans	13,288	5,998	23,554	7,360	-
- Banks	-	-	-	-	-
- Customers	13,288	5,998	23,554	7,360	-
B. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	-	-	-	-	-
- Banks	-	-	-	-	-
- Customers	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
C. "Off-balance sheet" transactions					
C.1 Financial derivatives with exchange of principal					
- Long positions	-	-	-	-	-
- Short positions	28,597	-	-	-	-
C.2 Financial derivatives without exchange of principal					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposits and loans to be collected					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with exchange of capital					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without exchange of capital					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

2. Self-Securitisations

Below is a brief illustration of the self-securitisations originated by illimity, existing as of 31 December 2023, in which the Bank subscribed 100% of the securities issued by the related vehicle (self-securitisation).

COLT SPV

In December 2022, the Bank entered into a receivable sale agreement with the special-purpose vehicle COLT SPV for the recourse sale, en bloc, of a portfolio of performing variable-rate loans to corporate counterparties originated by illimity. COLT SPV is a vehicle incorporated pursuant to Law 130/1999, not owned by illimity, which, on 19 December 2022, issued senior, mezzanine and junior notes for a total notional value of EUR 570.1 million, fully subscribed by illimity.

In 2023 the Bank subscribed additional notes issued by the vehicle for a total of around EUR 138 million.

This transaction falls under transactions without derecognition aimed at expanding the portfolio of assets that can be set aside to constitute a liquidity reserve that can be activated through funding transactions with the ECB, repos or other transactions. The notes subscribed by illimity were used as a guarantee for reverse repurchase agreements in order to ensure that the bank has sufficient liquidity for its funding policies.

ENERGIA SOSTENIBILE SPV

In 2022, the Bank subscribed several minibond issues of leading industrial companies, to favour the energy transition and improve issuers' sustainability profiles. Mainly for the purpose of mitigating the risk relating to the Bank's exposure, it was agreed to give priority to issues of minibonds that could benefit from guarantees such as those from SACE and the EIF. It was thus verified, through legal assessments, that the minibonds benefiting from those guarantees cannot be transferred to third parties or to any securitisation vehicle established pursuant to Law 130/99 specifically due to the framework agreements of the guarantors.

In February 2023, the Bank thus structured a synthetic securitisation with the vehicle Energia Sostenibile SPV, established pursuant to Law 130/1999, not held by illimity, which issued single tranche notes fully subscribed by illimity. Using the funds deriving from illlimity's (the sole noteholder) subscription of the single tranche notes, the SPV disbursed a limited recourse loan, of which illimity is the sole borrower, whose characteristics were exactly replicated from the minibonds at the single closings (in terms of interest, redemptions, economic terms and conditions, etc.).

This transaction falls under transactions without derecognition ("self-securitisations") typically aimed at expanding the portfolio of assets that can be set aside to constitute a liquidity reserve that can be activated through funding transactions, repos or other transactions.

1.5 Operational risks

Qualitative information

A. General aspects, management processes and methods used to measure operational risk

Operational risk is the risk of incurring losses due to inadequate or malfunctioning procedures, human resources or internal systems, or due to exogenous events. This type of risk includes internal and external fraud, errors in the performance of operational processes, interruptions to operations, unavailability of systems, cases of contractual non-fulfilment and natural disasters. This definition does not cover strategic or business risk and reputational risk, but does cover ICT and security risk and legal risk, with the latter being understood as the risk deriving from the infringement of laws or other regulations in force, or from failure to honour contractual and extra-contractual responsibilities. In some cases, operational risk may include several types of risk that can be classified, due to their causal factors, as deriving from ESG (Environmental, Social and Governance) risk. Those cases of risk, at times, may derive from the inadequacy of the internal processes of assessment or management of the environmental, social or governance impact of financial counterparties and of the Bank.

Operational risk is therefore characterised by a cause and effect, such that an adverse event, and the related operating loss, is generated by one or more triggers. This loss is defined as the entire set of negative financial effects generated by an operational risk event, as recognised in the company accounts and likely to have an impact on the income statement.

The Group's overall operational risk management framework is based on a set of shared human and technological resources, procedures and organisational rules aimed at identifying, analysing, recording and mitigating all operational risks inherent in the current and prospective operations of the various operational units.

The primary objective of the framework is, in fact, the prevention and containment of the impact on business functions of such risk events through the *ex ante* implementation of organisational and operational controls, and ex post targeted mitigation measures. The guiding principles on which the operational risk prevention and mitigation framework is based include:

- increasing the efficiency and security of internal and third party-facing processes;
- increasing overall operational and IT security;
- ensuring the regulatory and organisational compliance of business activities;
- promoting the culture of risk among personnel
- mitigating the effects of the occurrence of risk events;
- transferring any risks that are not to be maintained, where possible, using insurance-type contracts;
- protecting relations with stakeholders, reputation and the brand.

The mitigation tools available within the Group therefore include insurance policies that offer broad coverage against various types of adverse event. In that respect, the Group took out adequate policies covering various instances of operational risk and, in particular, cyber risk, property risk, employee infidelity risk, risk of non-integrity of the real estate repossessed by the Group and of the value of the properties received as collateral in the purchase of non-performing loans, and risk of disregard for advanced electronic signatures and graphometrics. This insurance is subject to valuation and continuous adjustment, including based on the progressive operational and structural evolution of the Group.

With regard to the management of critical ICT and security risks, the Group has a disaster recovery plan, which sets out the technical and organisational measures necessary to deal with the unavailability of IT systems or infrastructure. The plan aims to guarantee the functioning of critical IT procedures at alternative sites to those of production, and forms an integral part of the business continuity plan, ensuring the return to normal Group operations within reasonable timing. In line with the regulatory instructions issued by the Bank of Italy, and based on an integrated operational resilience logic, this system is managed both internally by the ICT security area, and externally by the outsourcer Centrico, and by front-end service providers.

Furthermore, to control the economic risks arising from legal proceedings against the Group, a provision is made in the financial statements, which is appropriate for and consistent with international accounting standards. The amount of the provision is estimated on the basis of multiple factors, which mainly concern the predicted outcome of the dispute, and in particular the likelihood of losing the proceedings and an order being made against the Group, and the amount to be paid to the adverse party.

In order to guarantee the correct management and integrated oversight of operational risk, the Group has put in place a continuous structured loss data collection (LDC) process and a process to determine the Group's forward-looking exposure to operational risk, based on an annual Risk Self Assessment (RSA).

Through the LDC process, the main information related to the Group's operational risk events and their economic effects is collected and analysed in a timely manner. The process extends throughout the entire banking group, also involving the subsidiaries for which illimity carries out risk management activities as an outsourcer. The activity of reporting and gathering data also makes use of IT applications and processes that guarantee the ordered and systematic inclusion of events and operational losses, thereby facilitating the recording of such information for the purposes of monitoring and assessing adequate mitigation measures.

RSA activity instead aims to quantify exposure to the Group's operational risks in the year following the assessment, based on a forward-looking self assessment which is conducted from main operating areas. This activity is launched through the definition of and agreement on possible future operational risk scenarios, is carried out through a structured process involving the assessment of the frequency, expected impact and worst case scenario for the main operational risk events that may characterise each organisational unit. These forward-looking estimates are then screened by the control functions based on objective criteria which are, lastly combined to provide an overall vision of expected and unexpected operational losses at an individual Company or Group level. This is also accompanied by a qualitative assessment of the status of controls (processes, checks and systems and resources), with the identification of possible mitigation interventions.

Both key processes to identify and manage operational risk cover all illimity Group companies on a uniform basis, so as to effectively supplement the operational, ICT and security risk control systems, and therefore ensure a unique management framework adopted. Future actions are planned for the ongoing consolidation and monitoring of the integration of subsidiaries in terms of risk supervision and measurement and to update internal regulations.

The operational risk data collection process benefited from the active contribution of illimity Bank, and from all its subsidiaries.

During 2023, a small number of operating loss events were recorded with an overall economic impact below the risk appetite thresholds established for the year.

In general, and in line with the risk profile recorded during 2022, the most significant events in terms of intrinsic risk relate to the Bank's continuing operations and, in particular, concern the correct execution and configuration of operating or IT procedures managed by suppliers and outsourcers, followed by errors in executing internal processes. The operating risk events that did not generate actual losses at the end of 2023 are continuously monitored due to their potential to generate future losses. No significant risk events were recorded with regard to the subsidiaries.

At the overall level, the events recorded fall primarily within the category of events related to customer relations and product management (ET 4), followed by the more traditional errors of process execution or management (ET 7).

No internal fraud occurred (ET1) or disputes regarding work practices (ET3).

1.6 ESG risks

Definition of ESG risks, physical risks and transition risks

The illimity Group assesses the risk profiles associated with sustainability and the related environmental, social and governance (ESG) factors based on the "double materiality" approach, considering both financial materiality (the external-to-internal perspective: in what way environmental, social and governance factors can influence the Group's economic and financial performance and capital stability, with potential negative impacts on its asset values, income, cost of capital and reputation), and the materiality of the environmental and social impact (the internal-to-external perspective: the impact of the Group's activities on the environment and people, and therefore how the operations carried out affect pollution, biodiversity, social wellbeing, equity, etc.).

Focusing on the "E" (*Environmental*) component and therefore on climate and environmental risks, the following risks have been identified:

- physical risk indicates the impact of climate change, including extreme weather events which are more frequent and gradual climate changes, as well as environmental degradation, i.e. atmospheric, water and soil pollution, water stress, loss of biodiversity and deforestation; this type of risk also includes hydrogeological events. These can be classed as "acute" risks, if caused by extreme events such as drought, floods, cyclones, storms, heatwaves and forest fires; landslides and earthquakes, or as "chronic", if caused by gradual changes such as rising temperatures, rising sea levels, water stress, changes in atmospheric precipitation levels, loss of biodiversity and scarcity of resources. Such a risk can directly cause, for example, material damage to property and/or collaterals or a drop in productivity, or can indirectly cause subsequent events such as the interruption of production and logistical chains. This kind of risk may affect the Bank directly (through operating and business losses) or indirectly by having an impact on its customers (with negative consequences for their creditworthiness and for the recovery of any real guarantees).
- transition risk indicates the financial loss that the Bank may incur, directly or indirectly, as a result of the process of adjusting to a low-carbon and more environmentally sustainable economy. This situation could be caused, for example, by the relatively unexpected adoption of climate-related and environmental

policies, technological progress, or changes in market and customer/consumer confidence and preferences. This impact may occur directly, for example due to a lower profitability of companies or write-down of their activities, or indirectly through macro-financial changes.

Focusing on the "S" (Social) component, we can see that this includes aspects related to diversity management policies, the protection of human and workers' rights, labour standards and community relations.

Focusing on the "G" (Governance) component, we can see that this includes aspects related to the composition of the corporate governance bodies, management policies and systems, transparency and reputation, exposure to the risk of sanctions, penalties, etc…

Furthermore, ESG risks do not constitute a new category of risk, but instead represent causal factors in relation to the traditional financial risk categories, such as credit, market, liquidity and operating risk, and, in light of that, are measured and managed in the context of the risk management processes.

Significant ESG risks for the illimity Group

In the context of the activities carried out to identify and update the significant risks facing the Group (the "risk radar"), which are also useful for performing the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) regulatory exercises, as well as for the Strategic Plan, the Budget and the RAF, ESG risks, assessed from a double-materiality perspective, were classified as significant risks, and therefore deemed to have a potentially significant impact. They were also mapped, with regard to the climate-environmental risk component, through the definition for the Group's different operating areas of ESG risk drivers, micro and macroeconomic transmission channels, the main traditional banking risks impacted (credit, market, operating risks, etc…) and their magnitude over the short-, medium- and long-term time horizons, the financial statement items affected and the risk management (mitigation) methods used.

As a result of this mapping, and in particular from the financial-materiality perspective, the following key areas of operations were identified as being potentially affected by ESG risks, particularly in the medium (1-5 years) and long (beyond 5 years) term:

- Performing/UTP loans (Growth Credit): impact of acute physical risk on counterparties' creditworthiness (Probability of Default, or PD) and on the value of real guarantees (Loss Given Default, or LGD), impact of transition risk (regulatory amendments and changes in customers' preferences) on counterparties' creditworthiness (PD);
- NPL and Senior portfolios and *asset-based financing*, UTP loans (Distressed Credit): impact of acute physical risk on the value of real guarantees concerning real estate (*haircuts* to the Business Plans), impact of transition risk (regulatory changes to energy efficiency standards) on the value of real guarantees concerning real estate (*haircuts* to the Business Plans);
- Performing/UTP loans (b-ilty): impact of acute physical risk on counterparties' creditworthiness (PD), on the value of real guarantees (LGD) and on operating risk profiles (business continuity), impact of transition risk (regulatory amendments and changes in customer preferences and sentiment) on counterparties' creditworthiness, and on the bank's reputation and image profiles;
- Own portfolio securities (Investment Banking): impact of acute physical risk and of transition risk (regulatory amendments) on the creditworthiness (PD) of issuers and on the price of the listed financial instruments issued by them;
- Servicing activities (AREC neprix): impact of (acute and chronic) physical and transition risks in the distressed asset management process, including from a medium-term perspective (reconstruction/ replacement costs with regard to "longer" Business Plans and with cash recoveries from the sale of real guarantees with a longer time horizon);
- Assets Under Management (Alternative Investment Funds, or "AIFs", managed by illimity SGR): impact of physical (geographical location of production, logistics, warehouse sites in areas at high physical risk) and transition risks (belonging to sectors that may be faced with burdensome ecological transition procedures) relating to the companies invested in/financed by the AIFs and their productive assets, as well as relating to the real estate used as a guarantee of positions managed by contribution-based credit AIFs.

The component concerning the materiality of the environmental and social impact was also assessed. In view of elements such as the presence of operating sites not located in areas at high physical risk, the absence of subsidiaries spread throughout the country, the Group's and Bank's fully digital structure with cloud infrastructure, and business continuity and disaster recovery safeguards with locations in various EU Member States, the exposure to physical risks arising from any impacts generated by the Group on the environment is not particularly high. The illimity Group's exposure to transition risks is also low, particularly due to the carbon-neutral status that it has maintained since 2020. Nevertheless, on a forward-looking basis and with regard not only to climate-environmental risks, but also to social and governance aspects, it should be pointed out - among the Group's many results in the area of sustainability - that the Bank has obtained and maintained Gender Parity Certification. To this can be added the safeguards put in place by the Group to adapt to the pressures and growing attention from the Supervisory Authorities and national and EU regulators (e.g. assessments concerning the introduction of a carbon tax and active policies to improve environmental standards) and from market stakeholders (analysts, investors, institutional counterparties), which are increasingly changing their preferences when it comes to sustainability.

Measurement, monitoring, reporting and management of ESG risks

The illimity Group develops, implements and applies methodologies and systems for assessing, measuring, monitoring and controlling its exposure to ESG risks and, in particular, to climate-environmental risks, including through the acquisition of external data, especially risk indices and scores, and on the basis of the forecasts and indications provided by the Supervisory Authorities and emerging best practices.

These risks are the subject of quarterly reports in the *RAF Tableau de Bord* of risks intended for the Board of Directors, the Corporate Bodies, Top Management and the Supervisory Authorities. These reports are also useful for verifying compliance with the risk limits and objectives.

Specifically, the following instruments are used:

- Elementary data: GHG emissions of financed counterparties, energy certifications on real estate used as a guarantee, level of transmission of economic sectors, etc…;
- Scores/ratings: the ESG score resulting from the distribution of questionnaires or the application of automatic models (via info-providers), related to financed counterparties, issuers of own-portfolio securities, suppliers and partners, and the ESG rating assigned to illimity by external ratings agencies;
- Risk and loss indices: indices of the physical and transition risk of financed counterparties, indices of the physical risk of real estate assets, levels of expected and unexpected loss of value of collaterals due to physical risk scenarios;
- Sentiment Analysis: assessment of the sentiment of the ESG news published on social networks and in the media, relating both to counterparties/issuers/suppliers and partners and to illimity, its company representatives and the Group's brands;
- Operating Losses and ESG Complaints: operating losses resulting from ESG risk factors, recognised in the balance sheet or as a result of the assessment of prospective risk scenarios, ESG complaints received;
- Internal models: models used to estimate the impacts of climate-environmental scenarios on credit risk parameters (PD, LGD), model used to estimate the physical risk of the collaterals portfolio via the Monte Carlo simulation;
- Scenario analysis and stress testing: ad hoc and stress scenarios applied to specific risks and portfolios, partly borrowed from the regulatory exercises of the European Central Bank.

These risk management processes and tools are carried out in the context of ESG with a view to ultimately being integrated into the corporate IT system based on a data laketo centralise the internal and external data and risk estimates, the relative processes for uploading, archiving, data quality and use by other internal users (business structures, and central and control functions for disclosure and reporting processes), including through specific *front-ends* for consulting and obtaining financial and sustainability information.

The assumption and management of ESG risks is governed by the system of risk limits and objectives (the Risk Appetite Framework), which, since 2023, has been supplemented by an initial set of indicators associated with ESG risks and opportunities, both for illimity and for financed credit and financial counterparties, with a particular focus on climate-environmental risks. In particular, reference is made to the following indicators: ESG scores relating to financed counterparties, hydraulic and hydrogeological physical risk scores relating to collaterals in relation to NPL portfolios, sustainable finance targets in terms of volumes of loans disbursed/financial instruments acquired, ESG rating attributed to the illimity Group, operating losses generated by ESG factors, illimity's emission intensity (GHG scope 1 and scope 2 emitted per employee).

Furthermore, ESG risk mitigation and governance tools include the adoption of negative screening mechanisms; the adoption of a transition strategy with which a *business origination* quota has been established for the Bank dedicated to loans and investments that are sustainable or associated with sustainability; the preparation of action plans for counterparties with high ESG risk; criteria and limits at investment policy level; processes for sectoral diversification of loans and geographical/type diversification of real estate collaterals; interventions to reclassify and regenerate assets and their development from an energy perspective (e.g. support for their reclassification in terms of energy certifications, installation of solar panels, etc…) and the use of insurance cover.

2023 ESG risk profile

The illimity Group is characterised by a profile of moderate exposure to ESG risks in the short and medium term - and in particular to climate-environmental risks – pursuant to the following considerations:

- very low physical risks, associated with the management of collaterals arising from NPL portfolio acquisitions, real guarantees relating to performing loans, repossessed properties and guarantees relating to the loans of the AIFs managed by illimity SGR, in relation to the riskiness of the geographical areas of location (ISPRA data) and the high geographical diversification thereof;
- limited transition risks, relating to the financed counterparties and issuers of own-portfolio securities, in relation to sectoral asset allocation, the specific characteristics of the financial companies, and climate-environmental scenarios that have the greatest impacts on the counterparties most exposed beyond the 2025 time horizon;
- limited negative impact - in relation to the occurrence of climate-environmental scenarios - in terms of both capital (up to a maximum of approximately -20/-25 bps in the event of a medium-term stress scenario) and liquidity (with LCR and NSFR indicators that are adequately above the minim regulatory levels, including in a stress scenario);
- absence of operating losses from ESG factors (and prospective scenarios of low-impact operating risk) and of complaints associated with sustainability profiles;
- high ESG standing of the illimity Group among the main stakeholders (as also shown by the ESG ratings assigned to illimity by specialist agencies);
- strong governance to oversee the 2023-2025 Sustainability Plan and the Plan of adaptation to the Bank of Italy’s expectations with regard to climate and environmental risks.

Plan of action to adapt to the Bank of Italy’s expectations

The illimity Group has defined, approved and implemented a Plan of action (separately for illimity Bank and illimity SGR) in order to carry out, in the 2023-2025 period, interventions aimed at achieving alignment with the Bank of Italy’s expectations with regard to the integration of climate and environmental (physical and transition) risks, concerning the following contexts:

- governance and control systems, business model and corporate strategy;
- organisational system and operating processes;
- market disclosure and risk management system.

With regard to risk management profiles, the interventions concern aspects such as: risk appetite; KRI & reporting, assessment of materiality, risk quantification, mitigation and management measures, impacts on capital adequacy, disclosure (Pillar 3).

At the end of 2023 the work progress status showed that around 50% of the interventions had been carried out, in line with the Plan of action and with the main benchmarks and best practices published by the Bank of Italy at the end of December 2023 for Less Significant Institutions.

Accounting impacts

The illimity Group is carrying out specific analyses in order to assess the best solutions for gradually integrating ESG risk factors, with a particular focus on climate-environmental risks, into the credit risk management process and the related accounting practices. In particular:

- Investigation process: the Group aims to improve the current process by introducing a documented and formalised preliminary analysis of counterparties' ESG and climate-environmental risk profiles. This analysis will consider various aspects, such as real guarantees and the status of the parties involved;
- Credit monitoring: the Group plans to enhance its existing range of monitoring tools with new early warning indicators that also take account of ESG risks, thereby making it easier to identify potential exposures to risk early on;
- Collective adjustment framework: the Group will examine the evolution of methodologies for estimating risk parameters and macroeconomic scenarios to include stress scenarios related to climate-environmental scenarios, aligning itself with international standards such as those proposed by the *Network for Greening the Financial System* (NGFS);
- Rating assignment process: the Group will assess the integration of ESG factors into the rating assignment process, with a view to adopting override criteria in the presence of significant climate-environment risks, whilst maintaining a flexible approach to exceeding specific thresholds.

Attention will also be paid to adapting the practices used to evaluate and manage real guarantees, with the aim of including, where necessary, considerations relating to the effects of climate change, in terms of both physical and transition risk, in the development of such activities.

These processes will be implemented taking into consideration the limitations relating to data availability and the need for an effective governance approach that is supported by transparent, objective documentation.

Lastly, the illimity Group may consider the use of overlay techniques as an integral part of its strategy to deal with ESG risks, thereby providing for the possible adoption of adjustments to the existing models such as the introduction of new models or scenarios based on expertise, to better reflect the impact of climate-environmental risks. These tools will be developed taking into account actual data availability, with a view to implementing them flexibly and gradually, and in line with the evolution of the applicable regulations and emerging best practices.

Impacts of the Russia - Ukraine conflict

To date, the Russia–Ukraine conflict has not generated specific impacts in terms of increase/decrease in the operational risk to which the Group is exposed. No impacts occurred, for example, in terms of unavailability of human or IT resources or cyber attacks connected with the start of the conflict. Also in terms business continuity, no repercussions were observed on the Group's business.

OTHER IMPORTANT RISKS

Risk of over-leverage

This risk of over-leverage is defined by the prudential regulations as the risk that a particularly high level of indebtedness compared to the amount of own funds making the Group vulnerable, and requiring the adoption of corrective measures to the Strategic Plan, including the sale of assets and the recognition of impairment losses or write-downs/write-backs.

Risk exposure is measured by the Leverage Ratio (the financial leverage index, measured as the ratio between own assets and total on- and off-balance sheet assets that, not including corrections/weighting for the risk, serves as supplement to the capital requirements of the first pillar) and through other indicators that can identify any imbalances between assets and liabilities (structural and operational liquidity ladder). The strategic and operational objective is to control the risk by keeping asset trends within limits that are compatible with long-term equilibrium in order to avoid jeopardising the Group's stability.

The over-leverage risk relates to the entire financial statements, to the exposures arising from derivatives and the off-balance sheet assets, and is accepted as part of the exercise of core business. It is closely connected to planning and capital management activities; the level of exposure to risk is an expression of the guidelines and development lines elaborated by the Board of Directors. Risk exposure is mitigated through capital management and asset management allocation measures, which remain within the guidelines set out in the current Strategic Plan. Consideration is also given to the potential increase in risk connected to the recognition of expected or realised losses which reduce capital.

Settlement risk

Settlement risk is the risk connected to non-simultaneous settlements, in other words for operations on debt instruments, equity instruments, foreign currencies and goods (apart from sales with repurchase clauses or operations for the granting and acceptance on loan of securities or goods that are not liquidated after expiry of the related delivery date). Article 378 of the CRR requires a bank to calculate its requirements in terms of own funds for settlement risk by calculating the price difference it would be exposed to if that difference could result in a loss. The difference between the agreed liquidation price and the current market value would determine the risk related to operations where settlement is not simultaneous with the actual delivery.

Counterparty risk

Counterparty risk is the risk that the counterparty in an operation defaults before the final payment of the cash flows of that operation, with regard to transactions concerning financial derivatives and credit instruments traded on unregulated markets (OTC), repurchase operations and operations with deferred settlement.

The losses involved with this type of risk are generated when the transactions with a certain counterparty have a positive value at the time of the insolvency.

Transfer risk

Transfer risk is the risk that a bank, which has exposure towards a party funded in a currency other than that of its main source of income, realises losses due to the borrower's difficulties in converting its currency into the currency of the exposure.

Sovereign risk

Sovereign risk is the risk of a reduction in the value of bonds of an issuer State, almost all of which are included in the Held to Collect and Sell (HTCS) and Held to Collect (HTC) portfolio categories, in relation to a decrease in the credit rating, or in an extreme scenario, the insolvency of the State. Exposure is regularly monitored and reported to the executive bodies.

Strategic and business risk

Strategic and business risk is the current or forward-looking risk of falling profits or capital resulting from changes to the operational context or from incorrect business decisions, the inadequate implementation of decisions, or lack of response to changes in the competitive environment.

The two components refer to strategic risk related to business interruption (for example entry on new markets or the adoption of significant operating changes) and business risk, which is the risk of a potential reduction in profits as a result of changes in the operational environment within the normal course of business (for example volatility of volumes or changes in customer preferences).

Exposure to strategic and business risk is not connected to specific operating activities but to the adequacy of the decisions and the efficiency of their implementation. In particular the risk relates to the stages of defining the business strategies and the related phases of implementation consisting of the definition of the strategic plan, commercial planning, budgeting, management control and the monitoring of markets and the competitive environment, capital allocation and capital management.

By defining, approving and monitoring the annual planning and progress of the Strategic Plan, top management carries out strategic checks on the evolution of the various areas of business and the risks connected to its activities. The CRO Division continually monitors and controls the level of exposure to risk, providing adequate reporting on a quarterly basis to company bodies and top management.

Compliance risk

Compliance risk is the risk of incurring legal or administrative penalties, major financial losses or damage to reputation as a result of breaches of mandatory laws (laws and regulations), or codes of self-governance (such as articles of association or codes of conduct). The Group pays particular attention to compliance risk, considering that the adoption of the highest standard of conformity to laws and regulations is a way of maintaining its reputation over time.

Money laundering risk

Money laundering risk is the risk of incurring legal or reputation risks as a result of potential involvement in illegal operations connected to money laundering or the financing of terrorism. The Group has set up a specialised function within its organisational structure, in accordance with the current regulatory requirements that is responsible for overseeing, in a general perspective, the aforementioned management of AML risk, and for providing the necessary support and advice to business Divisions.

Reputation risk

Reputation risk is defined as "the current or forward-looking risk of a decline in profits or equity due to a negative perception of the Group's image by customers, counterparties, the Group's shareholders, investors or Regulators". Likewise, reputation is an intangible asset of essential importance and is a distinctive feature which forms the basis for a long-term competitive advantage.

The risk relates primarily to the area of stakeholder relations. It can originate from factors outside of the business perimeter and beyond the bank's operations (for example the publication of inaccurate information or rumours, or phenomena affecting the banking system that may affect all banks indiscriminately). The primary, essential control on the management of reputation risk is the sharing by all staff, suppliers, partners and consultants of the system of values, standards and rules of conduct inspiring all.

The Bank's reputation is overseen by specific communication strategies, policies and processes and is continually monitored, for example through "sentiment analysis" instrument that identify how its image is perceived by the media, market operators and social media.

Part F – Information on consolidated shareholders' equity

Section 1 - consolidated shareholders’ equity

Shareholders' equity is defined by the International accounting standards as “what remains of the company’s assets after deducting all the liabilities”. From a financial viewpoint, equity is the monetary amount of the funds contributed by the proprietors, or generated by the business.

B.1 Consolidated shareholders’ equity: breakdown by type of enterprise

Items in shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	**55,905**	**-**	**-**	**-**	**55,905**
2. Share premium reserve	**629,572**	**-**	**-**	**-**	**629,572**
3. Reserves	**197,586**	**-**	**-**	**-**	**197,586**
4. Equity instruments	**-**	**-**	**-**	**-**	**-**
5. (Treasury shares)	**(747)**	**-**	**-**	**-**	**(747)**
6. Valuation reserves:	**(30,028)**	**-**	**-**	**-**	**(30,028)**
- Equities measured at fair value through other comprehensive income	5	-	-	-	5
- Hedging of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	(30,301)	-	-	-	(30,301)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging of foreign investments	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Hedging instruments [undesignated elements]	-	-	-	-	-
- Foreign exchange differences	-	-	-	-	-
- Non-current assets and asset groups held for sale	-	-	-	-	-
– Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)	-	-	-	-	-
– Actuarial gains (losses) relating to defined benefit plans	268	-	-	-	268
– Shares of valuation reserves for equity investments measured at equity	-	-	-	-	-
- Financial revenues or costs relating to insurance policies issued	-	-	-	-	-
- Financial revenues or costs relating to disposals in reinsurance	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Profit (loss) (+/-) for the financial year attributable to the Group and minority interests	103,814	-	-	-	103,814
Total	**956,102**	**-**	**-**	**-**	**956,102**

Qualitative information

B.2 Valuation reserves of the financial assets measured at fair value through comprehensive income: breakdown

Assets/Values Positive reserve	Prudential consolidation		Insurance companies		Other companies		Eliminations and adjustments from consolidation		Total	
	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Negative reserve
1. Debt securities	7,235	(37,536)	-	-	-	-	-	-	7,235	(37,536)
2. Equity securities	5	-	-	-	-	-	-	-	5	-
3. Green Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2023	**7,240**	**(37,536)**	**-**	**-**	**-**	**-**	**-**	**-**	**7,240**	**(37,536)**
Total 31/12/2022	**13,178**	**(61,793)**	**-**	**-**	**-**	**-**	**-**	**-**	**13,178**	**(61,793)**

B.3 Valuation reserves of the financial assets measured at fair value through comprehensive income: annual changes

	Debt securities	Equity securities	Green Loans
1. Opening balance	**(48,621)**	**5**	**-**
2. Positive changes		**-**	**-**
2.1 Increases in fair value	39,150	-	-
2.2 Write-downs/write-backs for credit risk	963	X	-
2.3 Transfer to income statement of negative reserves following disposal	22	X	-
2.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
2.5 Other changes	23,380	-	-
3. Negative changes		**-**	**-**
3.1 Decreases in fair value	(2,116)	-	-
3.2 Adjustments in value for credit risk	(833)	-	-
3.3 Reclassification through profit or loss of positive reserves: following disposal	(2,542)	X	-
3.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
3.5 Other changes	(39,704)	-	-
4. Closing balance	**(30,301)**	**5**	**-**

B.4 Revaluation reserves on defined benefit plans: annual changes

	31/12/2023
1. Opening balance	**741**
2. Positive changes	
2.1 Increases in fair value Actuarial (Gains)/Losses	-
2.2 Reclassification through profit or loss of negative reserves	-
2.3 Other changes	171
3. Negative changes	
3.1 Decreases in fair value Actuarial (Gains)/Losses	(644)
3.2 Reclassification through profit or loss of positive reserves	-
3.3 Other changes	-
4. Closing balance	**268**

Section 2 – Own funds and capital ratios

For information on own funds and capital adequacy, reference is made to the separate document Basel Pillar 3 - Public disclosure, 31 December 2023.

PART G – Business combinations

Section 1 - Operations carried out during the financial year

1.1 Business combinations

Description of the transaction

Coima, a company operating in investment, development and management of real estate assets on behalf of institutional investors, signed a real estate partnership on 18 April 2023 with Abilio S.p.A., the illimity Group company that specialises in the digital brokerage of property and capital goods. Specifically, the agreement provided for Coima to acquire a minority stake of 18 per cent in Abilio's share capital, by means of a reserved capital increase against contribution.

The transaction, which was completed on 25 May 2023, was resolved upon by the Shareholders' Meeting of Abilio and provided in particular for the transfer to Abilio by Coima of 100% of Residenze Porta Nuova S.r.l. ("RPN"), and Coima's subsequent acquisition of 18% of Abilio's share capital for a total amount of EUR 5 million.

As part of that transaction, RPN was renamed "Quimmo Prestige Agency S.r.l.".

Accounting recognition of the business combination and the PPA process

The acquisition of 100% of the share capital of Residenze Porta Nuova was recognised as a "*Business Combination*" to be accounted for as per IFRS 3, which stipulates that the acquisition method should be applied.

Based on that method, as of the acquisition date, the acquirer must:
- identify the acquirer and the acquisition date;
- determine the acquisition cost;
- allocate the acquisition cost ("*Purchase Price Allocation*", or "PPA") by recording the assets, liabilities and contingent liabilities deemed identifiable of the acquired company at their relative *fair values* as of that date, with the exception of non-current assets (or groups held for sale) classed as held for sale in accordance with IFRS 5. These items are recognised at fair value net of costs to sell. Any intangible assets not yet recorded by the acquired party must also be recognised.

Determination of the acquirer and the acquisition date

Without prejudice to the identification of illimity as the acquiring party, with reference to the acquisition of RPN (now Quimmo Prestige Agency), on 25 May 2023 all the conditions were met for the closing of the acquisition and, therefore, the business combination took effect from that date.

As there were no significant changes from 25 to 31 May 2023, the latter was considered as the acquisition date for drawing up the first statement of consolidation of the financial statements of the acquired company to:
- consolidate the results of the consolidated income statement;
- measure the fair value of the assets and liabilities acquired, including goodwill.

Determination of the acquisition cost

According to IFRS 3.37, the consideration transferred in a business combination shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer to the former owners of the acquiree, the liabilities of the acquiree incurred or assumed by the acquirer and the equity interests issued by the acquirer and used as the consideration for the merger at the acquisition date.

The acquisition cost (or consideration transferred) is thus composed of the financial resources transferred to the acquiree:
- in the event of cash, it is composed of the amount paid. The acquisition cost thus equals the amount of cash transferred to the acquiree;
- in the event that the consideration is represented by financial instruments traded on the market, the acquisition cost is represented by the fair value of those financial instruments at the date of the exchange.

Where the acquisition is carried out through the exchange of shares listed in active markets, the list price provides the most reliable evidence of the fair value and must be used without adjustments to determine the fair value, where available.

As part of the transaction, the transfer consideration, represented by the fair value at the acquisition date of the shares issued for the purpose of the contribution to Abilio of 100% of the shares of RPN (now Quimmo Prestige Agency), was EUR 5 million.

In the context of the capital increase reserved for Coima, 10,975 shares were issued at the issue value of EUR 455.59 per share, assumed to be equal to the fair value of those instruments at the acquisition date, for a total value of EUR 5,000,100.

The equity investment recognised on the separate financial statements of Abilio S.p.A. was therefore valued at EUR 5 million, equal, as indicated previously, to the cost incurred by the latter for the acquisition of RPN.

Purchase Price Allocation

As envisaged by IFRS 3, as part of the PPA process, the assets and liabilities of the acquired entity were recognised at their respective fair values. Specifically, the accurate analysis of the financial statement items of the acquired company did not give rise to significant differences at the acquisition date between the book values deriving from the IAS/IFRS statement of RPN and the related fair values.

With regard to the identification of specific intangible assets previously not recognised on the acquired company's financial statements, no such assets were identified or valued.

Summary of the Purchase Price Allocation process

Comparing the total acquisition cost and the shareholders' equity of the company measured at fair value as of 31 May 2023 results in a residual difference of EUR 4.6 million, which, for the purposes of the financial statements as of 31 December 2023, was definitively allocated to goodwill.

Determination of the effects of the acquisition of RPN (now Quimmo Prestige Agency)		**31/05/2023**
Total acquisition cost as of the acquisition date	a	5,000
IAS/IFRS shareholders' equity as of the acquisition date	b	384
Effects of PPA:	c = d + e	-
1. *Recognition of intangible asset for contract management*	d	-
2. *Deferred tax liabilities arising from recognition of intangible asset for contract management*	e	-
Shareholders' equity at fair value at the acquisition date	f = b + c	384
Goodwill recognised	g = a - f	4,616

As per IAS 36, the goodwill and intangible assets recognised in a business combination must, starting from the acquisition date, be allocated to the CGU that is expected to be able to benefit from the synergies of the combination; in the context of the illimity Group, the goodwill recognised as part of the acquisition of RPN was allocated to the new CGU *Quimmo Prestige Agency*, given the specific activity of the acquired company, which consists of the brokerage of luxury properties.

1.2 Transactions between subjects under common control

With effect for legal, accounting and tax purposes from 1 January 2023, the merger by incorporation of the subsidiary AREC S.p.A. into neprix S.r.l. was completed, resulting in the creation of the legal entity AREC neprix S.p.A.

That operation has had no effects on the consolidated financial statements, as both companies were wholly controlled by illimity Bank S.p.A. and included in the consolidated financial statements on a line-by-line basis.

It should also be pointed out that on 15 December 2023, a deed was signed to assign the "Industrial Sales" business unit of Abilio S.p.A. to the previously incorporated company Industrial Discount S.r.l., with effect from 20 December 2023.

These transactions, classified as "business combinations between entities under common control" and therefore outside the scope of IFRS 3, had no effects on the consolidated financial statements as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

Section 2 – Business combinations carried out after the balance sheet date

2.1 Business combinations

There were no business combinations governed by IFRS 3 after the end of 2023.

Section 3 – Retrospective adjustments

No retrospective adjustment was made during 2023 to business combinations taking place in previous years.

Part H – Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure "the transparency and material and procedural fairness of operations with related parties" carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions.

In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

In 2023 a material related party transaction was carried out involving an agreement to manage operations with said counterparty related to the liquidity deposited by the latter in current and deposit accounts with illimity Bank S.p.A. (about which adequate information was disclosed to the market, which should be referred to for further details). There were no further material or minor related party transactions which significantly affected the Group's capital or profit and loss.

In relation to CONSOB communication no. DEM/6064293 of 28 July 2006, operations or positions with related parties as classified in IAS 24 and the Consob Regulation have a limited impact on the financial situation and capital, profit and loss and cash flows of the Group.

According to IAS 24, related parties are parties:

a) that directly or indirectly, through one or more intermediaries,
   (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
   (ii) hold an investment in the entity of an extent that they may have considerable influence on the latter; or
   (iii) jointly control the entity;
b) represent an associate of the entity;
c) represent a joint venture in which the entity participates;
d) are one of the key senior managers of the entity or its parent;
e) are a close family member of one of the parties in points (a) or (d);
f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the 9th update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks, issued in implementation of Article 53, paragraph 4 et seq., of the Consolidated Law on Banking and in accordance with Resolution of the Interministerial Committee for Credit and Savings no. 277 of 29 July 2008, as well as the regulations set forth by Article 136 of the Consolidated Law on Banking. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

The Bank's Board of Directors has approved the "Regulation for the management of transactions with entities covered by the Bank's Single Perimeter and of transactions" which defines the Group's internal policies on the control of risk activities and conflicts of interest with connected parties. That document is published on the bank's website in the section "*Corporate Governance*", in accordance with current regulations.

1. Information on remuneration of key senior managers

The total remuneration and other benefits paid pertaining to the financial year to directors, statutory auditors and other key senior managers is EUR 15,279 thousand. As required by the new IAS 24, paragraph 17, further information has been provided about the following categories of remuneration for senior managers with strategic responsibilities and employees:

(Thousands of euros)

Category	Amount
a) short-term benefits	10,692
b) post-employment benefits	324
c) share-based payments	(9)
d) compensation of members of the Board of Directors and the Audit and Internal Control Committee/ Board of Statutory Auditors	4,272

2. Information on related party transactions

With regard to financial relations, and remembering that key senior managers also include the directors and the Audit and Internal Control Committee of the bank and the directors and statutory auditors of the Group companies, the situation on the reporting date is that shown in the following table, expressed in thousands of euros.

Under the terms of CONSOB Communication no. 6064293 of 28 July 2006, the effects on the consolidated financial statements of transactions with related parties as referred to in the table below, are highlighted in the relevant column.

STATEMENT OF FINANCIAL POSITION

(Thousands of euros)

Assets		Book value	of which with related parties	Impact of related parties
10.	**Cash and cash equivalents**	431,696	3,765	0.87%
	- To other related parties		3,765	
20.	**Financial assets measured at fair value through profit or loss**	527,840	109	0.02%
	c) other financial assets mandatorily measured at fair value	501,923	109	0.02%
	To other related parties		109	
40.	**Financial assets measured at amortised cost**	4,761,729	99,091	2.08%
	b) loans to customers	4,649,027	99,091	2.13%
	- To companies subject to significant influence		2,735	
	- To companies subject to joint control		-	
	To senior managers with strategic responsibilities		4,189	
	Other related parties		92,167	
70.	**Equity investments**	81,199	81,199	100.00%
	- To companies subject to significant influence		124	
	- To companies subject to joint control		81,075	
100.	**Intangible assets**	153,768	350	0.23%
120.	**Other assets**	309,649	510	0.16%
	- To companies subject to joint control		62	
	- To companies subject to significant influence		82	
	To other related parties		366	

STATEMENT OF FINANCIAL POSITION

(Thousands of euros)

Liabilities		Book value	of which with related parties	Impact of related parties
10.	**Amounts due to customers**	6,067,828	223,427	3.68%
	a) due to banks		1,079	0.11%
	To other related parties		1,079	
	b) due to customers	4,514,092	222,348	4.93%
	- To companies subject to significant influence		90	
	To senior managers with strategic responsibilities		4,325	
	- To companies subject to joint control		188,744	
	To other related parties		29,189	
80.	**Other liabilities**	157,611	7,359	4.67%
	- To companies subject to joint control		26	
	- To companies subject to significant influence		532	
	To senior managers with strategic responsibilities		6,218	
	To other related parties		583	
90.	**Employee severance pay**	5,030	530	10.54%
	To senior managers with strategic responsibilities		496	
	To other related parties		34	
100.	**Allowances for risks and charges**	8,260	221	2.68%
	a) commitments and guarantees given	5,374	221	4.11%
	To other related parties		221	
140.	**Reserves**	197,584	3,481	1.76%
	To senior managers with strategic responsibilities		3,480	
	To other related parties		1	

INCOME STATEMENT

(Thousands of euros)

Items		Book value	of which with related parties	Impact of related parties
10.	**Interest income and similar income**	397,291	7,542	1.90%
20.	**Interest expenses and similar charges**	(202,729)	(5,045)	2.49%
40.	**Fee and commission income**	82,248	364	0.78%
50.	**Fee and commission expense**	(7,836)	(67)	0.87%
190.	**Administrative expenses:**	(217,552)	(20,242)	9.30%
	a) personnel expenses	(105,057)	(14,570)	13.87%
	b) other administrative expenses	(112,495)	(5,672)	5.04%
220.	**Net adjustments/recoveries on intangible assets**	(18,280)	(59)	0.32%
230.	**Other operating income/expenses**	60,389	(4,075)	N/A
280.	**Profits (losses) on equity investments**	(3,493)	(3,493)	100%

Part I - Share-Based Payments

Qualitative information

1. *Description of payment agreements based on own equity instruments*

As to the variable component, the Group Remuneration Policy provides for the following plans:
- an "*Employee Stock Ownership Plan*" (ESOP);
- a "*Long Term Incentive Plan*" (LTI).

"Employee Stock Option Plan" (hereinafter also "ESOP")

The ESOP provides for the free allocation of up to 700,000 Ordinary Shares, which will be issued in execution of the decision article 2443 of the Italian Civil Code for the free increase of share capital, Article 2349, paragraph 1, of the Italian Civil Code up to a maximum of EUR 498,890, authorised by the Meeting on 18 January 2019. The Ordinary Shares will be allocated in five cycles on an annual basis.

The ESOP is intended for all the employees of the Bank and/or of its subsidiaries, who have, either with the Company or with one of its direct or indirect subsidiaries (i) a permanent contract of employment, or (ii) a fixed term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment").

As decided by the Meeting on 18 January 2019, the body currently responsible for implementing and managing the ESOP is the Bank's Board of Directors which on 18 January 2019 approved the "*Employee Stock Ownership Plan* Regulation", without affecting the characteristics of the Plan which is examined and approved by the Meeting (the "ESOP Regulation").

The beneficiaries' entitlement to the Ordinary Shares is subject to the following conditions being met:
- admission for trading on the MTA of the Ordinary Shares and Conditional Share Rights;
- the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiary on the allocation date of the Ordinary Shares;
- the maintenance of certain capital and liquidity requirements (so-called *gates*), in line with the applicable laws and regulations on the date of allocation of the Ordinary Shares.

The fulfilment of these conditions for the purposes of awarding the Ordinary Shares will be verified by the Board of Directors and/or the body or persons authorised for that purpose by the Board itself.

The ESOP Regulation requires that the Ordinary Shares be held in a restricted account for each employee, for at least three years. The Ordinary Shares will become available to the employee on conclusion of the three-year restriction period.

Each allocation is related to performance conditions relative to the financial statements of the previous year being attained at the allocation date. Therefore, each annual assignment will be independently recognised at the specific grant date. The ESOP was classified, in accordance with IFRS 2, as equity-settled, since it provides for payments based on the Bank's shares.

“Long Term Incentive Plan” (hereinafter also “LTIP”)

On 15 December 2021, the illimity Bank S.p.A. Ordinary Shareholders’ Meeting, on the premise that remuneration represents one of the most important factors for attracting and retaining individuals with the professional expertise and skills appropriate to the company's medium- and long-term needs, approved a *Long Term Incentive Plan* (“LTIP”, “the Plan”) for the 2021-2025 period, associated with the economic, financial and ESG targets set out in the Strategic Plan.

This LTI Plan replaces:

- the “Stock Option Plan” (“SOP”) whose adoption was resolved upon on 18 January 2019 by the Shareholders’ Meeting, reserved for a select number of employees of illimity and of companies directly and/or indirectly controlled by illimity; and
- the 2020-2023 Long Term Incentive Plan reserved for the Chief Executive Officer and the rest of illimity's Top Management, whose adoption was resolved upon on 22 April 2020 by the Shareholders’ Meeting.

The LTI Plan aims to ensure that the time horizon of the long-term incentive plan for key resources of the Bank is aligned with that of the 2021-25 Strategic Plan presented on 22 June 2021; to ensure strict alignment between the interests of the Bank, its shareholders and the beneficiaries of the LTI Plan, by incentivising commitment to achieving the Strategic Plan goals; and to support the achievement of ESG (Environmental, Social & Governance) targets in addition to economic and financial targets, in accordance with the overall framework of the aforementioned Strategic Plan.

The LTI was classified, in accordance with IFRS 2, as equity-settled, since it provides for payments based on the Bank’s shares.

Quantitative information

1. Annual changes

Items/Number of options and exercise prices	31/12/2023			31/12/2022		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balance	**1,746,228**	**-**	**31/12/2025**	**1,882,977**	**-**	**31/12/2024**
B. Increases			**X**			**X**
B.1 New issues	155,563	-	31/12/2025	66,909	-	31/12/2024
B.2 Other changes			X			X
C. Decreases			**X**			**X**
C.1 Derecognised	(149,636)	-	X	(203,658)	-	X
C.2 Exercised	-	-	X	-	-	X
C.3 Past-due	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**1,752,155**	**-**	**31/12/2025**	**1,746,228**	**-**	**31/12/2024**
E. Options exercised as of the end of the financial year	**-**	**-**	**X**	**-**	**-**	**X**

2. Other information

During 2023, as part of the ESOP, 240,486 illimity shares were assigned to Group employees in relation to a capital increase carried out for the purposes of the Plan, which was approved by the Board of Directors of illimity Bank on 30 May 2023.

Part L - Segment reporting

illimity Group operating segments

For segment reporting purposes, as provided for by IFRS 8, the identification of operating segments is consistent with the business activities of the segments, the organisational structure of the Group and internal reporting used by *management* to periodically review results and allocate resources.

Please refer to the report on operations for further details of the Group's organisational structure and the *mission* of the Divisions, the operating segments identified and the criteria for producing the Reclassified Financial Statements.

Financial data broken down by operating segment

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Digital	Corporate Center	Hype	31/12/2023
Net interest margin	100.5	72.8	8.3	4.6	-	6.3	-	-	192.5
Net fee and commission income	32.0	27.2	9.8	3.9	4.9	**(1.1)**	-	-	76.7
Other economic components	**31.3**	3.9	**(0.4)**	**-**	**0.4**	54.5	**-**	**-**	**89.7**
Total net operating income	163.8	**103.9**	17.7	8.5	5.3	59.7	-	-	358.9
Personnel expenses	(43.4)	(14.6)	(4.6)	(5.2)	(2.9)	**(10.1)**	(24.6)	-	(105.4)
Other administrative expenses and Net adjustments/ recoveries on property and equipment and intangible assets	(53.6)	(7.2)	**(2.5)**	**(4.9)**	**(0.7)**	**(31.8)**	**(20.9)**	**-**	**(121.6)**
Operating expenses	**(97.0)**	**(21.8)**	**(7.1)**	**(10.1)**	**(3.6)**	(41.9)	**(45.5)**	**-**	**(227.0)**
Operating profit (loss)	**66.8**	**82.1**	10.6	(1.6)	1.7	17.8	(45.5)	-	131.9
Total net adjustments/ recoveries and other provisions	42.2	(2.1)	(0.5)	(4.2)	-	-	-	-	35.4
Contributions and other non-recurring expenses	-	-	-	-	-	**(4.3)**	(7.8)	-	(12.1)
Other income (expenses) on investments	(0.4)	-	**-**	**-**	**-**	-	**-**	**(3.1)**	**(3.5)**
Profit (loss) from operations before taxes	**108.6**	**80.0**	10.1	(5.8)	1.7	13.5	(53.3)	(3.1)	151.7

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Digital	Corporate Center	Hype	31/12/2023
Financial assets measured at fair value through profit or loss	449.2	68.2	9.6	-	0.8	-	-	-	527.8
Customer loans	761.5	2,363.5	52.3	309.4	-	-	-	-	3,486.7
Asset securities at amortised cost	441.7	397.1	297.4	26.1	-	-	-	-	1,162.3
Property and Equipment	64.7	-	-	-	-	-	23.5	-	88.2
Amounts due to customers and securities issued	-	-	-	48.0	-	3,827.8	1,250.1	-	5,125.8
RWAs	2,428.5	1,812.6	229.8	95.8	7.4	130.4	330.0	45.2	5,079.7

Shown below are the main financial data illustrating developments in the operating segments of the illimity Group in the 2022 financial year.

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Digital	Corporate Center	Hype	31/12/2022
Total net operating income	210.0	73.7	15.1	1.4	3.8	20.6	-	-	**324.6**
Operating expenses	(79.4)	(17.9)	(5.7)	(11.3)	(3.0)	(33.6)	(42.7)	-	**(193.6)**
Profit (loss) from operations before taxes	**118.8**	**53.6**	**7.8**	**(10.4)**	**0.8**	**(13.0)**	**(49.4)**	**(7.3)**	**100.9**

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Digital	Corporate Centre	Hype	31/12/2022
Financial assets measured at fair value through profit or loss	38.1	54.0	12.7	-	0.2	-	-	-	**105.0**
Financial assets measured at amortised cost - customer loans and securities	1,698.4	2,308.7	136.5	60.3	-	-	-	-	**4,203.9**
Property and Equipment	104.7	-	-	-	-	-	23.7	-	**128.4**
RWAs	**2,100.2**	**1,532.2**	**169.0**	**14.2**	**5.4**	**89.0**	**375.9**	**44.0**	**4,329.9**

Information on geographical areas

The illimity Group mainly operates in Italy.

PART M – Lease reporting

Section 1 - Lessee

Qualitative information

Contracts of the Group may be classified in the two following categories:

1. Rental of business and personal use properties;
2. Long-term rental of cars.

As of 31 December 2023, there were 146 leasing contracts, of which 25 related to real estate *leasing*, with a total value of rights of use of EUR 21.1 million, of which 130 related to cars, with a total value of rights of use of EUR 1.6 million.

Real estate leasing contracts include rental fees for buildings intended for instrumental use, such as offices and for personal use. Contracts, as a rule, have a duration of greater than 12 months, and typically have renewal and termination options that can be exercised by the lessor and the lessee according to the rules of law or specific contractual provisions.

Contracts relating to other *leases* relate to cars. These are long-term rental contracts available to employees. Generally, these contracts have a four-year duration, with monthly payments, without the option of renewal and do not include the option of purchasing the asset.

Sub lease transactions are attributable to properties intended for residential use.

As previously specified in the accounting policies, the scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

Quantitative information

The following table provides a summary of the components of the Statement of Financial Position relating to leasing contracts; for further information, see Part B of the Explanatory Notes:

CONTRACT TYPE	Right of use	Lease Liability
Property rental fees	21,164	25,243
Long Term Rental Cars	1,499	1,601
Total	**22,663**	**26,844**

The following table shows a summary of the components of the Income Statement relating to leasing contracts; for further information refer to the contents of Part C of the Explanatory Notes:

CONTRACT TYPE	Interest expense	Net write-downs/ write-backs on property and equipment
Property rental fees	1,704	2,596
Long Term Rental Cars	67	697
Total	**1,770**	**3,293**

As of 31 December 2023 there were no material amounts relating to lease commitments not yet entered into.

Section 2 – Lessor

Qualitative information

As of the reporting date, the Group had no leasing in the role of lessor with third parties.

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Certification of the Consolidated Financial Statements

pursuant to Article 154-bis of Italian Legislative Decree 58/1998

illimity

Certification of the Consolidated Financial Statements pursuant to Article 154-bis of Italian Legislative Decree 58/1998

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in relation to the characteristics of the enterprise and
   - the effective application of the administrative and accounting procedures used to draft the consolidated financial statements during financial year 2023.

2. The adequacy of the administrative and accounting procedures used in the formation of the consolidated financial statements as of 31 December 2023 is checked according to the “Internal Control – Integrated Framework” (CoSO) and the “Control Objective for IT and related Technologies” (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.

3. We can also certify that:
   3.1 the consolidated financial statements:
      a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) N° 1606/2002 of the European Parliament and Council, of 19 July 2002;
      b) correspond to the accounting records;
      c) provide a true and fair view of the financial position and performance and cash flows of the issuer.

   3.2 The report on operations includes a reliable analysis of the progress and results of operations as well as the issuer’s situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Milan, 08 March 2024

Chief Executive Officer
Corrado Passera
Signed

Financial Reporting
Officer
Sergio Fagioli
Signed

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Independent Auditors' Report

illimity

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(The accompanying translated consolidated financial statements of the illimity Bank Group constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

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

To the shareholders of
illimity Bank S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the illimity Bank Group (the "group"), which comprise the statement of financial position as at 31 December 2023, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include material information on the accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the illimity Bank Group as at 31 December 2023 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

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

Key audit matters

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

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

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Illimity Bank Group
Independent auditors' report
31 December 2023

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

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph "Financial assets at amortised cost" and paragraph "Other information - Purchased or originated credit-impaired (POCI) financial assets"

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

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

Notes to the consolidated financial statements "Part E - Information on risks and related hedging policies": paragraph 1.1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Loans and receivables with customers recognised under financial assets at amortised cost totalled €4,649 million at 31 December 2023, accounting for 64% of total assets. These loans and receivables include purchased or originated credit-impaired financial assets of €907.1 million. Net impairment gains on loans and receivables with customers recognised during the year totalled €65.8 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement or purchase. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the business plans and related regular updates, the existence of any indicators of impairment, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the parent's and group companies' customers operate. The complexity of the directors' estimation process has been affected by the increased geopolitical uncertainties which have an impact on the current economic conditions and potential future macroeconomic scenarios and have severely affected the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central	Our audit procedures included: • gaining an understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; • assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; • analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); • analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the financial effects of the geopolitical situation. We carried out these procedures with the assistance of experts of the KPMG network; • selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; • selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received;

2

Key audit matter	Audit procedures addressing the key audit matter
banks to raise interest rates in the main economies, and real estate market trends and indicators. This required the directors to revisit the valuation processes and methods. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	• assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls in relation to the regular updating of the business plans on which basis the purchased or originated credit impaired ("POCI") exposures are measured; • for a meaningful sample of POCI exposures, checking the underlying business plans and the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; • analysing the significant changes in the categories of loans and receivables with customers and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; • assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets measured at amortised cost.

Measurement of goodwill

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph "Intangible assets"

Notes to the consolidated financial statements "Part B - Information on the statement of financial position": section 10 "Intangible assets - caption 100"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements include goodwill of €69.9 million. As disclosed in the notes, in accordance with IFRS 3, the directors allocated goodwill to the cash-generating units ("CGUs") they identified. The directors tested goodwill for impairment by discounting the cash flows that are expected to be generated by the individual CGUs using the dividend discount model to calculate their recoverable amount. Testing goodwill for impairment requires complex valuations and a high level of judgement, especially in relation to: • the CGUs' expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of the group's sector and the directors' forecasts about its future performance;	Our audit procedures included: • understanding the process adopted to prepare the impairment tests approved by the parent's directors; • gaining an understanding of the process used to draft the group's long-term plan approved by the parent's directors; • analysing the criteria used to identify the CGUs and tracing the carrying amounts of the assets and liabilities allocated thereto to the consolidated financial statements; • assessing the key assumptions used by the parent's directors to determine the CGUs' value in use. Our assessment included checking the consistency of the method adopted with that used in the previous year and comparing the key

Key audit matter	Audit procedures addressing the key audit matter
• the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has been affected by the geopolitical uncertainties which have had an impact on the current economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the measurement of goodwill is a key audit matter.	assumptions used to external information, where available, also in the light of the financial effects of the geopolitical situation. We carried out these procedures with the assistance of experts of the KPMG network; • checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; • assessing the appropriateness of the disclosures about goodwill and the related impairment test.

Recoverability of the investment in a joint venture

Notes to the consolidated financial statements "Part A – Accounting policies": paragraph "Equity investments"

Notes to the consolidated financial statements "Part B - Information on the statement of financial position": section 7 "Equity investments - caption 70"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2023 include an investment in a joint venture of €81.1 million. The parent acquired this investment in Hype S.p.A. during 2022. The parent's directors measured such equity investment and tested it for impairment, by discounting the cash flows that are expected to be generated by the investee using the dividend discount model to calculate its recoverable amount. Testing the equity investment for impairment requires complex valuations and a high level of judgement, especially in relation to: • the investee's expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of investee's sector and the directors' forecasts about its future performance; • the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has been affected by the geopolitical uncertainties which have had an impact on the current economic conditions and potential future macroeconomic scenarios. Considering the materiality of the financial statements caption and the high level of estimate required to measure the equity investment's recoverable amount, we believe that the recoverability of the carrying amount	Our audit procedures included: • understanding the process adopted to prepare the impairment tests approved by the parent's directors; • analysing the reasonableness of the key assumptions used by the parent's directors to determine the recoverable amount of the investment in the joint venture and the related forecast cash flows, as well as the assumptions used to prepare the impairment test. • We carried out these procedures with the assistance of experts of the KPMG network; • assessing the appropriateness of the disclosures provided in the notes about the measurement of the investments in the joint venture.

Key audit matter	Audit procedures addressing the key audit matter
of the investment in the joint venture is a key audit matter.	

Responsibilities of the parent's directors and audit committee for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the carve-out consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

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

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

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate 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;
- obtain 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 communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures taken to eliminate those threats or the safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in this report.

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

On 17 December 2018, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

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

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The parent's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the consolidated financial statements at 31 December 2023 to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the consolidated financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the consolidated financial statements at 31 December 2023 have been prepared in XHTML format and have been marked up, in all material respects, in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Due to certain technical limitations, some information included in the notes to the consolidated financial statements when extracted from the XHTML format to an XBRL instance may not be reproduced in an identical manner with respect to the corresponding information presented in the consolidated financial statements in XHTML format.

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

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2023 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2023 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2023 and have been prepared in compliance with the applicable law.

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

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

The directors of illimity Bank S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16.

We have checked that the directors had approved such consolidated non-financial statement.

In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the consolidated non-financial statement separately.

Milan, 19 March 2024

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

Annex 1 – Reconciliation between the reclassified statement of financial position and income statement and financial statements

Below are the reconciliation schemes used for the preparation of the reclassified statement of financial position and income statement. Any discrepancies between the figures presented are due solely to rounding.

Reclassified Statement of Financial Position

Assets	Values as of 31/12/2023
Cash and cash equivalents	431,696
Loans to banks and financial entities	112,702
Item 40. a) Due from banks	112,702
Loans to financial entities	-
Loans to customers and investments	4,064,018
Item 40. b) Loans to customers	4,649,027
To be deducted:	
Loans to financial entities	-
Government Bonds	(585,009)
Government Bonds	585,009
HTCS Financial assets	456,643
FVTPL Financial assets	527,840
Investments in equity	81,199
Goodwill	69,992
Other intangible assets	83,776
Item 100. Intangible assets	153,768
To be deducted:	
Goodwill	(69,992)
Other assets	846,172
Item 50. Hedging derivatives	21,393
Item 90. Property and equipment	88,223
Item 110. Tax assets	62,756
Item 120. Non-current assets held for sale and discontinued operations	364,151
Item 130. Other assets	309,649
Total assets	**7,259,047**

Liabilities and shareholders’ equity	Values as of 31/12/2023
Due to banks	**941,995**
Item 10. a) Due to banks	941,995
Amounts due to customers	**4,487,248**
Item 10. b) Due to customers	4,514,092
To be deducted:	
Lease Liability (IFRS 16)	(26,844)
Securities issued	**611,741**
Item 10. c) Securities issued	611,741
Other liabilities	**261,961**
Item 80. Other Liabilities	157,611
Increase:	
Lease Liability (IFRS 16)	26,844
Item 20. Financial liabilities held for trading	19,476
Item 40. Hedging derivatives	19,770
Item 60. Tax liabilities	24,970
Item 70. Liabilities associated with non-current assets held for sale and discontinued operations	-
Item 90. Employee severance pay	5,030
Item 100. Allowances for risks and charges	8,260
Shareholders’ equity	**956,102**
Capital and reserves	
Item 120. Valuation reserves	(30,020)
Item 150. Reserves	197,584
Item 160. Share premium reserves	624,583
Item 170. Share capital	54,691
Item 180. Treasury shares (-)	(747)
Item 190. Equity attributable to minority interests (+/-)	5,611
Item 200. Profit (loss) for the period	104,400
Total liabilities and shareholders’ equity	**7,259,047**

Reclassified income statement

Income Statement items	Values as of 31/12/2023
Net interest margin	**192,523**
Item 10. Interest income and similar income	397,291
Item 20. Interest expenses and similar charges	(202,729)
Reclassification of Raisin operating components	(3,810)
To be deducted:	
IFRS 16 interest expenses	1,771
Net fee and commission income	**76,713**
Item 40. Fee and commission income	82,248
Item 50. Fee and commission expense	(7,836)
To be deducted:	
Raisin operating components	2,301
Fair value adjustments in hedge accounting, trading and sale of financial assets	**(480)**
Item 70. Dividends and similar income	45
Item 80. Profits (losses) on trading	(459)
Item 90. Fair value adjustments in hedge accounting	(386)
Item 100. Profits (losses) from disposal or repurchase	(855)
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	7,496
Reclassification from item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss - Capital gains on equity instruments from extraordinary transactions	(6,321)
Net write-downs/write-backs on closed positions	**30,294**
of which: Net write-downs/write-backs on closed positions - Clients - POCI	29,300
Reclassification from item 280. Profits (losses) on disposal of investments	994
Other profits (losses) from the disposal of investments	-
Item 280. Profits (losses) on disposal of investments	994
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	(994)
Other operating expenses and income (excluding taxes)	**59,875**
Item 230. Other operating income/expenses	60,389
To be deducted:	
Reclassification of recovery of other operating expenses/income to Other administrative expenses	(5,518)
Reclassification from item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss - Capital gains on equity instruments from extraordinary transactions	6,321
Reclassification from item 210. Net adjustments/recoveries on property and equipment - Write-downs on property portfolio due to extraordinary transactions	(5,567)
Reclassification of one-off components of the income statement related to trade receivables	4,250
Total net operating income	**358,925**
Personnel expenses	**(105,379)**
Item 190. Administrative expenses: a) Personnel expenses	(105,057)
To be deducted:	
Reclassification of HR expenses from other administrative expenses	(322)
Other administrative expenses	**(99,019)**
Item 190. Administrative expenses: b) Other administrative expenses	(112,495)
Reclassification of IFRS 16 interest expenses	(1,771)
Reclassification of HR expenses to personnel expenses	322
Reclassification of recovery of other operating expenses/income to Other administrative expenses	5,518
Raisin operating components	1,509
Reclassification of contributions and other non-recurring expenses	7,898
Net adjustments/recoveries on property and equipment and intangible assets	**(22,608)**
Item 210. Net adjustments/recoveries on property and equipment	(9,895)
Item 220. Net adjustments/recoveries on intangible assets	(18,280)
To be deducted:	
Reclassification from item 210. Net adjustments/recoveries on property and equipment - Write-downs on property portfolio due to extraordinary transactions	5,567
Operating expenses	**(227,006)**

Operating profit (loss)	**131,919**

Income Statement items	Values as of 31/12/2023
Net losses/recoveries for credit risk - HTC Banks and financial entities	**84**
Net losses/recoveries for credit risk - HTC Clients	**37,300**
Item 130. Losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost	65,676
Reclassification of Net write-downs/write-backs on closed positions - HTC&S Clients - POCI to item 130b	-
Reclassification of Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance to item 200	1,008
To be deducted:	
Net losses/recoveries for credit risk - HTC Banks and financial entities	(84)
Net write-downs/write-backs on closed positions - Clients - POCI	(29,300)
Net losses/recoveries for credit risk - HTCS	**(130)**
Item 130. Losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income	(130)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC&S Clients - POCI	-
Net adjustments/recoveries for commitments and guarantees	**(1,519)**
Item 200. Net allowances for risks and charges: a) commitments and guarantees given	(511)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance	(1,008)
Total net adjustments/recoveries	35,735
Other net provisions	**(272)**
Item 200. Net allowances for risks and charges: b) other net provisions	(272)
Reclassification of one-off components of the income statement related to trade receivables	
Other income (expenses) on investments	**(3,493)**
Item 250. Profits (losses) on equity investments	(3,493)
Contributions and other non-recurring expenses	**(12,148)**
of which: Contributions and other non-recurring expenses	(7,898)
Reclassification of one-off components of the income statement related to trade receivables	(4,250)
Other profits (losses) from the disposal of investments	-
Profit (loss) from operations before taxes	**151,741**
Income tax for the year on continuing operations	(47,927)
Item 300. Income tax for the year on continuing operations	(47,927)
Profit (loss) for the period	**103,814**
Item 340. Profit (loss) for the financial year attributable to minority interests	586
Profit (loss) for the period	**104,400**

Annex 2 – Fees for audit and non-audit services pursuant to Article 149-duodecies of Consob Regulation no. 11971

Pursuant to the provisions of Article 149 duodecies of Consob Issuers' Regulation, the following table lists information regarding the payments disbursed to Independent Auditors KPMG S.p.A. and coming from companies belonging to the same network. The amounts reported below are net of VAT and Operating Costs:

In thousands of euro

Type of service	Service provider	Sums due	
		illimity Bank S.p.A.	Group Companies
Accounting Audit	KPMG S.p.A.	511	439
Certification services	KPMG S.p.A.	104	13
Other services	KPMG Advisory S.p.A.	71	-
Total		**686**	**452**

Annex 3 – Public Disclosure Country by Country (pursuant to Bank of Italy Circular no. 285 of 17 December 2013 “Supervisory Provisions for banks” – 44th update of 19 December 2023)

Listed below is information relating to points a), b), c), d), e) and f) of Annex A to Section One, Title III, Chapter 2 of the aforementioned Supervisory Provisions for banks.

Situation resulting from the consolidated financial statements as of 31 December 2023

As a result of company events that have taken place in recent years and from time to time have been the subject of public disclosure via press releases or in the context of periodic financial reporting, as of the reporting date of 31 December 2023, the illimity Group is located exclusively in Italy.

A) Name of company and nature of activity

Illimity Bank. S.p.A., with registered offices in Milan at via Soperga 9, is the parent company of the illimity Group, registered under number 245 in the Register of Banking Groups.

The illimity Group is made up of the parent company, illimity Bank S.p.A., the subsidiaries Arec neprix S.p.A. and illimity SGR, with registered offices in Milan at via Soperga 9, and the subsidiary Abilio S.p.A, with registered offices in Faenza at via Galileo Galilei 6. The scope of the Group also includes the special purpose companies consisting of the LeaseCos, which support the bank in the management of lease operations, the ReoCos and the other property companies, which are active in the management of the properties linked to the acquired portfolios, and the Special Purpose Vehicles (SPVs) established to undertake securitisation operations. Lastly, there is also the 50/50 joint venture with the Sella Group, Hype S.p.A.

Information/Geographical area		Italy
Turnover[1]	Thousands of euros	274,815
Number of employees on a full-time equivalent basis[2]	Number of units	845
Profit before taxes[3]	Thousands of euros	151,741
Income taxes[4]	Thousands of euros	(49,927)
Government grants received[5]	Thousands of euros	204

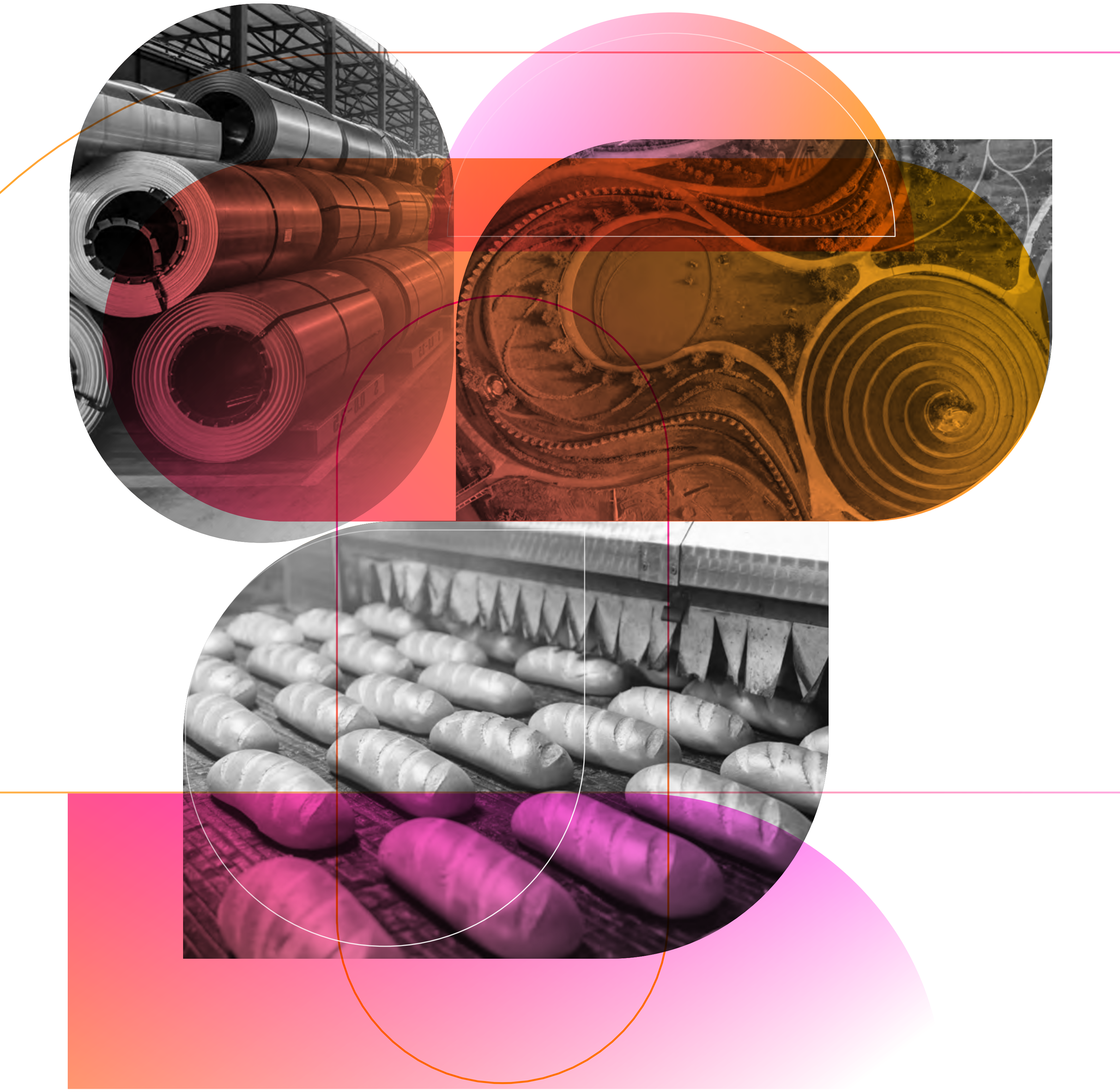
1 This figure represents Item 120 “Total net operating income” of the Income Statement of the financial statements

2 The number of employees was calculated by taking into consideration the number of hours actually worked in total by all employees, excluding overtime, divided by the number of hours in a week as contractually required for full time, multiplied by 52 weeks, minus 25 days - as conventionally defined - for annual leave.

3 This figure represents the sum of Item 290 “Profit (loss) from continuing operations before taxes” and 320 “Profit (loss) from discontinued operations” (before taxes) of the Income Statement of the consolidated financial statements.

4 This figure represents the sum of Item 300 “Income tax for the year on continuing operations” and 320 “Profit (loss) from discontinued operations” (solely for the portion of taxes in question) of the Income Statement of the consolidated financial statements.

5 This figure indicates the government grants not taken into consideration in transactions that fall within state aid schemes reported in Section A of the Explanatory Notes.



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Report and Financial Statements of illimity Bank

illimity

Report on Individual Operations

as of 31 December 2023

illimity

This Report illustrates the performance and the related data and results of illimity Bank S.p.A. ("illimity" or the "Bank").

Alternative performance measures as of 31 December 2023

The main indicators of the Bank are presented below.
The figures presented, although not covered by IAS/IFRS, are provided in compliance with indications in CONSOB Communication No. 0092543 of 3 December 2015, and of the ESMA Recommendations on alternative performance measures (ESMA Guidance 2015/1415).

(amounts in thousands of euros)

PERFORMANCE MEASURES	31/12/2023	31/12/2022	Chg.	Chg. (%)
Total net operating income	304,391	244,272	60,119	25%
Operating expenses	(158,839)	(138,515)	(20,324)	15%
Operating profit (loss)	145,552	105,757	39,795	38%
Total net adjustments/recoveries	14,576	5,684	8,892	>100%
Profit (loss) from operations before taxes	148,055	104,754	43,301	41%
Profit (loss) for the year	102,307	80,715	21,592	27%

STRUCTURAL RATIOS	31/12/2023	31/12/2022
Shareholders' equity/Total Liability	13.0%	13.2%
Interbank Funding/Total Funding	15.3%	22.5%
Liquidity Coverage Ratio	~226%	~250%
Net Stable Funding Ratio	>110%	>110%
Net loans with customers/Total assets	67.7%	66.4%
Direct customer funding/Total Liability	71.1%	64.7%

CAPITAL RATIOS	31/12/2023	31/12/2022
Tier I capital ratio (Tier I capital/Total weighted assets)	15.34%	16.52%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	19.38%	21.29%
Own Funds	963,378	895,895
of which: Tier I capital	762,241	695,108
Risk-weighted assets	4,969,713	4,207,768

For details on the construction logic of the alternative performance indicators shown in the tables above, please refer to the same section of the Report on Consolidated Operations.

Composition and organisational structure

illimity operates in the banking sector and is authorised to provide private banking, investment and trading services. Illimity currently has four Business Divisions, in addition to the Digital Competence Line for the component regarding the management of retail customers:

- Distressed Credit
- Growth Credit
- Investment Banking
- b-ilty
- Digital.

There is also the Asset Management Company (illimity SGR), which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

The Bank's organisational structure also comprises other units supporting the business and monitoring risks.

For further details on the Bank's composition and organisational structure, please refer to the Report on Consolidated Operations.

Bank branches and offices

The Bank's branches and offices are as follows:

- Milan – Via Soperga, 9 (registered office);
- Modena – Via F. Lamborghini 88/90 (branch).

Human resources

On 31 December 2023 the Bank's registered employees were 542 (486 on 31 December 2022). A breakdown of the workforce is given below, divided by job level:

Category	31/12/2023			31/12/2022			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	59	11%	47	54	11%	47	5	9%
Middle managers	275	51%	38	258	53%	38	17	7%
Other employees	208	38%	31	174	36%	31	34	20%
Employees	**542**	**100%**		**486**	**100%**		**56**	**12%**

Relations with subsidiaries

Name	Registered office	Operational headquarters	Shareholding %	Votes %
A. Wholly-owned subsidiaries				
1. Soperga RE S.r.l.	Milan	Milan	100%	100%
2. Friuli LeaseCo S.r.l.	Milan	Milan	100%	100%
3. Doria LeaseCo S.r.l.	Milan	Milan	100%	100%
4. River LeaseCo S.r.l.	Milan	Milan	100%	100%
5. ARECneprix S.p.A.	Milan	Milan	100%	100%
6. illimity SGR S.p.A.	Milan	Milan	100%	100%
7. Pitti LeaseCo S.r.l.	Milan	Milan	100%	100%
8. River Immobiliare S.r.l.	Milan	Milan	100%	100%
9. Aporti S.r.l.	Milan	Milan	66.7%	66.7%
10. Pitti SPV S.r.l.	Milan	Milan	100%	100%
11. Friuli SPV S.r.l.	Milan	Milan	100%	100%
12. Doria SPV S.r.l.	Milan	Milan	100%	100%
13. River SPV S.r.l.	Milan	Milan	100%	100%
14. SpicyCo 2 S.r.l.	Milan	Milan	100%	100%
15. Abilio S.p.A.	Faenza	Faenza	82%	82%
16. Dagobah SPV S.r.l.	Milan	Milan	100%	100%
17. Dagobah LeaseCo S.r.l.	Milan	Milan	100%	100%
18. Kenobi SPV S.r.l.	Milan	Milan	100%	100%
19. Mida RE S.r.l.	Milan	Milan	100%	100%
20. Sileno SPV S.r.l.	Milan	Milan	100%	100%
21. Ortensia SPV S.r.l.	Milan	Milan	100%	100%
22. Montes SPV S.r.l.	Milan	Milan	100%	100%
23. Montes LeaseCo S.r.l.	Milan	Milan	100%	100%
24. Mia SPV S.r.l.	Milan	Milan	100%	100%
B. Jointly-owned associates				
25. Hype S.p.A.	Biella	Biella	50%	50%
C. Companies in which significant influence is exercised				
26. SpicyCo S.r.l.	Milan	Milan	49%	49%

The breakdown of the book value of individual shareholdings is given below:

Name	Book value	Dividends received
A. Wholly-owned subsidiaries		
1. Soperga RE S.r.l.	10	-
2. Friuli LeaseCo S.r.l.	10	-
3. Doria LeaseCo S.r.l.	10	-
4. River LeaseCo S.r.l.	10	-
5. ARECneprix S.p.A.	44,926	-
6. illimity SGR S.p.A.	4,055	-
7. Pitti LeaseCo S.r.l.	10	-
8. River Immobiliare S.r.l.	10	-
9. Aporti S.r.l.	11	-
10. Pitti SPV S.r.l.	14	-
11. Friuli SPV S.r.l.	14	-
12. Doria SPV S.r.l.	14	-
13. River SPV S.r.l.	14	-
14. SpicyCo 2 S.r.l.	10	-
15. Abilio S.p.A.	14,773	-
16. Dagobah SPV S.r.l.	10	-
17. Dagobah LeaseCo S.r.l.	64	-
18. Kenobi SPV S.r.l.	14	-
19. Mida RE S.r.l.	10	-
20. Sileno SPV S.r.l.	10	-
21. Ortensia SPV S.r.l.	10	-
22. Montes SPV S.r.l.	10	-
23. Montes LeaseCo S.r.l.	42	-
24. Mia SPV S.r.l.	10	-
B. Jointly-owned associates		
25. Hype S.p.A.	99,696	-
C. Companies in which significant influence is exercised		
26. SpicyCo S.r.l.	5	-
Total	**163,773**	**-**

Macroeconomic scenario

The macroeconomic scenario has been described in the Report on Consolidated Operations, to which reference is made.

Significant events in 2023

Corporate transactions

With effect from 1 January 2023, the merger by incorporation of the subsidiary AREC S.p.A. into neprix S.r.l. was completed, resulting in the creation of the legal entity ARECneprix S.p.A. ("ARECneprix"). That operation has had no effects on the consolidated financial statements, as both companies were wholly-controlled by illimity Bank S.p.A. and included in the consolidated financial statements on a line-by-line basis.

On 18 April 2023, illimity Bank S.p.A. and the ION Group announced that the ION Group had increased its equity investment in illimity from 7.25% to 9.39%. Furthermore, the Bank and the ION Group announced that the licence contract signed between the parties in 2021 concerning the IT systems developed by illimity had been consensually terminated, to allow the Bank to further exploit its IT systems, including by pursuing royalty agreements otherwise not provided for by the licence contract previously in force.

On 30 May 2023, the Board of Directors of illimity Bank S.p.A. :

i. approved the share capital increase for the "Employee Stock Ownership Plan – ESOP" incentive plan (for 2023) for a total of EUR 156,724.73, corresponding to 240,486 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 3 of the By-laws, granted by the Shareholders' Meeting of 18 January 2019;
ii. resolved to exercise the authority granted also by the Shareholders' Meeting of 18 January 2019, in accordance with that set out in Article 5, paragraph 4 of the By-laws in force, in favour of employees of the illimity Group who are the beneficiaries of the first MBO Plan, and of any compensation paid on early termination of employment, granting a mandate to the Chief Executive Officer for the accurate execution of the capital increase, up to a maximum of 102,168 new ordinary shares.

On 5 June 2023, illimity Bank S.p.A announced the new composition of its share capital, following the resolution of the Board of Directors of 30 May 2023, issuing 240,486 new ordinary shares.

On 25 July 2023, illimity Bank S.p.A. ("illimity"), following on from that announced on 30 May 2023, announced the new composition of its share capital, following the registration with the Milan Companies' Register of the new By-laws due to the Chief Executive Officer's resolution that resulted in the partial exercise of the authorisation to increase the share capital pursuant to Article 2443 of the Italian Civil Code and of Article 5, paragraph 5 of the By-laws, for the beneficiaries of the MBO Plan or of any compensation paid in the event of early termination of the employment contract, with a share capital increase of EUR 20,030.65 and issuance of 30,736 new ordinary shares for the purpose of such share capital increase.

Main business transactions

In March 2023, the Bank announced that it had acted as Global Coordinator in the context of the process of admission and subsequent listing on the market of a leading company in the restoration of concrete works of art of high strategic value (tunnels, bridges, motorway viaducts, etc.).

In April 2023, through its Investment Banking Division, illimity Bank S.p.A. structured a securitisation transaction of a portfolio of performing loans amounting to around EUR 150 million, through its Investment Banking Division, subscribing senior notes for EUR 90 million. Moreover, along with an important player operating in the financial markets, the Investment Banking division finalised a EUR 200 million agreement to support working capital and liquidity needs of SMEs, with specific focus on sustainable investments and the companies operating in the cohesion regions.

In June 2023, guarantees totalling EUR 50 million were granted to illimity to improve access to credit for Italian small and medium-sized enterprises (SMEs). The objective of these transactions is to stimulate investments to promote economic sustainability, innovation and digitisation.

In July 2023, illimity finalised a complex operation to support a significant growth plan for a leading Italian private operator in services for the Offshore Oil&Gas sector.

In August 2023, illimity announced that it had acted as Euronext Growth Advisor (EGA) and Global Coordinator as part of the process for the admission and subsequent listing on the market of an engineering company specialising in the design of critical infrastructure for strategic operators in the telco, mobility, civil and energy industries. It also acted as Lead-Arranger, through its Investment Banking Division, along with a specialised fintech advisor, in structuring a securitisation programme for supporting small and medium-sized Italian enterprises, committing to subscribing partly-paid ABS notes for an amount of EUR 150 million in 12 months.

In October 2023, illimity issued its first sustainability-linked direct loan for a total of EUR 30 million, to a leading Italian private operator active in the management, reuse and recycling of industrial waste.

In November 2023, illimity announced that it had acted as Co-arranger in a securitisation operation dedicated to Italian SMEs worth EUR 300 million, through its Investment Banking Division, reserving the option to subscribe, together with a French banking institution, senior notes for a total value of EUR 270 million.

In December 2023, illimity structured a securitisation operation concerning trade receivables and inventory goods worth around EUR 77 million relating to a leading international trading and industrial group active in the metallurgical sector, through its Investment Banking Division.

In December 2023, illimity announced that it had acted as Euronext Growth Advisor (EGA) and Global Coordinator in the process of the admission and subsequent listing on the market of a company operating in the digital transformation sector.

Other significant information

In January 2023, the Bank announced that it could no longer be classified as an SME (small or medium-sized enterprise) thanks to the growth of its market capitalisation above the relevant threshold (EUR 500 million) for three consecutive years (2020-2021-2022), with the transitional turnover criteria having ceased to apply.

In April 2023, illimity announced that it signed a long-term industrial partnership agreement with the Engineering Group, concerning illimity's IT platform, its distribution to third parties and its future development. On 30 June 2023, Illimity announced that it signed the detailed agreements in execution of the binding commitments assumed (Long Form Agreement) with the Engineering Group, confirming the previously announced agreements.

The consideration deriving from the disposal came to a value of EUR 55.5 million which, net of the discounting effect related to the deferred payment, entailed the recognition of EUR 54 million in the Group's income as of 30 June 2023. An additional EUR 4.5 million may be added to this amount in the period 2024-2032 in return for further platform upgrades provided by illimity that Engineering has the option to acquire.

In May 2023, the Bank launched two new current accounts and, for the first time since the start of operations of the platform, now remunerates demand deposits at an interest rate of 2.5%.

In July 2023, illimity obtained a ‘positive' outlook from Standard Ethics, an independent sustainability rating agency, compared to the previous ‘stable' outlook, and its “EE-“ rating was confirmed (on a scale from “F” to “EEE”). Standard Ethics also upgraded the Long Term Expected Corporate Standard Ethics Rating (SER) to “EE+”.

In August 2023, illimity obtained an upgrade to the ESG rating from MSCI, from “A” to “AA”, moving from the Average category to the Leader in its sector.

With regard to that set out in Italian Decree-Law no. 104 of 10 August 2023, “Urgent provisions protecting users, regarding economic and financial activities and strategic investments” (known as the Omnibus Decree), converted into Italian Law dated 9 October 2023, which introduced an extraordinary tax calculated on the increase in the net interest margin, the Board of Directors, availing of the option set out in said Law, decided to propose that the Shareholders' Meeting that will approve the 2023 Financial Statement and the allocation of profit for the year establish a specific undistributable shareholders' equity reserve, according to the provisions of applicable regulations.

In October 2023, Fitch Ratings confirmed all the ratings assigned to the Bank. In particular, the Long-Term Issuer Default Rating (IDR) was maintained at "BB-" with Stable Outlook, and the Long-Term Deposits Rating at "BB."

In December 2023, illimity announced that, following the annual Supervisory Review and Evaluation Process (SREP) conducted by Banca d'Italia, the illimity Bank Group's capital ratios were confirmed in line with the new capital requirements established by Banca d'Italia. For further details on capital requirements, please read the section entitled "Capital Adequacy".

In December 2023, illimity announced that it had entered into a partnership with an Italian finance and insurance group aimed at accelerating the sustainable transition of Italian businesses.

In December 2023, illimity signed up to the Principles for Responsible Banking (PRB), one of the most important benchmark sustainability frameworks in the financial sector.

Reclassified financial statements as of 31 December 2023

This Report on Operations has been prepared on the basis of tables in the Bank of Italy Circular No. 262 of 22 December 2005 as amended.

In this document, the mandatory financial statements have been reclassified according to a managerial approach better suited to representing the Bank's financial performance and financial position. The goal has been to simplify the use of these financial statements through the specific aggregations of line items and reclassifications detailed below. Therefore, this Report on Operations includes a reconciliation between the financial statements presented and the mandatory financial reporting format laid down in Bank of Italy Circular No. 262, whose values converge in the items of the reclassified financial statements.

Reconciliation with the items of the mandatory financial statements aids in reclassification of the items in question, but above all facilitates the understanding of the criteria adopted in constructing the Report on Individual Operations; additional details useful to this end are provided below:

- recoveries of taxes recognised among other operating expenses/income are deducted directly from the
- indirect taxes included among other administrative expenses and therefore their amount has been set off against the relevant item of the mandatory financial statements;
- the cost components related to Raisin's operations are deducted from the net interest margin;
- dividends received from financial assets measured at fair value through profit or loss were included in the Profits (losses) on trading and financial assets and liabilities;
- personnel expenses also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations;
- contributions and membership fees are excluded from other administrative expenses and recognised in a separate item, named "Contributions and other non-recurring fees". Write-downs/write-backs and one-off components related to the valuation of trade receivables were also classified in that item;
- interest expense resulting from the lease liability (IFRS 16) is recognised under other administrative expenses;
- net write-downs/write-backs on closed positions include profits and losses generated from the sale of property investments and *datio in solutum* transactions;
- net credit exposure to customers on closed positions is shown separately from net losses/recoveries for credit risk.

Some assets and liabilities in the statement of financial position were grouped together, concerning:

- the inclusion of hedging derivative assets, tangible assets, tax assets and assets held for sale in the residual item other assets;
- the aggregation of Loan and securities at amortised cost from banks and financial entities;
- the separate indication of government bonds at amortised cost and loans to customers and investments at amortised cost;
- the separate indication of goodwill and other intangible assets;
- the reclassification of Leasing agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes;
- the inclusion of hedging derivative liabilities, the Provision for Risks and Charges and employee severance pay in residual items of other liabilities;
- the aggregate indication and items comprising shareholders' equity.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

Components of official items of the Statement of Financial Position	Assets	31/12/2023	31/12/2022	Chg.	Chg. (%)
10)	Cash and cash equivalents	392,921	676,509	(283,588)	(42%)
40 a)	Loans to banks and financial entities	112,442	182,801	(70,359)	(38%)
40 b)	Loans to customers and investments	4,402,128	3,843,012	559,116	15%
40 b)	Government Bonds	585,009	428,309	156,700	37%
30)	HTCS Financial assets	456,643	391,710	64,933	17%
20 a) + 20 c)	FVTPL Financial assets	732,058	245,096	486,962	>100%
70)	Investments in equity	163,773	155,041	8,732	6%
90)	Goodwill	21,643	21,643	-	0%
90)	Other intangible assets	66,979	54,386	12,593	23%
50 + 80 + 100 + 110 + 120	Other assets	428,831	430,175	(1,344)	(0%)
	Total assets	**7,362,427**	**6,428,682**	**933,744**	**15%**

Components of official items of the Statement of Financial Position	Liabilities	31/12/2023	31/12/2022	Chg.	Chg. (%)
10 a)	Due to banks	941,982	1,205,039	(263,057)	(22%)
10 b)	Amounts due to customers	4,623,190	3,506,895	1,116,295	32%
10 c)	Securities issued	611,741	653,002	(41,261)	(6%)
20 + 40 + 60 + 80 + 90 + 100	Other liabilities	226,864	212,328	14,536	7%
(*)	Shareholders' equity	958,650	851,418	107,232	13%
	Total liabilities and shareholders' equity	**7,362,427**	**6,428,682**	**933,745**	**15%**

(*) 110 + 120 + 130 + 140 + 150 + 160 + 170 + 180

RECLASSIFIED INCOME STATEMENT

Components of official items of the Income Statement	Income Statement items	31/12/2023	31/12/2022	Chg.	Chg. (%)
10 + 20 + 140 + 290	Net interest margin	190,414	151,260	39,154	26%
40 + 50	Net fee and commission income	41,786	40,406	1,380	3%
70 + 80 + 90 + 100 + 110	Profits/losses on financial assets and liabilities	(4,195)	15,777	(19,972)	N/A
130 a) + 130 b) + 170 a)	Net write-downs/write-backs on closed positions	14,867	18,939	(4,072)	(22%)
250	Other profits (losses) from the disposal of investments	-	-	-	n.a
200	Other operating expenses and income (excluding taxes)	61,518	17,890	43,628	>100%
Total net operating income		**304,391**	**244,272**	**60,119**	**25%**
160 a)	Personnel expenses	(70,856)	(57,704)	(13,152)	23%
160 b)	Other administrative expenses	(70,990)	(66,926)	(4,064)	6%
180 + 190	Net adjustments/recoveries on property and equipment and intangible assets	(16,993)	(13,885)	(3,108)	22%
Operating expenses		**(158,839)**	**(138,515)**	**(20,324)**	**15%**
Operating profit (loss)		**145,552**	**105,757**	**39,795**	**38%**
130 a)	Net losses/recoveries for credit risk - HTC Customer Banks and Financial entities	16,226	8,018	8,208	>100%
130 b)	Net losses/recoveries for credit risk - HTCS	(130)	(1,292)	1,162	(90%)
170 a)	Net adjustments/recoveries for commitments and guarantees	(1,520)	(1,042)	(478)	46%
Total net adjustments/recoveries		**14,576**	**5,684**	**8,892**	**>100%**
170 b)	Other net provisions	(20)	-	(20)	n.a
220	Other income (expenses) on investments	-	-	-	n.a
160 b)	Contributions and other non-recurring expenses	(12,053)	(6,687)	(5,366)	80%
Profit (loss) from operations before taxes		**148,055**	**104,754**	**43,301**	**41%**
270 + 290	Income tax for the year on continuing operations	(45,748)	(24,038)	(21,710)	90%
Profit (loss) for the period		**102,307**	**80,715**	**21,592**	**27%**

Key data on capital

Given the almost total contribution of the Bank to the Consolidated Financial Statements of the illimity Group, please refer to the Report on Consolidated Operations, for more information on the Key financial figures.

Capital adequacy

On 1 January 2014, the new prudential requirements for banks and investment firms came into force, which are contained in Regulation (EU) No 575/2013 (Capital Requirements Regulation, the CRR) and in Directive 2013/36/EU (Capital Requirements Directive, the CRD IV), which have transposed into the EU the standards set by the Basel Committee on Banking Supervision (Basel 3 Framework). The CRR entered into effect in the Member States directly, whereas the rules laid down in CRD IV were transposed into Italian law by Legislative Decree no. 72 of 12 May 2015, which entered into force on 27 June 2015. Following a public consultation process launched in November, on 17 December 2013 the Bank of Italy published Circular no. 285, "Prudential supervisory regulations for banks", implementing the new EU rules to the extent of its competency, together with Circular no. 286, "Instructions for completing prudential reports for banks and securities brokerage firms" and the update to Circular no. 154 "Supervisory reports by credit and financial institutions. Reporting formats and instructions for submitting data streams" (the above set of rules has been updated on several occasions).

On 5 February 2024, illimity Bank received a conclusive provision from Banca d'Italia containing the outcomes of the Supervisory Review and Evaluation Process (SREP) carried out on the Group. The new requirements set out below must be adopted on a consolidated basis as of 31 March 2024:

- CET 1 ratio of 9.60%;
- Tier 1 ratio of 11.10%;
- Total Capital ratio of 13.10%.

These ratios include an additional Pillar 2 requirement (P2R) of 2.60% and a Capital Conservation Buffer component of 2.50%, both to be maintained in the form of CET 1 capital.

In determining own funds the profit (loss) for the period was allocated net of all charges and dividends that may be forecast pursuant to the CRR, Article 26, paragraph 2, letter b) and Delegated Regulation (EU) 241/2014, articles 2 and 3. In particular, CET1 capital included 80% of profits for the period, based on a payout ratio of 20%, in line with the current business plan. That being said, the breakdown of own funds at the reporting date was as follows:

Capital ratios	31/12/2023	31/12/2022
Common Equity Tier 1 (CET1) capital	**762,241**	**695,108**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**201,137**	**200,787**
Total own funds	**963,378**	**895,895**
Credit risk	*360,612*	*305,811*
Credit valuation adjustment risk	*-*	*-*
Settlement risks	*-*	*-*
Market risks	*4,409*	*4,577*
Operational risk	*32,556*	*26,234*
Other calculation factors	*-*	*-*
Total minimum requirements	**397,577**	**336,621**
Risk-weighted assets	**4,969,713**	**4,207,768**
Common Equity Tier 1 ratio (Phased-in)	**15.34%**	**16.52%**
Common Equity Tier 1 ratio (Fully Loaded)	**15.28%**	**16.11%**
Total capital ratio (Phased-in)	**19.38%**	**21.29%**
Total capital ratio (Fully Loaded)	**19.32%**	**20.88%**

The difference between the Fully Loaded ratio and the Phased-in ratio is due to the application of Regulation 2020/873, in relation to the application of IFRS 9 to own funds and capital ratios.

Changes in shareholders' equity

As of 31 December 2023, consolidated shareholders' equity, including the result for the financial year, came to approximately EUR 958.7 million, up on the end of 2022 due to the profit recorded in Income Statement for the 2023 financial year, and to the improvement in valuation reserves, net of the dividends for 2022 paid in May 2023.

Items/Technical forms	31/12/2023	31/12/2022
1. Share capital	54,691	54,514
2. Share premium reserve	624,584	624,584
3. Reserves	208,084	140,627
4. Equity instruments	-	-
5. (Treasury shares)	(747)	(747)
6. Valuation reserves	(30,269)	(48,275)
7. Profit (loss) for the year	102,307	80,715
Total shareholders' equity	**958,650**	**851,418**

Share capital and ownership structure

As of 31 December 2023, the Bank's share capital amounted to EUR 54,690,661.10, fully subscribed and paid up, divided into 83,916,330 ordinary shares, without indication of the par value.

The Ordinary Shares were admitted to trading on the Euronext Milan market organised and managed by Borsa Italiana S.p.A. on 5 March 2019. By order of the Bank of Italy no. 8688 of 2 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the Euronext Milan market.

Treasury shares

As of 31 December 2023, the Bank held 88,445 treasury shares for a value of EUR 747 thousand, in line with figures as of 31 December 2022.

Financial performance

Given the almost total contribution of the Bank in the Consolidated Financial Statements, please refer to the Report on Operations of the Consolidated Financial Statements for more information on the economic results.

Basic and diluted earnings (losses) per share

The basic earnings (loss) per share is calculated by dividing the Bank's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

(amounts in thousands of euros)

Basic and diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings (loss) per share
Year ended 31 December 2023	102,307	83,712,134	1.22
Year ended 31 December 2022	80,715	81,149,186	0.99

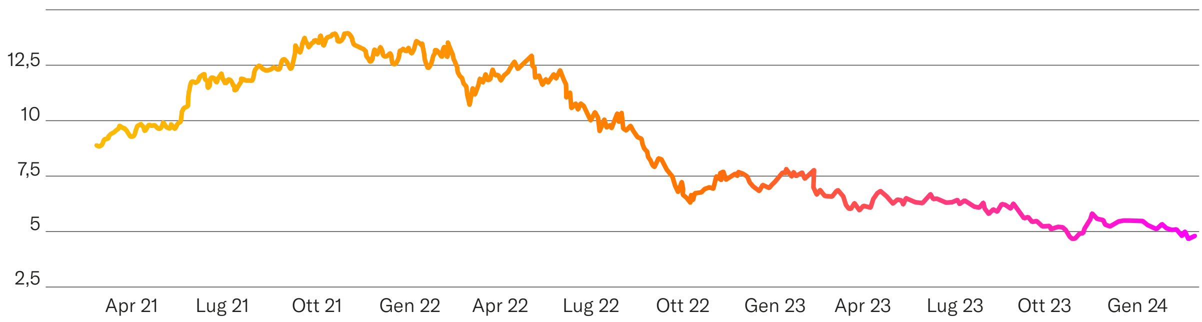
The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the potential shares in service of the Long-Term Incentive (LTI) plan.

(amounts in thousands of euros)

Diluted earnings (losses) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (losses) per share
Year ended 31 December 2023	102,307	85,470,710	1.19
Year ended 31 December 2022	80,715	83,180,280	0.97

illimity Bank share performance

The ordinary shares of illimity are traded on the Mercato Telematico Azionario Euronext Milan organised and managed by Borsa Italiana since 5 March 2019. From 10 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the Euronext Milan market. Share performance in the last three years is reported below:



Significant shareholders with a stake of at least 3% in the share capital with voting rights in illimity, with the percentages calculated by the Bank based on the number of shares resulting from the most recent information available and number of ordinary shares issued, updated at 05 March 2024, are reported below:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
Banca Sella Holding S.p.A.	Banca Sella Holding S.p.A.	Owned	10.00%	10.00%
ION Investment Corporation Sàrl	FermION Investment Group Limited	Owned	9.4%	9.4%
LR Trust – FIDIM	Fidim Srl	Owned	7.7%	7.7%
Tensile Capital Management LLC	Tensile-Metis Holdings Sàrl	Owned	7.0%	7.0%
Atlas Merchant Capital LLC	AMC Metis Sàrl	Owned	6.3%	6.3%
Corrado Passera	Corrado Passera	Owned	4.0%	4.0%

In relation to the ownership structure, AMC Metis S.a.r.l., Metis S.p.A. and Corrado Passera entered into an agreement on 18 March 2019 pertaining directly and indirectly to shares of Tetis S.p.A. (a company nearly wholly owned by Metis S.p.A. which in turn is 90% owned by Corrado Passera and holds ordinary and special shares in the company) and ordinary shares of illimity, containing shareholders' agreement measures. Specifically, this agreement, which governed AMC Metis S.à.r.l.'s pre-emptive right to ordinary illimity shares held by Tetis S.p.A. subject to certain conditions, provides among other things that Corrado Passera and Metis S.p.A. take steps to ensure that the illimity shareholders' meeting appoints, depending on the make-up of the Company's Board of Directors, one or two non-executive directors nominated by AMC Metis S.à.r.l. On 23 January 2024, the parties to this agreement announced an update to the essential information relating to the agreement itself (as per the document published on the same date on the Bank's website, which should be referred to), following the termination of equity instruments originally issued by Tetis S.p.A., with the associated transfer of illimity shares to AMC Metis S.a.r.l. pursuant to the regulations governing said equity instruments. The agreement expires on 19 March 2024.

Management of business risks

For information on the management of business risks, refer to the Report on Operations of the Consolidated Financial Statements.

Main risks and uncertainties

For information about the main risks and uncertainties, reference is made to the Report on Operations of the Consolidated Financial Statements.

Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure “the transparency and material and procedural fairness of operations with related parties” carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the “Regulation on related party transactions”, which sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions.

In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

In 2023 a material related party transaction was carried out involving an agreement to manage operations with said counterparty related to the liquidity deposited by the latter in current and deposit accounts with illimity Bank S.p.A. (about which adequate information was disclosed to the market, which should be referred to for further details). There were no further material or minor related party transactions in 2023 which significantly affected the Bank’s capital or profit and loss.

In relation to CONSOB communication no. DEM/6064293 of 28 July 2006, operations or positions with related parties as classified in IAS 24 and the CONSOB Regulation have a limited impact on the financial situation and capital, profit and loss and cash flows of the Bank.

According to IAS 24, related parties are parties:

a. that directly or indirectly, through one or more intermediaries,
   (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
   (ii) hold an investment in the entity of an extent that they may have considerable influence on the latter; or
   (iii) jointly control the entity;
b. represent an associate of the entity;
c. represent a joint venture in which the entity participates;
d. are one of the key senior managers of the entity or its parent;
e. are a close family member of one of the parties in points (a) or (d);
f. are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g. are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the 9th update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks, issued in implementation of Article 53, paragraph 4 et seq., of the Consolidated Law on Banking and in accordance with Resolution of the Interministerial Committee for Credit and Savings no. 277 of 29 July 2008, as well as the regulations set forth by Article 136 of the Consolidated Law on Banking. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

For more detail about the operations with related parties and for an examination of the impact of these operations on the financial situation, refer to Part H of the Explanatory Notes.

Atypical or non-ordinary transactions

In 2023 the Bank did not carry out any such transactions as defined in the Consob Communication no. 6064293 of 28 July 2006.

Research and Development

illimity's Research and Development activities led to the realisation of various projects of significance to the Bank. Specifically, during the course of 2023, the Digital Division continued to invest in a single open, scalable and secure IT infrastructure and in illimitybank.com, supplementing and further developing the digital platform so that all the bank's businesses can fully make use of the new technologies of data and augmented and artificial intelligence.

Events after the reporting date

On 16 January 2024, the ratings agency Moody's Investors Service assigned ratings to the Bank for the first time. In particular, its long- and short-term ratings on deposits were investment-grade ratings of "Baa3" and "Prime-3" respectively. The long-term issuer and senior debt ratings were both "Ba1" with a stable outlook.

On 22 February 2024, independent director Patrizia Canziani handed in her resignation from the position, with effect from 31 March 2024.

Ms Canziani, a non-executive and independent director and member of the Risks Committee and the Sustainability Committee, elected from the minority list by the Shareholders' Meeting of 28 April 2022, resigned due to new professional commitments that are incompatible with her continuing in her roles at the Bank.

The Board of Directors, with the support of the Nominating Committee, having acknowledged the impossibility of replacing the director pursuant to the By-laws in force and in light of the time frame of the next annual Shareholders' Meeting, also resolved not to co-opt a new Board member, and therefore delegated the decision on the replacement of the resigning director to the will of the Shareholders, who will be called to present any candidates to be submitted to the annual Shareholders' Meeting to be called.

No events occurred after the reporting date of the Report on Consolidated Operations having an effect on the financial position, performance or cash flows of the Bank which need to be reported.

Business outlook

For information about the business outlook, please refer to the Report on Consolidated Operations.

Proposed appropriation of profits for the year

The Board of Directors submits the following proposal for a resolution to the Meeting.

PROPOSAL

The Shareholders' Meeting of illimity Bank S.p.A. ("**illimity**" or the "**Bank**"),

- having examined the draft financial statements of the Bank for the year ended 31 December 2023, accompanied by the annexes and documentation required by law, and having also examined the consolidated financial statements of the Group as of 31 December 2023;
- having examined the results of the draft financial statements for the year, which closed with a profit for the year of EUR 102,307,086.65, and the consolidated financial statements of the Group, which closed with a profit for the year pertaining to the Parent Company of EUR 104,400 thousand;
- having regard to the report of the Board of Directors on operations as of 31 December 2023;
- having taken note of the respective reports drawn up by the Audit and Internal Control Committee and the Company responsible for the statutory audit of the accounts of KPMG S.p.A.,

RESOLVED

- to approve the financial statements of illimity Bank S.p.A., accompanied by the Directors' Report on Operations as of 31 December 2023, which show a profit for the year of EUR 102,307,086.65.

PROPOSAL

The Shareholders' Meeting of illimity Bank S.p.A. ("**illimity**" or the "**Bank**"),

- having approved the Bank's financial statements for the year ended on 31 December 2023, which closed with a profit for the year of EUR 102,307,086.65, and the consolidated financial statements of the Group, which closed with a profit for the year pertaining to the Parent Company of EUR 104,400 thousand;
- having taken into account the 88,445 treasury shares in the Bank's portfolio,

RESOLVED

- to allocate to the legal reserve EUR 1,855,834.25, taking said reserve up to its established maximum and corresponding to one fifth of the Bank's share capital, pursuant to Article 2430 of the Italian Civil Code;
- to allocate to a specific unavailable reserve EUR 27,350,489.15 pursuant to Article 26 of Decree-Law 104/2023, which was converted with amendments by Law 136/2023;
- to allocate to the 83,916,330 ordinary shares in circulation a dividend of EUR 0.2488, or 24.88 euro cents, per share, for a maximum total of EUR 20,878,382.90;
- to carry forward the remainder of the profit for EUR 52,222,380.35, in addition to the maximum of EUR 22,005.12 pertaining to the dividend for treasury shares, it being pointed out that any change in the number of treasury shares held by the Company at the time of distribution will have no impact on the amount of the dividend per share, as determined above, but will increase or decrease the amount of the share of the profit carried forward.

Milan, 08 March 2024

On behalf of the Board of Directors
President, Rosalba Casiraghi
Signature

Financial Statements

STATEMENT OF FINANCIAL POSITION

	Assets	31/12/2023	31/12/2022
10.	Cash and cash equivalents	392,921,409	676,509,083
20.	Financial assets measured at fair value through profit or loss	732,058,127	245,096,126
	a) financial assets held for trading	25,917,103	31,145,771
	b) financial assets at fair value	-	-
	c) other financial assets mandatorily measured at fair value	706,141,024	213,950,355
30.	Financial assets measured at fair value through other comprehensive income	456,642,654	391,709,995
40.	Financial assets measured at amortised cost	5,099,578,745	4,454,121,852
	a) due from banks	112,441,909	57,213,295
	b) loans to customers	4,987,136,836	4,396,908,557
50.	Hedging derivatives	21,393,423	29,874,234
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	163,772,586	155,041,114
80.	Property and equipment	21,379,466	22,008,522
90.	Intangible assets	88,622,453	76,029,300
	of which:		
	- goodwill	21,643,000	21,643,000
100.	Tax assets	57,614,408	73,991,274
	a) current	364,371	6,908,074
	b) deferred	57,250,037	67,083,200
110.	Non-current assets held for sale and discontinued operations	48,386,490	-
120.	Other assets	280,057,554	304,300,710
	Total assets	**7,362,427,315**	**6,428,682,210**

CONTINUED: STATEMENT OF FINANCIAL POSITION

Liabilities and shareholders' equity		31/12/2023	31/12/2022
10.	Amounts due to customers	6,201,747,559	5,390,322,545
	a) due to banks	941,982,311	1,205,038,846
	b) due to customers	4,648,024,248	3,532,281,414
	c) securities issued	611,741,000	653,002,285
20.	Financial liabilities held for trading	19,475,881	27,244,023
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	19,769,717	32,645,901
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	22,871,371	33,521,998
	a) current	21,615,940	32,628,528
	b) deferred	1,255,431	893,470
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	128,945,319	85,415,902
90.	Employee severance pay	2,936,181	2,048,748
100.	Allowances for risks and charges	8,031,178	6,064,948
	a) commitments and guarantees given	5,374,008	4,862,991
	b) post-employment benefits and similar obligations	-	-
	c) other allowances for risks and charges	2,657,170	1,201,957
110.	Valuation reserves	(30,268,780)	(48,274,507)
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	208,084,456	140,626,772
150.	Share premium reserve	624,583,587	624,583,587
160.	Share capital	54,690,661	54,513,906
170.	Treasury shares (-)	(746,902)	(746,902)
180.	Profit (loss) for the year (+/-)	102,307,087	80,715,289
	Total liabilities and shareholders' equity	**7,362,427,315**	**6,428,682,210**

INCOME STATEMENT

Items		31/12/2023	31/12/2022
10.	Interest income and similar income	395,227,622	227,731,496
	of which: interest income calculated according to the effective interest method	336,718,633	218,043,720
20.	Interest expenses and similar charges	(202,696,131)	(74,526,587)
30.	**Net interest margin**	**192,531,491**	**153,204,909**
40.	Fee and commission income	47,146,607	43,659,848
50.	Fee and commission expense	(7,661,272)	(5,573,495)
60.	**Net fee and commission income**	**39,485,335**	**38,086,353**
70.	Dividends and similar income	45,341	199,588
80.	Profits (losses) on trading	(459,336)	4,728,532
90.	Fair value adjustments in hedge accounting	(386,239)	-
100.	Profits (losses) on disposal or repurchase of:	(855,109)	(468,026)
	a) financial assets measured at amortised cost	(131,022)	10,698
	b) financial assets measured at fair value through other comprehensive income	(724,087)	(174,403)
	c) financial liabilities	-	(304,321)
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	3,781,605	11,316,605
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	3,781,605	11,316,605
120.	**Total net operating income**	**234,143,088**	**207,067,961**
130.	Net losses/recoveries for credit risks associated with:	29,954,983	25,292,321
	a) financial assets measured at amortised cost	30,085,031	26,583,933
	b) financial assets measured at fair value through other comprehensive income	(130,048)	(1,291,612)
140.	Profits/losses on changes in contracts without derecognition	-	-
150.	**Net result from banking activities**	**264,098,071**	**232,360,282**
160.	Administrative expenses:	(158,431,355)	(137,817,421)
	a) personnel expenses	(71,123,021)	(58,173,533)
	b) other administrative expenses	(87,308,334)	(79,643,888)
170.	Net allowances for risks and charges	(531,666)	(669,177)
	a) commitments and guarantees given	(511,500)	(669,177)
	b) other net provisions	(20,166)	-
180.	Net adjustments/recoveries on property and equipment	(3,034,593)	(3,147,192)
190.	Net adjustments/recoveries on intangible assets	(13,958,470)	(10,737,652)
200.	Other operating income/expenses	59,912,778	24,764,788
210.	**Operating expenses**	**(116,043,306)**	**(127,606,654)**
220.	Profits (losses) on equity investments	-	-
230.	Net gains/losses on the measurement at fair value of property and equipment and intangible assets	-	-
240.	Goodwill impairment	-	-
250.	Profits (losses) on disposal of investments	-	-
260.	**Profit (loss) before tax from continuing operations**	**148,054,765**	**104,753,628**
270.	Income tax for the year on continuing operations	(45,747,678)	(24,038,339)
280.	**Profit (loss) after tax from continuing operations**	**102,307,087**	**80,715,289**
290.	Net income (loss) from discontinued operations after tax	-	-
300.	**Profit (loss) for the year**	**102,307,087**	**80,715,289**

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2023	31/12/2022
10.	**Profit (loss) for the year**	**102,307,087**	**80,715,289**
	Other comprehensive income, after tax, that may not be reclassified to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	(339)	286
30.	Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(314,645)	578,419
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity	-	-
	Other comprehensive income, after tax, that may be reclassified to the income statement		
100.	Hedging of foreign investments	-	-
110.	Foreign exchange differences	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (undesignated elements)	-	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	18,320,711	(42,816,912)
150.	Non-current assets held for sale and discontinued operations	-	-
160.	Share of valuation reserves for equity investments measured at equity	-	-
170.	**Total other comprehensive income (after tax)**	**18,005,727**	**(42,238,207)**
180.	**Other comprehensive income (Item 10+170)**	**120,312,814**	**38,477,082**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31/12/2023

	Balance on 31 December 2022	Change to opening balances	Balance on 01 January 2023	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	54,513,906	-	54,513,906	-	-	-
b) other shares	-	-	-	-	-	-
Share premium reserve	624,583,587	-	624,583,587	-	-	-
Reserves:						
a) retained earnings	104,364,934	-	104,364,934	65,650,805	15,929	-
b) other	36,261,838	-	36,261,838	-	-	-
Valuation reserves	(48,274,507)	-	(48,274,507)	-	-	-
Equity instruments	-	-	-	-	-	-
Treasury shares	(746,902)	-	(746,902)	-	-	-
Profit (loss) for the year	**80,715,289**	**-**	**80,715,289**	**(65,650,805)**	**(15,064,484)**	**-**
Shareholders' equity	**851,418,145**	**-**	**851,418,145**	**-**	**(15,048,555)**	**-**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31/12/2022

	Balance on 31 December 2021	Change to opening balances	Balance on 01 January 2022	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	51,681,405	-	51,681,405	-	-	-
b) other shares	938,476	-	938,476	-	-	-
Share premium reserve	597,589,133	-	597,589,133	-	-	-
Reserves:						
a) retained earnings	30,577,120	-	30,577,120	69,123,030	-	-
b) other	34,905,799	-	34,905,799	-	-	-
Valuation reserves	(6,036,300)	-	(6,036,300)	-	-	-
Equity instruments	-	-	-	-	-	-
Treasury shares	(831,857)	-	(831,857)	-	-	-
Profit (loss) for the year	**69,123,030**	**-**	**69,123,030**	**(69,123,030)**	**-**	**-**
Shareholders' equity	**777,946,806**	**-**	**777,946,806**	**-**	**-**	**-**

	Changes in the year							Shareholders' equity as of 31/12/2023
	Shareholders' equity transactions							
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income as of 31/12/2023	
Share capital:								
a) ordinary shares	-					176,755		54,690,661
b) other shares	-							-
Share premium reserve	-							624,583,587
Reserves:								
a) retained earnings	-					229,498		170,261,166
b) other	-					1,561,452		37,823,290
Valuation reserves	-						18,005,727	(30,268,780)
Equity instruments	-							-
Treasury shares	-							(746,902)
Profit (loss) for the year	**-**						**102,307,087**	**102,307,087**
Shareholders' equity	**-**					**1,967,705**	**120,312,814**	**958,650,109**

	Changes in the year							Shareholders' equity as of 31/12/2022
	Shareholders' equity transactions							
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income as of 31/12/2022	
Share capital:								
a) ordinary shares	1,805,525	-	-	938,489	-	88,487	-	54,513,906
b) other shares	13	-	-	(938,489)	-	-	-	-
Share premium reserve	26,994,454	-	-	-	-	-	-	624,583,587
Reserves:								
a) retained earnings	-	-	-	-	-	4,664,784	-	104,364,934
b) other	(99,721)	-	-	-	-	1,455,760	-	36,261,838
Valuation reserves	-	-	-	-	-	-	(42,238,207)	(48,274,507)
Equity instruments	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	84,955	-	(746,902)
Profit (loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**80,715,289**	**80,715,289**
Shareholders' equity	**28,700,271**	**-**	**-**	**-**	**-**	**6,293,986**	**38,477,082**	**851,418,145**

CASH FLOW STATEMENT (INDIRECT METHOD)

A. OPERATING ACTIVITIES	Amount	
	31/12/2023	31/12/2022
1. Cash flow from operations	***218,051,998***	***149,375,206***
Net profit/loss for the year (+/-)	102,307,087	80,715,289
Gains/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (-/+)	(7,490,375)	(7,290,429)
Profits/losses on hedging activities (-/+)	386,239	-
Net value adjustments/write-backs for credit risk (+/-)	31,252,460	6,360,515
Net value adjustments/write-backs on property and equipment and intangible assets (+/-)	16,993,063	13,885,247
Net allocations to allowances for risks and charges and other costs/income (+/-)	19,950,967	13,013,620
Taxes, duties and unpaid tax credits (+)	54,654,545	28,804,762
Net write-downs/write-backs on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	(1,988)	13,886,202
2. Cash flow generated / absorbed by financial assets	***(1,143,572,544)***	***(1,416,877,900)***
Financial assets held for trading	6,336,674	(25,522,191)
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(135,882,081)	(134,358,868)
Financial assets measured at fair value through other comprehensive income	(43,398,699)	(161,886,652)
Financial assets measured at amortised cost	(1,042,641,160)	(977,474,764)
Other assets	72,012,722	(117,635,425)
3. Cash flow generated / absorbed by financial liabilities	***694,049,877***	***1,467,076,973***
Amounts due to customers	752,674,941	1,440,065,307
Financial liabilities held for trading	(7,768,142)	27,185,169
Financial liabilities designated at fair value	-	-
Other liabilities	(50,856,922)	(173,503)
Net cash generated / absorbed by operating activities	**(231,470,669)**	**199,574,279**

B. INVESTING ACTIVITIES	Amount	
	31/12/2023	31/12/2022
1. Cash flows from	**-**	**-**
Sales of equity investments	-	-
Dividends received on equity investments	-	-
Sales of property and equipment	-	-
Sales of intangible assets	-	-
Sales of business units	-	-
2. Cash flows used in	***(37,068,450)***	***(29,863,367)***
Purchases of equity investments	(8,111,290)	(8,158,901)
Purchases of tangible assets	(2,405,537)	(168,725)
Purchases of intangible assets	(26,551,623)	(21,535,741)
Purchases of business units	-	-
Net cash generated / absorbed by investing activities	**(37,068,450)**	**(29,863,367)**

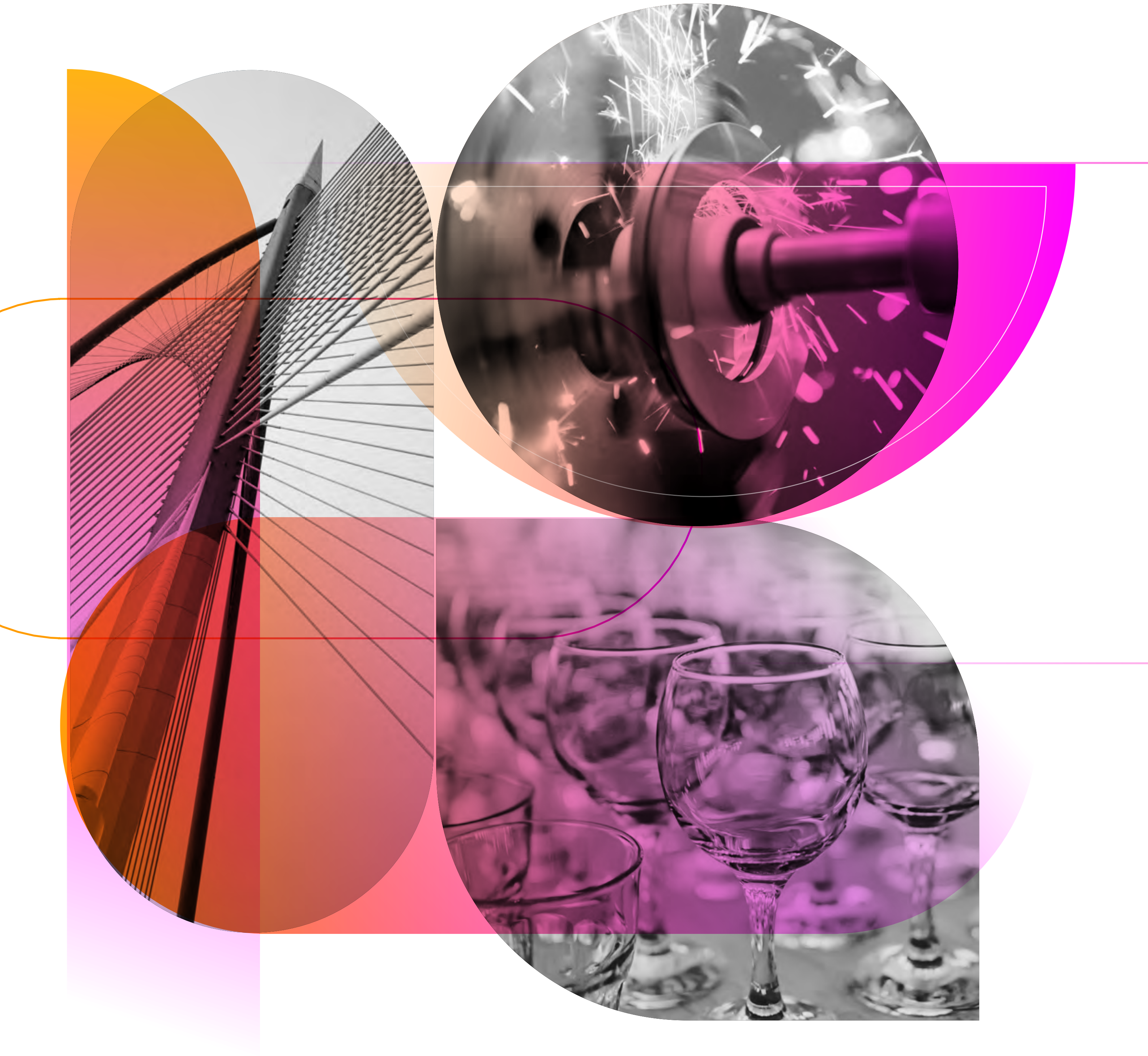
C. FINANCING ACTIVITIES	Amount	
	31/12/2023	31/12/2022
Issues / Purchases of treasury shares	-	-
Issues/purchases of equity instruments	-	(99,722)
Distribution of dividends and other purposes	(15,048,555)	-
Net cash generated / absorbed by financing activities	**(15,048,555)**	**(99,722)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(283,587,674)**	**169,611,190**

RECONCILIATION

FINANCIAL STATEMENT ITEMS	Amount	
	31/12/2023	31/12/2022
Cash and cash equivalents at start of financial year	676,509,083	506,897,893
Net increase (decrease) in cash and cash equivalents	(283,587,674)	169,611,190
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of financial year	392,921,409	676,509,083

Key:

(+) generated
(–) absorbed



Explanatory Notes

Part A – Accounting policies

A.1 General information

Section 1 – Declaration of compliance with IAS/IFRS

These Financial Statements have been drafted in application of Legislative Decree no. 38 of 28 February 2005, according to the accounting standards issued by the International Accounting Standards Board (IASB) approved by the European Commission and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as established by Community Regulation no. 1606 of 19 July 2002.

In preparing these Financial Statements, the IAS/IFRS in force as of 31 December 2023 were applied, including the SIC and IFRIC interpretations as harmonised by the European Commission. The line items presented in this report have been valued and measured on the basis of the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) including the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission, in addition to the guidelines laid down in Article no. 9 of Italian Legislative Decree no. 38/05 and article 43 of Italian Legislative Decree no. 136/15.

There were no departures from IAS/IFRS.

The Bank of Italy, with reference to the financial statements of banks and financial companies subject to supervision, has established, by Circular 262 of 22 December 2005, as amended, the financial statements used for the drafting of the Financial Statements. The financial statements of illimity Bank have been prepared subject to the application of the provisions of Bank of Italy Circular no. 262 - 8th update, issued on 17 November 2022, and taking into consideration the additional statements contained in the communication of 14 March 2023 - particularly with regard to the impacts of COVID 19 and measures to support the economy.

Except as stated herein – and more broadly described in Section 5 – there are no changes in the Accounting Standards adopted compared to the previous year.

Section 2 – Basis of Preparation

The Financial Statements comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (drafted with application of the "indirect" method) and the Explanatory Notes. The Financial Statements are also accompanied by the Directors' Report on operations.

The Report on Operations and the Explanatory Notes provide the information required by the International Accounting Standards, Italian law, the Bank of Italy, the National Commission for Companies and the Stock Exchange (CONSOB) and the European Securities and Markets Authority (ESMA), as well as other information that is not compulsory but is deemed equally necessary in order to provide a truthful and accurate representation of the Group's situation.

In accordance with Article 5 of Italian Legislative Decree no. 38/2005, the financial statements have been drafted using the Euro as the functional currency. The amounts presented in the Bank's financial statements and the Explanatory Notes are stated in thousands of EUR, unless otherwise indicated. Any discrepancies between the figures presented are due solely to rounding.

These financial statements have been prepared on the assumption of continuity of the business, since there are no significant uncertainties regarding events or conditions that may lead to doubts as to the Group's ability to continue to operate as a going concern. The valuation criteria adopted are therefore consistent with the business continuity assumption and comply with the principles of competence, relevance and materiality of accounting information and the precedence of economic substance over legal form. These criteria remained unchanged from the previous year.

The financial statements are prepared in accordance with IAS 1 and the specific accounting standards approved by the European Commission as illustrated in the "Section on the main financial statement items" of these Explanatory Notes. The Financial Statements have been drafted with clarity and provide a true and fair view of the financial situation and economic result of illimity Bank S.p.A.

The general principles used in the preparation of the financial statements are outlined below:

- going concern basis: the valuations are made on a going-concern basis;
- matching principle: costs and revenues are recognised in the period in which they accrue in relation to the services received and supplied, regardless of the date of cash settlement;
- consistency of representation: to guarantee the comparability of the data and information in the financial statements and related tables, the representation and classification methods are kept the same over time, unless they have to be changed to comply with international accounting standards or interpretations, or unless there is a need to make the presentation of data more significant and reliable;
- relevance and aggregation: each major class of items with a similar nature or function is shown separately in the statement of financial position and income statement; items with different functions or of different types, if important, are highlighted separately;
- prohibition of set off: a prohibition on set off applies, unless a set-off is provided for or permitted by the international accounting standards or interpretations, or by the Bank of Italy Circular 262 of 22 December 2005 as amended;
- comparison with the previous year: the financial statements and formats show the amounts from the previous year, which may be adapted to ensure that they can be compared;
- the financial statements are prepared on the basis of substance over form and in accordance with the principle of relevance and materiality of information.

The consolidated financial statements to 31 December 2023, which were approved by the Board of Directors on 08 March 2024, are subject to auditing by the auditing firm KPMG S.p.A.

Content of the financial statements

1. Statement of financial position and income statement

The statement of financial position and income statement consist of items, sub-items and additional details. In the income statement, revenues have been presented without sign, whereas costs have been stated in parentheses.

2. Statement of comprehensive income

In addition to the profit (loss) for the year, the statement of comprehensive income indicates income components taken to valuation reserves, net of the relevant tax effect, in accordance with international accounting standards.

Comprehensive income is represented by providing separate proof of the income components that will not be reinstated in the income statement in future and those which, conversely, may be subsequently reclassified under profit (loss) for the year when certain conditions are met. Negative amounts have been stated in parentheses.

3. Statement of changes in shareholders’ equity

The statement shows the composition of and changes in the shareholders' equity accounts during the year of the report, broken down into share capital (ordinary and savings shares), capital reserves, earnings reserves and reserves from the valuation of assets or liabilities and net profit. The treasury shares in portfolio are deducted from shareholders' equity.

4. Cash flow statement

The statement of cash flows during the reporting year was prepared on the basis of the indirect method, according to which the cash flows from operating activities are represented by the results for the financial year, adjusted by the effects of non-monetary operations. The cash flows are divided between those generated by operating activities, those generated by investment activities and those generated by financing activities.

In the statement, the cash flows generated during the year are indicated without sign, while those absorbed are indicated in brackets.

Content of the Explanatory Notes

The Explanatory Notes include the information required by the IAS and by the Circular of the Bank of Italy no. 262 issued on 22 December 2005, as amended and supplemented, applicable to the drafting of these financial statements.

Section 3 - Subsequent events

In detail, subsequent events are described in the relevant section of the Report on Operations; in this part of the Explanatory Notes it is indicated that pursuant to the requirements of IAS 10, after 31 December 2023, the reporting date, no events occurred requiring any rectification of the information presented in the financial statements.

For an examination of the business outlook, refer to the Report on Operations.

Section 4 – Other aspects

Use of estimates and assumptions in preparing the financial statements

In compliance with the requirements of the IFRS framework, the preparation of the Report requires the use of estimates and assumptions that may influence the values recognised in the statement of financial position and income statement and the disclosures regarding contingent assets and liabilities presented in the financial statements.

The estimates and related assumptions are based on the use of available management information and subjective assessments, also founded on historical experience. The use of reasonable estimates is, thus, an essential part of the preparation of the financial statements. The components in which the use of estimates and assumptions is substantially inherent in determining the book values are indicated below:

- measurement of loans;
- measurement of financial assets not quoted in active markets;
- measurement of the real estate portfolio;
- determination of the amount of accruals to allowances for risks and charges;
- determination of the amount of deferred taxation;
- assessments regarding the recoverability of goodwill;
- definition of the depreciation and amortisation of property and equipment and intangible assets with finite useful lives.

It should also be noted that an estimate may also be adjusted due to changes in the circumstances on which it was based, new information or greater experience. By their nature, the estimates and assumptions used may change from one period to the next. Accordingly, the values presented in the financial statement may differ, also to a significant degree, from current estimates. Any changes in the estimates are applied prospectively and therefore result in an impact on the income statement in the year which the change occurs as well as that for future years.

New documents issued by the IASB and endorsed by the EU, adoption of which is mandatory with effect from financial statements for years beginning on or after 1 January 2023.

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
IFRS 17 – Insurance Contracts	November 2021	1 January 2023	19/11/2021	(EU) no. 2021/2036 19/11/2021
Amendments to IAS 1 and IAS 8	February 2021	1 January 2023	02/03/2022	(EU) no. 2022/357 03/03/2022
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 - Income Taxes)	May 2021	1 January 2023	11/08/2022	(EU) no. 2022/1392 12/08/2022
Initial recognition of IFRS 17 and IFRS 9 – Comparative information (Amendments to IFRS 17 - Insurance Contracts)	December 2021	1 January 2023	08/09/2022	(EU) no. 2022/1491 09/09/2022
Amendments to IFRS 17 Insurance Contracts	June 2020	1 January 2023	13/08/2023	(EU) no. 2023/1803 26/09/2023
International tax reform – pillar two (Amendments to IAS 12 Income Taxes)	May 2022	1 January 2023	08/11/2023	(EU) no. 2023/2468 09/11/2023

As indicated in the table above, the application of the new IFRS 17 - Insurance Contracts and certain amendments to the accounting standards approved by the European Commission in 2022 and 2023 will be compulsory as of 2023 for the first time.

Specifically, the new accounting standard IFRS 17, published by the IASB in May 2017 and subject to subsequent amendments published on 25 June 2020 and on 9 December 2021, was endorsed through Regulation (EU) No. 2036/2021 of 19 November 2021 and entered into force on 1 January 2023.

The main changes introduced by the standard refer primarily to the initial recognition and subsequent measurement rules of the insurance liability, the approach to grouping contracts, the measurement models of insurance contracts and, lastly, the rules for transition to the new standard.

The other amendments relate to:

- Regulation (EU) no. 2022/357 of 2 March 2022, which adopts several amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments clarify the differences between accounting policies and accounting estimates in order to guarantee the consistent application of accounting policies and comparability of financial statements.
- Regulation (EU) no. 2022/1392 of 11 August 2022, which adopts several amendments to IAS 12 Income Taxes. Those amendments clarify how companies are to account for deferred taxes on transactions such as leases and decommissioning obligations and aim to reduce diversity in the reporting of deferred tax assets and liabilities on leases and decommissioning obligations.
- Regulation (EU) no. 2022/1491 of 8 September 2022, which adopts several amendments to IAS 17 Insurance Contracts. The amendment to the transition requirements in IFRS 17 allows companies to overcome one-time classification differences of comparative information of the previous reporting period upon initial application of IFRS 17 and IFRS 9 Financial Instruments.
- Regulation (EU) no. 2023/1803 of 13 August 2023, which adopts several amendments to IAS 17 Insurance Contracts. The Regulation governs the exemption from the annual cohort requirement for groups of contracts, as provided for by IFRS 17 Insurance Contracts, for intergenerationally mutualised and cash flow-matched contracts.
- Regulation (EU) no. 2023/2468 of 8 November 2023, which adopts several amendments to IAS 12 Income Taxes. The Regulation provides a temporary exception from accounting for deferred taxes arising from the implementation of the international tax reform promoted by the Organisation for Economic Cooperation and Development (OECD).

Neither the new IFRS 17, since the Bank does not currently carry out insurance activities, nor the other amendments are of particular significance to the Bank.

IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2023

Documents endorsed by the EU as of 31 December 2023

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Lease Liabilities in a Sale and Leaseback (Amendments to IFRS 16 Leasing)	September 2022	1 January 2024	20/11/2023	(EU) no. 2023/2579 21/11/2023
Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)	January 2020	1 January 2024	19/12/2023	(EU) no. 2023/2822 20/12/2023

In further detail:

- Regulation (EU) no. 2023/2822 – Amendments to IAS 1: Regulation (EU) 2023/2822 of the European Commission of 19 December 2023, which adopts amendments to IAS 1 Presentation of Financial Statements, was published in the EU Official Journal, L series, on 20 December 2023.
  - The amendments improve the information a company should provide when its right to defer settlement of a liability for at least 12 months is subject to covenants. The amendments specify how a company is to determine, in the statement of financial position, debt and other liabilities with an uncertain settlement date, stipulating that they are to be classified either as current (due or potentially due to be settled within one year) or non-current.
  - Each company shall apply the amendments, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2024.
- Regulation (EU) no. 2023/2579 – Amendments to IFRS 16: Regulation (EU) 2023/2579 of the European Commission of 20 November 2023, which adopts amendments to IFRS 16 Leasing, was published in the EU Official Journal, L series, on 21 November 2023. The amendments to IFRS 16 specify how the seller-lessee subsequently measures sale and leaseback transactions.
  - Each company shall apply the amendments, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2024.

These amendments are not particularly relevant to the Bank.

Documents NOT yet endorsed by the EU as of 31 December 2023

Document title	Issue date by the IASB	Date of entry into force of the IASB document	Date of expected endorsement by the EU
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	1 January 2016	To be defined
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	September 2014	Deferred until completion of the IASB project concerning the equity method	To be defined
Amendments regarding supplier finance arrangements (Amendments to IAS 7)	May 2023	1 January 2024	To be defined
Amendments regarding the effects of Changes in Foreign Exchange Rates (Amendments to IAS 21)	August 2023	1 January 2025	To be defined

These documents will only apply after they have been harmonised by the EU.

Tax on extra profit of banks

Article 26 of Decree-Law no. 104 of 9 August 2023, "Urgent provisions to protect users, regarding economic and financial activities and strategic investments", which was converted, with amendments, into Law no. 136 of 9 October 2023, introduced an extraordinary tax for 2023 on the "extra profit" of banks.

The rule, in its definitive version, provides for the extraordinary tax payable by banks to be determined by applying a rate of 40 per cent on the amount of the interest margin referred to in item 30 of the income statement, drawn up according to the formats approved by the Bank of Italy, relating to the financial year prior to the one that was in progress on 1 January 2024, to the extent that it is at least 10 per cent higher than the same margin in the year prior to the one in progress on 1 January 2022.
The amount of the tax, in any case, cannot be greater than a share equal to 0.26% of the total amount of the risk exposure of each individual bank, determined pursuant to paragraphs 3 and 4 of Article 92 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council, of 26 June 2013, with regard to the closing date of the financial year prior to the one in progress on 1 January 2023.

Furthermore, paragraph 5-bis specifies that, in lieu of paying the tax, banks can, upon approval of the financial statements relating to the financial year prior to the one in progress on 1 January 2024, allocate an amount equal to no less than two-and-a-half times the amount calculated pursuant to this article to a non-distributable reserve identified for that purpose. Said reserve fulfils the conditions set out in Regulation (EU) no. 575/2013 to be classified under Common Equity Tier 1 (CET1) capital. In the event that a loss is recorded for the financial year or the profits for the financial year are lower than the aforementioned amount, the reserve is established or supplemented using profits from previous financial years as a priority, starting with the most recent, followed by other available capital reserves.

With regard to the accounting impacts of the regulation, the aforementioned tax has been considered in the scope of application of IFRIC 21, since this is applied to the net interest margin, which is deemed not comparable to a taxable income pursuant to IAS 12. IFRIC 21 requires the liability relating to the tax to be recognised in the income statement if the "obligating event" that causes the liability to arise occurs, or the tax is paid. In this specific case, that event is not only the achievement of a net interest margin that is greater than the threshold identified by the Law, but also the Bank's decision to exercise its option to not pay the tax or to establish the specific unavailable reserve.

Therefore, instead of paying the extraordinary tax, given the extent of the profits for the financial year and of the reserves of distributable profit, it will be proposed, at the Shareholders' Meeting held to approve the 2023 Financial Statements, that an amount be allocated to a specific reserve, pursuant to Article 26 of Decree-Law 104/2023, which was converted, with amendments, into Law 136/2023, with that amount being equal to EUR 27.4 million, corresponding to 2.5 times the amount of the tax, equal to EUR 10.9 million. In view of this, no obligation to pay the tax has therefore been determined and, therefore, this has not resulted in the recognition of any liability in the income statement.

Disclosure on public funds pursuant to Article 1, paragraph 125 of Law no. 124 of 4 August 2017 ("Annual Market and Competition Law")

Law no. 124 of 4 August 2017, the "Annual Market and Competition Law" (hereinafter also referred to as Law no. 124/2017), introduced, in Article 1, paragraphs 125 to 129, certain measures aimed at ensuring transparency within the public funds system. More specifically, it provides for companies to include in their Explanatory Notes information about "subsidies, grants, paid positions and any economic benefit of any kind" (hereinafter referred to for short as "public funds") received from public bodies and from any parties specified by said law.

Failure to comply with the obligation to publish said information will result in an administrative fine equal to 1% of the amounts received, with a minimum payable of EUR 2,000. Only at a later date does the rule provide for the reimbursement of the grant itself. In order to avoid the publication of information that is not relevant, the obligation to provide information does not apply if the amount of public funds received by a single party is below the threshold of EUR 10,000.

August 2017 saw the creation of the National Register of State Aid, which was established as part of the

Directorate-General for Incentives to Companies of the Ministry of Economic Development, in which the parties that grant or manage the aid in question must publish all state aid and de minimis aid given to each company. For the individual aid granted to illimity Group companies, please refer to the "Transparency of the Register" section, which can be accessed by the public.

In light of this, and in accordance with the provisions of Article 1, paragraph 125, of Law no. 124 of 4 August 2017, during the 2023 financial year the Bank received around EUR 0.1 million of aid pursuant to the "Regulation for interprofessional funds for ongoing training for state aid that is exempt pursuant to Regulation EC no. 651/2014 and de minimis aid pursuant to Regulation EC no.1407/2013".

A.2 Section on the main financial statement items

This section presents the accounting standards used to prepare the financial statements as of 31 December 2023 with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, and for the methods used for the recognition of costs and revenues.

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

This category of financial assets measured at fair value through profit or loss (FVTPL) includes Financial assets that cannot be qualified as Financial assets measured at fair value through comprehensive income or as Financial assets measured at amortised cost. This item therefore includes:

- financial assets held for trading, which are essentially debt and capital instruments and financial derivatives, for which there is a short-term profit-making strategy;
- financial assets mandatorily measured at fair value that do not meet the requirements for valuation at amortised cost or at fair value with an impact on comprehensive income. These are assets for which the contractual terms do not provide only for reimbursement of capital and payment of interest on the amount of capital to be returned (the so-called failed "SPPI test"), or which are not held in connection with a "Hold to Collect" business model, or whose objective is the "Hold to Collect and Sell" business model;
- financial assets designated at fair value, namely financial assets which are thus defined at the time of first recognition, if the requirements are met. An entity can irrevocably designate, on recognition, a financial asset as being measured at fair value through profit or loss if, and only if, by so doing it would eliminate or significantly reduce an inconsistency in valuation.

As reported above, this item includes derivatives, which are recognised among financial assets held for trading, which are represented as assets if the fair value is positive, and as a liability if the fair value is negative. It is observed that it is possible to offset the current positive and negative values from transactions with the same counterparty only if there is currently a legal right to offset the recognised amounts, and where there is an intention to settle the offset positions on a net basis. Derivatives may also include those incorporated in complex financial contracts – in which the primary contract is a financial liability – which have been recognised separately, as:

- their economic characteristics and risks are not closely correlated to the characteristics of the underlying contract;
- the incorporated instruments, even if separate, meet the definition of derivative;
- the hybrid instruments they belong to are not valued at fair value with the related changes recognised on the income statement.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be infrequent, the financial assets may be reclassified from the category measured at fair value, affecting the income statement, to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value affecting comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of first recognition, for stage assignment for impairment purposes.
The initial recognition of financial assets takes place on the date of settlement for debt securities and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives.

Upon initial recognition, financial assets measured at fair value though profit and loss are recognised at fair value, without considering transaction costs or income, which are immediately recognised in the income statement, even if directly attributable to these financial assets.

After the first recognition, financial assets measured at fair value through profit or loss are measured at fair value and the effects of applying this measuring principle are charged to the income statement. To determine the fair value of financial instruments listed on an active market, the market prices are used. Without an active market, the commonly-adopted estimation and valuation models are used, which take into account all the risk factors related to the instruments and are based on observable market data, such as: (i) methods based on the valuation of listed instruments with similar characteristics; (ii) discounted cash flow calculations, models for determining the option prices; (iii) recorded values of recent comparable transactions.

Financial assets are eliminated from the financial statements when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.
If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Realised gains and losses on disposal or redemption and unrealised gains and losses arising from changes in the fair value of financial assets held for trading are recognised in the income statement under the item "Net trading result”.

The accounting treatment of financial assets mandatorily measured at fair value or designated at fair value is similar to that of "Financial assets held for trading”, with the recording of profits or losses, realised and measured, under the item “Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss”, respectively under the components “a) financial assets and liabilities designated at fair value” and “b) other financial assets mandatorily measured at fair value”.

2. Financial assets measured at fair value through other comprehensive income

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

- the financial asset is owned according to a business model the goal of which is achieved both through the collection of contractually determined cash flows and through the sale (“Hold to Collect and Sell” business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid (“SPPI test” passed).

This item also includes equity instruments not held for trading for which, at the time of first recognition, the option for designation at fair value through other comprehensive income has been exercised.

In particular this item includes:
- debt instruments related to a Hold to Collect and Sell model which have passed the SPPI test;
- shareholder interests that cannot be qualified as controlling, connected or joint control, which are not held for trading purposes, and for which an option for designation at fair value through comprehensive income has been exercised;
- loans connected to a Hold to Collect and Sell model that have passed the SPPI test, including shares in syndicated loans or other types of loan that, from the origin, are destined for sale and which relate to a Hold to Collect and Sell business model.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets.

In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets measured at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In the case of reclassification from this category to the amortised cost category, the cumulative profit or loss recognised in the revaluation reserve is carried as an adjustment to the fair value of the financial asset on the date of reclassification. In the case of reclassification into the category of fair value through profit or loss, the profit or loss that was previously recognised in the revaluation reserve is reclassified from shareholders' equity to profit (loss) for the year.

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.
After initial recognition, assets classified at fair value through other comprehensive income other than equity instruments are measured at fair value and the impacts from application of amortised cost are recognised on the income statement together with the effects of impairment and any foreign exchange effect, while the other profits or losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. At the time of total or partial disposal, the profit or loss in the revaluation reserve is reinstated, in full or in part, in the income statement. Subsequent to the initial recognition, therefore, with regard to accrued interest on interest-bearing instruments, they are recognised in the income statement according to the amortised cost criterion in the line item "Interest and similar income" where positive, or in the line item "Interest expense and similar charges" if negative. Profits and losses arising g from changes in fair value are instead recognised in the Statement of comprehensive income and shown in the item "Valuation reserves" of shareholders' equity.

Equity instruments that were classified in this category are measured at fair value and the amounts recognised as a contra-entry of shareholders' equity (Statement of comprehensive income) must not be subsequently transferred to the income statement, not even in the case of disposal (OCI exemption). The only item relating to the equity instruments in question that is recorded on the income statement is the related dividends.

The fair value is determined on the basis of the principles already illustrated, for the Financial assets designated at fair value through profit or loss.

For the equity instruments included in this category not listed on an active market, the cost criterion is used to estimate the fair value only on a secondary basis and limited to a small number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate.
Financial assets designated at fair value through other comprehensive income - in the form of debt or credit instruments – are subject to verification of the significant increase in credit risk (impairment) provided for in IFRS 9, like Assets at amortised cost, and therefore a write-down is recognised in the income statement to cover the expected losses. These impairment losses are recognised in the income statement under the item "Net losses/recoveries for credit risk relating to: b) financial assets measured at fair value through

other comprehensive income", offset by the statement of comprehensive income and also shown under the item "Reserves from valuation" of shareholders' equity. Equity instruments are not recognised in the income statement as impairment in accordance with IFRS9. Only dividends will be shown in the income statement under the item "Dividends and similar income".

Financial assets are eliminated from the accounts when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits.
Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.
Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows, and only those, without a significant delay, to other third parties.

In the case of disposal, profit and losses are recognised in the income statement under the item "Profits/losses on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income".
The amounts arising from the adjustment made to the carrying amounts of financial assets, considered gross of the related total write-downs/write-backs, in order to reflect changes made to contractual cash flows that do not give rise to write-offs, are recognised in the income statement under the item "Profits/losses on changes in contracts without derecognition; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income".
With regard to equity instruments, in the case of disposal, accumulated profits and losses are recorded under "Reserves".

3. Financial assets measured at amortised cost

This category includes financial assets (in particular, loans and debt instruments) that meet both the following conditions:

- the financial asset is owned according to a business model of which the goal is achieved through the collection of contractually determined cash flows ("Hold to Collect" business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

Specifically, this item includes: customer and bank loans disbursed directly or acquired from third parties that provide for fixed or determinable payments, which are not listed on an active market and which have not been classified at origin under Financial assets measured at fair value through other comprehensive income.

The receivables item also includes debt instruments, repos and securities acquired through subscription or private placement with determinate or determinable payments, which are not listed on active markets.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be extremely infrequent, the financial assets may be reclassified from the category measured at amortised cost in one of the other two IFRS 9 categories (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. The profits or losses resulting from the difference between the amortised cost of the financial asset and its relative fair value are recognised on the income statement in the case of reclassification among Financial assets designated at fair value through profit or loss and Shareholders' equity, in the relevant revaluation reserve, in the case of reclassification among Financial assets designated

at fair value through other comprehensive income.
The initial recognition of the financial assets takes place on the date of settlement for debt instruments and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.
With particular reference to loans, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down. The loan will be recognised on the basis of its fair value, equal to the amount lent, or the subscription price including the costs or income directly linked to the individual loan and which can be determined from the outset of the operation, even if paid at a later date. This excludes costs that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.
After first recognition the loans are measured at the amortised cost which is equal to the value of first recognition, reduced or increased by the repayments of capital, the write-downs/write-backs and the amortisation – calculated according to the effective interest rate method – of the difference between the amount loaned and the amount repayable on maturity, which is typically linked to the costs and income directly attributable to the individual loan.
The effective interest rate is the rate that discounts the flow of estimated future payments for the expected duration of the loan in order to obtain an accurate net book value at the time of the first recognition, which includes both the transaction costs and revenues directly attributable and also all the payments made or received between the contracting parties. This method of accounting, which uses a financial logic, allows the economic effects of the costs and income to be distributed along the expected residual life of the loan.
Accrued interest is shown in the item "Interest income and similar income" where positive, or in the item "Interest expenses and similar charges" where negative. Any adjustments/write-backs are recognised in the income statement under the item "Net losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost". In the event of sale, profits and losses are recognised in the income statement under the item "Profits/losses on disposal or repurchase of: a) financial assets measured at amortised cost".
The amounts arising from the adjustment made to the carrying amounts of financial assets, considered gross of the related total write-downs/write-backs, to reflect changes made to contractual cash flows that do not give rise to write-offs, are recognised in the income statement under the item "Profits/losses on changes in contracts without derecognition"; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost".

The amortised cost method is not used for loans of a short term for which the effect of applying the discounting method is considered negligible. Those loans are measured at the historic cost. The same measurement principle is used for loans with no definite maturity date, or revolving credit.

The measurement criteria are closely connected to the inclusion of these instruments in one of the three stages of credit risk provided for in IFRS 9, the last of which (stage 3) includes non-performing financial assets and the others (stages 1 and 2) include performing assets.

With reference to the presentation of these valuations, the write-downs/write-backs referring to this type of asset are recognised in the income statement:
- at the time of initial recognition, for an amount equal to the loss expected at 12 months;
- at the time of subsequent measurement, if the credit risk has not increased significantly compared to the initial recognition, based on the changes in write-downs/write-backs due to expected losses over the following twelve months;
- at the time of subsequent measurement, if the credit risk has significantly increased compared to initial recognition, based on the recognition of write-downs/write-backs for expected losses over the entire residual contractual life of the asset;
- upon subsequent measurement, if – after there has been a significant increase in the credit risk compared to initial recognition – the materiality of that increase no longer exists in relation to the change in cumulative write-downs/write-backs to take into account the transition from a loss over the asset's lifetime, to one over twelve months.

If the financial assets in question are performing, they are subjected to a valuation intended to define the write-downs/write-backs to be taken from the financial statements for each loan account (or "tranche" of the security), based on the risk parameters: probability of default (PD), loss given default (LGD) and

exposure at default (EAD), and are adjusted as necessary to reflect the provisions of IFRS 9.
If, together with a significant increase in the credit risk there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset – classified as non-performing, in the same way as all the other relations with the same counterpart – and the current value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the loss recorded on the income statement is defined according to a detailed valuation process, or is determined for identical categories and therefore, is attributed in detail to each position, taking into account forward-looking information and potential alternative recovery scenarios.

Non-performing assets include financial instruments that have been given bad loan status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and European regulation.
The expected cash flows take into account the expected recovery times and the presumed realisation value of any guarantees.

The effective original rate of each asset remains unchanged over time, even if there has been a restructuring of the account that led to the change in the contractual rate, and even if the account is not, in practice, bearing contractual interest.

If the reasons for the impairment are removed following a subsequent event occurring after the recognition of the change in value, write-backs are made and allocated to the income statement. The write-back may not exceed the amortised cost that the financial instrument would have had without such adjustments having been made.

Write-backs connected to the passage of time are posted in the net interest margin.

In some cases, during the life of the financial assets in question and of the loans in particular, the original contractual conditions are then modified by the parties to the contract. If the contractual terms are modified during the life of an instrument, there is a need to check whether the original asset is still to be recognised or needs to be de-recognised, and a new financial instrument recognised in its place.

In general, changes to a financial asset lead to its de-recognition and the entry of a new asset, if the changes are substantial. Considerations about the "substantiality" of changes are based on qualitative and quantitative factors. In some cases it may be clear, without using complex analyses, that the changes have substantially modified the characteristics and/or cash flows of a certain asset while in other cases, additional quantitative analysis has to be done to assess the effects of the changes, and to check whether or not to de-recognise the asset and enter a new one.

The quali-quantitative analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty;
  a) commercial reasons, designed to "keep" the customer, involve a borrower that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the borrower, and relate to the onerousness off the debt resulting in an economic benefit to the borrower. In general it is considered that whenever the Bank renegotiates to avoid losing a customer, the renegotiations must be considered as substantial because if they did not take place, the customer could be financed by another bank, and the Bank would see a decrease in its expected future revenue;
  b) the second type of renegotiation, which is done for "credit risk reasons" (forbearance measures) relates to the Bank's attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits, after the changes, are not usually substantially transferred, and, therefore, the accounting presentation that gives the most relevant information to the reader (apart from the information given below on objective elements) is "modification accounting" – which implies the recognition in the income statement of the difference between the carrying amount and the discounted value of the modified cash flows, discounted at the original interest rate – and not through derecognition;
- the presence of objective elements or triggers that affect the characteristics and/or contractual flows of the financial instrument (including change of currency, or changes to the type of risk the Bank is exposed to, if it is correlated to equity and commodity criteria), which the derecognition is expected to involve considering their impact (expected to be significant) on the original contractual flows.

Financial assets are derecognised only if the disposal resulted in the substantial transfer of all the risks and benefits connected to the assets. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows and only those, without a significant delay, to other third parties.

4. Hedging operations

For hedges, the Bank applies the option, set out in introducing IFRS 9, to continue fully applying the provisions of the accounting standard IAS 39 on hedge accounting (the carve-out version endorsed by the European Commission).

Risk hedging operations are aimed at neutralising potential losses attributable to a specific risk and recognisable on a given element or group of elements, if that particular risk should arise.

The possible types of hedge are as follows:

- fair value hedge: a hedge to cover exposure to changes in the fair value of a recognised asset or liability or an unrecognised irrevocable commitment, or a specific portion of said asset, liability or irrevocable commitment, that is attributable to a particular risk and could influence the income statement;
- cash flow hedge: a hedge to cover exposure to changes in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or just some future interest payments on a variable-rate debt) or with a highly probable planned operation, and could influence the income statement;
- foreign exchange hedge: a hedge to cover the risks associated with an investment in a foreign company expressed in foreign currency, as defined in IAS 21.

Only instruments involving a counterparty that is external to the Bank can be designated as hedging instruments.

Given the option exercised to continue fully applying the rules of IAS 39 for hedges, it is not possible to designate equity instruments classified under Financial assets designated at fair value through other comprehensive income as items hedged for price or exchange rate risk, since such instruments do not impact the income statement, even in the event of a sale (other than for dividends recognised in the income statement).

With regard to the management of hedging operations, the type of hedge selected by the Bank ("fair value hedge") refers to specific elements (micro-hedging) consisting of debt securities at fair value through comprehensive income and deposits from customers.

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value through profit or loss.

A relationship is classified as a hedge, and accounted for as such, only if all the following conditions are met:

- the hedged item and the hedging instrument must be specifically identifiable;
- at the start of the hedge, there is a designation and formal documentation of the hedging relationship, the company's objectives in managing the risk and its strategy in carrying out the hedge. This documentation must include the identification of the hedging instrument, the hedged element or transaction, the nature of the hedged risk and how the company will assess the effectiveness of the hedging instrument in offsetting the exposure to changes in the fair value of the hedged element or of the cash flows attributable to the hedged risk;
- it is expected that the hedge will be highly effective in offsetting the changes in fair value or the cash flows attributable to the hedged risk, in line with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a scheduled operation that is covered by the hedge must be highly probable and must present exposure to changes in cash flows that could ultimately impact the income statement;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or the cash flows of the hedged element that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed as a continuing hedging relationship and is considered to have been highly effective for all the financial years for which it had been designated.

With regard to the accounting rules for hedges:

- for hedging derivatives, the change in the fair value of the hedged element is offset with the change in the fair value of the hedging instrument. This offsetting is recorded through the recognition in the income statement of the changes in value relating to both the hedged element (specifically with regard to the changes generated by the underlying risk factor) and the hedging instrument. Any difference that may arise, which represents the partial ineffectiveness of the hedge, is recognised as the net effect thereof in the income statement.

  For macro fair value hedges, the changes in fair value with regard to the hedged risk of the hedged assets and liabilities are recognised in the statement of financial position, under item 60. "Fair value change of

financial assets in hedged portfolios" or 50. "Fair value change of financial liabilities in hedged portfolio";
- for cash flow hedges, the changes in fair value of the derivative are recognised in shareholders' equity, for the effective portion of the hedge, and are recognised in the income statement only when, with regard to the hedged item, the change in cash flows to be offset can be seen or the hedge is ineffective;
- hedges that cover an investment in foreign currency are recognised in the same way as cash flow hedges.

A hedge is considered highly effective only if both the following conditions are met:
- at the start of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or the cash flows attributable to the hedged risk during the period for which the hedge is designated. This expectation can be demonstrated in various ways, including a comparison between the previous changes in fair value or the cash flows of the hedged element that are attributable to the hedged risk and the previous changes in fair value or the cash flows of the hedging instrument, or by demonstrating a high statistical correlation between the fair value or the cash flows of the hedged element and those of the hedging instrument;
- when the changes in fair value (or the cash flows) of the hedging instrument neutralise almost completely, i.e. within the limits established by the 80-125% range, the changes in the hedged instrument, for the hedged element of risk.

A company must prospectively stop accounting for fair value hedging if:
- the hedging instrument matures or is sold, terminated or exercised (to that end, the replacement or carry-over of a hedging instrument with another hedging instrument is not a conclusion or termination if said replacement or carry-over is part of the company's documented hedging strategy);
- the hedge no longer meets the hedging criteria; or
- the company revokes the designation.

If the checks do not confirm the effectiveness of the hedge, from that moment the accounting of the hedging operations, as set out above, is suspended, the hedging derivative is reclassified under trading instruments and the hedged financial instrument reassumes the measurement criteria corresponding to its classification in the financial statements. If the hedged asset or liability is measured at amortised cost, the greater or lesser value deriving from the measurement thereof at fair value as a result of the hedge that has become ineffective is recognised in the income statement using the effective interest rate method.

Lastly, a company must prospectively cease accounting for outstanding cash flow hedges in the following cases:
- the hedging instrument matures or is sold, terminated or exercised (to that end, the replacement or carry-over of a hedging instrument with another hedging instrument is not a conclusion or termination if said replacement or carry-over is part of the company's documented hedging strategy). In that case, the comprehensive profit (or loss) of the hedging instrument continues to be recognised directly in shareholders' equity until the financial year in which the hedge was effective, and is recognised separately in shareholders' equity until the scheduled transaction being hedged takes place;
- the hedge no longer meets the hedging criteria. In that case, the comprehensive profit or loss of the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is recognised separately in shareholders' equity until the scheduled transaction takes place;
- the scheduled transaction is no longer expected to take place, in which case any related comprehensive profit or loss on the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is recognised in the income statement;
- the company revokes the designation. For hedges of a scheduled transaction, the comprehensive profit or loss of the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is recognised separately in shareholders' equity until the scheduled transaction takes place or is no longer expected to take place.

5. Equity investments

This item must include holdings in subsidiaries, affiliated companies and companies subject to joint control (joint ventures) by the Bank.

Companies are considered to be subject to control if the Bank is exposed to variable returns or holds rights to such returns due to its relations with the companies, and can simultaneously affect the returns by exercising its power over them. Control only exists if all the following elements are present simultaneously:

- the power to direct the subsidiary's main activities;
- exposure to, or rights to variable returns, arising from the relation with the investee company;
- the capacity to exercise its power on the investee company, to influence the amount of its returns.

Companies are considered to be subject to significant influence (affiliates) if the Bank holds at least 20% of the voting rights (including potential voting rights) or if the Bank has a smaller share of the voting rights but can participate in determining the affiliate's financial and operational policies because of particular legal conditions such as participation in shareholder agreements.
Companies are considered to be subject to joint control if their control is shared between the Bank and one or more other parties or when the unanimous consent of all the controlling parties is necessary for decisions about significant assets.
Investments in subsidiaries and companies subject to significant influence are recognised at cost at the settlement date, adjusted as necessary to reflect impairment.
For the purposes of the information on equity investments as given in Part B to these Explanatory Notes, shareholdings are considered significant if their value represents at least 5% of the Equity investments item, or if they are held in fully-consolidated entities.
On each reporting date, any objective evidence that the investment has been impaired, is verified. The recoverable value will then be calculated by considering the discounted value of the future cash flows that the equity investment could generate, including the final disposal value. Any lesser value thus determined with respect to the book value, is recognised in the same year in the income statement under the item "Profits (Losses) on equity investments". This item also includes any future write-backs if the reasons that led to the previous write-downs no longer exist.

On each financial closing date, the Group assesses whether there are any indications of long-term loss of value of the equity investments. If such indicators do emerge, an impairment test is carried out. If the carrying amount of the equity investments exceeds the recoverable value, they will be written down to reflect the recoverable value. The recoverable value is the higher of the fair value of an asset or cash generating unit (CGU) net of the cost of sale or value in use, and is determined for each individual asset, except where that asset generates cash flows that are not largely independent of those generated by other assets or asset groups, in which case the Group will estimate the recoverable value of the CGU to which the asset belongs.

In determining the value in use, the Group discounts at present value the estimated future cash flows using the discount rate that reflects the market valuations of the time value of money and the specific risks of the business.
If the loss of value recognised in previous years no longer exists or has been reduced, a write-back is made on the income statement up to the amount of the value of the cost prior to the write-down.
Equity investments are eliminated from the financial statements when the contractual rights to the related cash flows expire, or when the investment is sold with a substantial transfer of all the related risks and benefits.

6. Property and equipment

This item includes property and equipment for functional use (IAS 16), those held for investment (IAS 40) and inventories of property and equipment (IAS 2). Property and equipment also include rights of use acquired through lease agreements relating to the use of property and equipment (for the lessee) and operating leasehold assets (for the lessor) under IFRS 16.

This item includes long-term assets held for the purpose of generating income, for leasing or for administration purposes such as land, instrumental real estate, property investments, technical installations, furniture and fittings, tools of any type, and works of art.

Property and equipment also include the costs of improvement to leasehold assets if they can be separated from the assets themselves. If these costs are not independently functional and usable but future benefits are expected, they are entered under “other assets” and are depreciated over the shortest of the foreseeable life of the improvements, and the residual term of the lease. The related depreciation is entered under “Other operating expenses/income”. The value of Property and equipment also includes any advances paid for acquisition, and the restructuring of any assets not yet included in the production process and therefore not depreciated.

Property and equipment held for the provision of services or for administration purposes are defined as “for use in the business” (IAS 16), while assets “for investment purposes” (IAS 40) are those held to collect leasing charges and/or for the appreciation of the invested capital. Property and equipment constitute inventories (IAS2) where they are held for sale in the normal course of business.

Property and equipment are recognised at the cost of acquisition, adjusted by the ancillary costs and any incremental expenses, and are presented in the financial statements net of any impairment loss and depreciation on a straight line basis from the period in which they were input into the production process. Maintenance and repair costs that do not lead to an increase in the value of the assets are charged to the income statement for the period.

Subsequent to initial recognition, property and equipment are recognised at cost net of accumulated depreciation and impairment losses. In fact, property and equipment are systematically depreciated using the straight-line method, over their useful life. The properties are depreciated for a portion deemed appropriate to represent the deterioration of the assets over time as a result of their use, taking into account extraordinary maintenance costs, which increase the value of the assets.

However, the following are not depreciated:

- the land, whether acquired individually or incorporated into the value of the buildings, as it has an indefinite useful life;
- investment property that, as required by IAS 40, is measured at fair value through profit or loss, must not be depreciated;
- inventories (IAS 2): these assets are measured at the lesser between cost and the net realisable value.

A tangible asset is eliminated from the statement of financial position at the time of disposal, or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any difference between the disposal value or recoverable amount and the book value is then recognised in the income statement respectively under the item "Profits (losses) on disposal of investments” or “Net adjustments/recoveries on property and equipment”.

In application of IFRS 16, the item property and equipment also includes the right of use referring to lease contracts on property and equipment. A lease is defined as a contract the fulfilment of which depends on the use of an identified asset, and that conveys the right to control the use of the asset for a period of time in exchange for consideration: IFRS 16, therefore, applies to all transactions that provide for a right to use the good, regardless of its contractual form. The scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

In accordance with IFRS 16, the Bank shall initially recognise an asset representing the Right of use (“ROU”) of the leased asset, together with a liability represented by the present value of the expected future lease payments over the life of the lease contract (the "Lease Liability") discounted at the implicit rate of the transaction (if determinable); if the rate cannot be easily determined, the lessee shall instead use the incremental borrowing rate (IBR). The ROU is, therefore, initially determined by increasing the Lease Liability of the initial direct costs incurred by the lessee.

With regard to measurements following the initial recognition of lease contracts, the lessee must measure the ROU on the basis of a cost model; therefore:

- the right of use was depreciated over the term of the contract or the useful life of the asset (on the basis of IAS 16) and is subject to impairment;
- the liability was progressively reduced due to the effect of the lease payments and the relevant interest expenses recognised and attributed separately to the income statement.

7. Intangible assets

Non-monetary identifiable non-physical assets held to be used over several years or for an indefinite period, are termed intangible. They are generally represented by software and the rights to use intellectual property, trademarks and other intangible assets. They are recognised at the cost of purchase adjusted for any ancillary costs only if the future economic benefits attributable to the asset are likely to be realised and if the cost of the asset can be reliably determined. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. Intangible assets also include rights of use acquired through lease agreements relating to the use of intangible assets under IFRS 16.

They are only recognised if the assets can be identified and originate from legal or contractual rights. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. An intangible asset is identifiable if:

- it is separable, in other words it can be separated or divided and sold, transferred, given under licence, leased or exchanged;
- it derives from contractual or other legal rights regardless of whether those rights can be transferred or separated from other rights and obligations.

The asset can be controlled by the company as a result of past events on the assumption that through its use, the company will receive economic benefits. The company has control of an asset if it has the power to use the future economic benefits arising from that asset and it can also limit access to those benefits by third parties. An intangible asset is recognised as such if:

- it is probable that the company will receive future economic benefits from that asset;
- the cost of the asset can be reliably measured.

The probability that there will be future economic benefits is assessed by representing the best estimate of all the economic conditions that will exist during the useful life of the asset, taking into account the available sources of information at the time of initial recognition.
For assets with a definite life, the cost is amortised on a straight line basis. Assets with an indefinite useful life, if existing, are not systematically amortised but undergo a periodic test to check the adequacy of the recognition value.
If there is any indication that demonstrates that an asset may have suffered an impairment of value, its recovery value is estimated. The amount of the loss, recognised in the income statement under the item “Net adjustments/recoveries on intangible assets” is equal to the difference between the asset’ carrying amount and its recoverable value.
Intangible assets are categorised as goodwill, which is the positive difference between the cost of purchase and the fair value of the assets and liabilities belonging to an acquired entity. Whenever there is a loss in value, and in any case at least once a year, a check is carried out to ensure there are no long-term value impairments. For this purpose the CGU to which the goodwill should be allocated, will be identified. The CGU is the minimum level at which the goodwill is monitored for internal operational purposes and must not be greater than the operating segment determined in accordance with IFRS 8.
Any reduction in value is determined on the basis of the difference between the recognition value of the goodwill and its recovery value, if lower. The recovery value is equal to the higher of the fair value of the CGU, net of any costs of sale, and the related value in use. The value in use is the current value of the future cash flows expected from the CGU to which the goodwill was attributed.

In order to verify the adequacy of goodwill value, the impairment test is carried out, governed by accounting standard IAS 36 – Impairment of Assets, which provides that, at least on an annual basis and, in any case, whenever events arise that suggest a potential impairment, a test must be carried out to verify the adequacy of the goodwill value subject to recognition. The impairment test is carried out identifying the units generating financial flows to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any impairment losses must be recognised in the income statement, they are not susceptible to future value recoveries.
The value of intangible assets having a specific duration is systematically amortised starting from the inclusion of such assets in the production process. An intangible asset is therefore eliminated from the statement of financial position (i) at the time of disposal, (ii) when it is fully amortised or (iii) when future economic benefits are not expected. Any difference between the disposal value or recoverable amount and the carrying amount is recognised in profit or loss respectively under the item "Profits (losses) on disposal of investments" or "Net adjustments/recoveries on intangible assets"
With reference to the methods of recognition of leases pertaining to intangible assets in accordance with IFRS 16, see the paragraph referring to property and equipment.

8. Non-current assets held for sale and discontinued operations

"Non-current assets and asset groups held for sale" are classified under assets, while "Liabilities associated with non-current assets held for sale and discontinued operations", non-current assets or asset/liability groups for which a sale process has been initiated and whose sale is considered highly likely, are classified under liabilities.

Such assets/liabilities are valued at the lower of carrying amount and fair value net of disposal costs, with the exception of certain kinds of asset (e.g. financial assets falling within the scope of application of IFRS 9), for which IFRS 5 specifies that the valuation criteria of the pertinent accounting standard must be applied.

Non-current assets and asset groups may be included in portfolios of assets for which there are no prices on an active market. In that case, they should be valued at fair value, referring, if an agreement has been reached with the purchasing counterparty, to the sale prices resulting from said agreement; in the absence of an agreement, specific valuation techniques should be applied depending on the asset, potentially making use of external fairness opinions.

Income and expense (net of tax effect), attributable to asset groups held for sale or recognised as such during the course of the financial year, are recognised in the income statement under a separate item.

9. Current and deferred taxes

Income taxes, calculated in accordance with current tax regulations, are recognised in the income statement according to the accruals principle, in line with the recognition of the costs and revenues that generated them, apart from those relating to entries debited or credited directly to shareholders' equity, for which the recognition of the related taxes is done in shareholders' equity, for the sake of consistency. Current and deferred taxes are recognised in the income statement under the item "Income tax for the year of continuing operations", with the exception of those taxes that refer to items that are credited or debited, in the same or another year, directly to shareholders' equity, such as, for example, those relating to profits or losses on financial assets at fair value through comprehensive income and those relating to changes in the fair value of financial derivative instruments hedging cash flows, whose changes in value are recognised, after taxes, directly in the Statement of Comprehensive Income, among the Valuation Reserves.
Provisions for income taxes are determined on the basis of the provision of the current tax burden, the advance taxes and the deferred taxes.
In general, deferred tax assets and liabilities arise in cases where the deductibility or taxability of the cost or income is deferred with respect to their accounting recognition. Deferred tax assets and liabilities are recognised according to the tax rates that, as of the reporting date, are expected to be applicable in the year in which the asset will be realised or the liability will be extinguished, based on current tax legislation and are periodically reviewed in order to take into account any regulatory changes.
Deferred tax assets are recognised only to the extent that they are expected to be recovered through the production of sufficient taxable income by the entity. In accordance with IAS 12, the likelihood of future taxable income sufficient for the use of deferred tax assets is subject to periodic review. If the aforementioned review reveals that future taxable income is insufficient, the deferred tax assets are correspondingly reduced.

Deferred tax assets and liabilities are recognised in the statement of financial position in open balances without set-offs, the former being included in "tax assets" and the latter in "tax liabilities". Any deferred tax liabilities payable on capital reserves under tax suspension are not recognised, as it can reasonably be considered that there will be no operations that will result in their being taxed.

10. Allowances for risks and charges

Commitments and guarantees given

Allowances for risks and charges against commitments and guarantees given are recognised against all commitments and guarantees, revocable and irrevocable, whether they fall within the scope of IFRS 9 or within the scope of IAS 37. For these cases, the same allocation methods are adopted, in principle, between the three stages (credit risk stages) as well as the same calculation methods of the expected losses shown with reference to financial assets measured at amortised cost or the fair value through other comprehensive income.

Post-employment benefits

Post-employment benefits are set up to reflect company agreements and are classified as defined benefit plans. The liabilities relating to these plans and the welfare cost of current workers are determined according to actuarial assumptions, applying the "Unit Credit Projection" method, which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. The contributions paid in each year are considered as separate units and are identified and valued individually for the purposes of determining the final obligation. The discounting rate used is determined according to the market returns recognised on the measurement date, for the obligations of leading companies taking into account the liability's average residual life. The current value of the obligation on the reporting date is also adjusted by the fair value of any assets servicing the plan.
Actuarial gains and losses (which are changes in the current value of the obligation arising from changes in the actuarial assumptions are recognised as counterpart to shareholders' equity under the item "Valuation reserves" and shown on the statement of comprehensive income.

Other Allowances

Other Allowances for risks and charges include provisions for legal obligations and those relating to employment relations or disputes, including tax disputes, originating from a past event, for which an outlay of financial resources is probable in order to fulfil the obligations, but for which a reliable estimate of the amount cannot be made.

Therefore an allowance is recognised if, and only if:
- there is a current legal or implied obligation resulting from a past event;
- it is probable that funds designated to produce economic benefits will have to be used to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as an allowance represents the best estimate of the cost required to fulfil the obligation on the reference date and reflects any risks and uncertainties that characterise multiple events and circumstances.
If the temporal value of money is a relevant aspect, the amount of the provision must be discounted at a rate, inclusive of the fiscal effects, which reflects the market valuations of the passage of time on the value of the liabilities and which takes into account the specific risks of the liability itself (IAS 37 - 45, 47). The allowance and the increases due to the time factor are recognised in the income statement.
The provision is reversed if the use of funds designed to produce economic benefits is improbable, or when the obligation is discharged. A provision is used only for the charges for which it was originally recorded.
The allocation for the year, recorded under the item "Net allocations to allowances for risks and charges: b) other net provisions" of the income statement, includes increases in provisions due to the passage of time and is net of any adjustments.
This item also includes long-term employee benefits, the cost of which is determined using simplified actuarial criteria compared to those described for the pension funds. Actuarial gains and losses are immediately recognised in the income statement.

11. Amounts due to customers

This item includes financial instruments, other than trading liabilities and those designated at fair value, representative of the various forms of supply of funds from third parties (loans, repurchase agreements, securities lending and bonds) and includes: (i) amounts due to banks, (ii) amounts due to customers, and (iii) securities issued. The item includes operational payables with the exception of those to providers of services and goods, and lease liabilities.
These financial liabilities are initially recognised on the contractual settlement date which is normally the time of receipt of the sums collected, or the issue of the debt securities.

Initial recognition is based on the fair value of the liabilities, normally corresponding to the amount received or the issue price, adjusted for any additional costs/income directly attributable to the individual supply or issue transaction. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

After initial recognition these financial liabilities are measured at the amortised cost using the effective interest rate method. Accrued interest is shown in the item "Interest expense and similar charges" if negative, or in the item "interest income and similar income" if positive.

Securities issued are measured at amortised cost using the effective interest rate method and they are presented net of any repurchased share. In the case of operations in own shares, the difference between the cost of repurchasing the securities issued and the value of the amortised cost is charged to the income statement. The subsequent sale of securities previously repurchased is, for accounting purposes, a new placement and therefore there is a change in the average carrying cost of the related liabilities and of the corresponding effective interest.

Liabilities are derecognised when they have expired or been discharged. They are also derecognised if there is a repurchase, even temporary, of previously issued securities.

Any difference between the carrying value of the discharged liability and the amount paid is registered in the income statement under the item "Profits (loss) on disposal or repurchase of: c) financial liabilities". If, after the repurchase, the treasury shares are returned to the market, this operation is considered as a new issue and the liability is recognised at the new placement price.

12. Financial liabilities held for trading

The financial instruments in question are recognised as of the subscription date or the issue date, at a value equal to the fair value of the instrument, without considering any transaction costs or income directly attributable to the instruments themselves.

This category of liabilities includes, in particular, trading derivatives with negative fair value, as well as any implied derivatives with negative fair value that are separated from liabilities valued at amortised cost.

All trading liabilities are valued at fair value, with the result of the valuation recognised in the income statement.

Financial liabilities held for trading are removed from the financial statements when the contractual rights relating to the relevant cash flows expire, or when the financial liability is sold, with the essential transfer of all risks and benefits derived from the ownership thereof.

13. Financial liabilities designated at fair value

As of 31 December 2023 the Bank does not hold financial liabilities measured at fair value.

14. Foreign currency transactions

Foreign currency transactions are recognised at the time of settlement, at the exchange rate for the transaction at the amount in the original currency. Foreign currency assets and liabilities are converted at the spot exchange rates in force on the closing date (ECB official average).

“Off balance sheet” transactions are valued:

- at the spot exchange rate on the closing date if they are cash transactions not yet settled;
- at the forward exchange rate on the above date, for maturities corresponding to those of the valued operations, if they are forward transactions.

Foreign exchange differences arising from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of the previous financial statements, are recognised in the income statement in the period in which they arise.

15. Other information

Impairment of financial instruments

According to IFRS 9, the following assets are subject to impairment provisions:

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income other than equity instruments;
- commitments to lend funds and guarantees issued that are not measured at fair value through profit or loss;
- contractual activities resulting from operations covered by the scope of application of IFRS 15.

The quantification of “Expected Credit Losses” (ECL), which are expected losses to be recorded as write-downs/write-backs on the income statement, is determined according to whether or not there is a significant increase in the credit risk of a financial instrument compared to the risk determined on the date of initial recognition.

For that purpose, instruments subject to impairment regulations are usually associated to different stages, which have different criteria to quantify write-downs/write-backs:

- if there is no significant increase in the credit risk compared to the initial recognition, the financial instrument is kept in stage 1 and is written down by the amount of the loss expected over 12 months (or the expected loss resulting from a default on the asset considered possible within 12 months from the date of the reference period);
- if there is a significant increase in the credit risk compared to the initial recognition, the financial instrument is classified in stage 2 or in stage 3 if the instrument is non-performing, and a write-down is recorded equal to the amount of the expected lifetime loss (or the expected loss resulting from a default on the asset considered possible during its life cycle).

An exception to this are the “Purchased or originated credit impaired financial assets”, so-called POCI, dealt with in the next point of this paragraph.
Any significant increase in credit risk is identified on a case by case basis, using quali-quantitative criteria.

The criteria adopted by the Bank to understand the significant increase in credit risk are shown below.

- Quantitative criteria
  a) Negative change in the rating class (so-called delta notch).
- Qualitative criteria
  a) Rebuttable presumption – 30 days past due;
  b) Forbearance;
  c) POCI;
  d) Watchlist.

For more detailed information on the criteria adopted by the Bank to understand the significant increase in credit risk, reference is made to Part E of the Explanatory Notes to these Financial Statements.
Once the financial assets have been classified in the different Stages, for each exposure, it is necessary to determine the relative write-downs/write-backs following the logic of Expected Credit Loss ("ECL"), using appropriate calculation models. The principle on which the ECL is based is to create a connection between improvement or worsening of the risk profile of the exposure compared to the date of initial recognition in the financial statements, respectively with the increase or decrease in the provision funds.
For more detailed information on the criteria adopted by the Bank for the calculation of expected losses on loans classified in stage 1 and stage 2, refer to Part E of the Explanatory Notes to these Financial Statements.

Estimate of expected losses on non-performing positions (stage 3)

Non-performing positions are usually evaluated using analytical techniques. The criteria for estimating the adjustments to be made to non-performing loans are based on the discounting of expected cash flows taking into account any supporting guarantees, and any advances received. The fundamental elements in determining the current value of the cash flows are the identification of the estimated receipts, the related due dates, and the discounting rate to be applied. The amount of the adjustment is equal to the difference between the book value of the asset and the current value of the expected future cash flows, discounted at the original effective interest rate, which is updated as necessary in the case of a variable-rate instrument or, for positions classified as bad loans, at the effective interest rate in force on the date of transition to bad loan status.
Depending on the seriousness of the impairment and the materiality of the exposure, estimates of the recovery value will be based on a going concern approach which assumes that the counterparty's business will continue and will continue to generate cash flows, or alternatively on a gone-concern approach. The gone-concern approach is based on the assumption that the business that leads to the only source of cash available to recover the debt, will cease trading and that the underlying guarantees will be called on.

With particular regard to "bad loan" positions, the analytical assessment rules include forward-looking elements:

- in estimating the percentage of reduction in value of the real estate given as guarantee (estimated on the basis of the updated valuation reports or the report of the Court-appointed Expert);
- by introducing recovery scenarios for specific exposures, considering that they are expected to be sold within a reasonable period of time to a third party in order to maximise the cash flow and also based on a specific strategy for managing non-performing loans. Therefore, the estimated expected losses of such positions reflects not only recovery of the debt through ordinary management of the loan but also the presence of a suitably adjusted sale scenario and therefore, of the cash flows arising from this operation.

For more information on the criteria adopted by the Bank for the calculation of expected losses on positions classified in stage 3, refer to the contents of Part E of the Explanatory Notes.

Purchased or originated credit impaired financial assets (POCI)

Under IFRS 9, loans considered to be non-performing right from initial recognition due to the high level of associated credit risk, are termed Purchased or Originated Credit Impaired Assets (POCI). POCI also include loans acquired as part of sale operations (individual or portfolio sales) and business combinations.
Such loans, when included in the impairment perimeter for the purposes of IFRS 9, are valued by allocating, from the initial recognition date, provisions to cover the losses along the entire lifetime of the loan (Expected Credit Loss lifetime). As these are non-performing loans, the initial recognition takes place in stage 3, but

they may be moved during their lifetime to stage 2 if they are no longer impaired, based on an analysis of the credit risk.

These assets are not identified under a specific financial statement item but are classified according to the business model in which the asset is managed, under the following headings:

- "Financial assets measured at fair value through comprehensive income";
- "Financial assets measured at amortised cost".

In terms of the initial recognition, measurement and derecognition criteria, refer to the criteria mentioned in the respective items.
Interest income must be calculated by applying the effective interest rate on the net value of the instrument (therefore also considering expected losses on loans) for POCI.
As for POCI, in some cases the financial asset is considered to be non-performing at the time of initial recognition because the credit risk is very high and in the case of acquisition, it has been acquired at a significant discount. In this case it is necessary to include in the cash flow estimates the expected losses on initial receivables for the purpose of calculating the credit-adjusted effective interest rate (also called "adjusted credit") for financial assets that are considered non-performing financial assets purchased or originated at the time of initial recognition.

Treasury shares

Treasury shares are recognised as a direct reduction of shareholders' equity.

Accruals and deferrals

Items that include costs and income pertaining to the period, accruing on assets and liabilities, are recognised as an adjustment to the assets and liabilities to which they refer.

Costs of leasehold improvements

The costs of refurbishing non-proprietary real estate are capitalised in consideration of the fact that the lessee has control of the property throughout the term of the rental agreement, and can derive future economic benefits from it. The aforementioned costs, classified under Other assets as they are not included in the scope of IFRS 16, as required by the Bank of Italy Instructions, are amortised over a period that never exceeds the duration of the rental agreement.

Employee benefits

Employee benefits are any type of remuneration paid by the company in exchange for work done by employees. Employee benefits are classified as:

1. short-term benefits (other than those due to employees for the termination of employment contract, and share ownership benefits), which are expected to be paid in full within twelve months from the end of the year in which the employees did the work, and are recognised entirely in the income statement at the time of accrual (this category includes wages and salaries, and overtime);
2. post-employment benefits due after termination of the working relationship, which require the company to make future payments to staff. This type of benefit includes employee severance pay and pension fund which in turn can be divided into defined-contribution plans and defined-benefit plans or company pension schemes;
3. early retirement benefits, which are payments made by the company to employees in return for termination of the employment contract following the employee's decision to retire earlier than the normal retirement date;
4. long-term benefits other than the above, which are not expected to be paid in full within twelve months after the end of the year in which the employees did the work.

Employee severance pay

Employee severance pay ("TFR") is defined, under IAS 19 "Employee benefits" as a "post-employment benefit".
Pursuant to the 2007 Finance Act, which brought forward to 1 January 2007 the supplementary pension reforms in Italian Legislative Decree no. 252 of 5 December 2005, amounts accruing from 1 January 2007 must be allocated, at the discretion of the employee, either to a supplementary pension fund or be kept

within the company. For companies with at least 50 staff, the benefits must be transferred by the company to a fund managed by INPS. The obligation towards employees is considered a:

1. "defined contribution plan" for employee severance pay accruing from 1 January 2007 (the date of entry into force of the supplementary pension reforms in Italian Legislative Decree no. 252 of 5 December 2005) whether the employee opts for a supplementary pension fund or whether the provision is allocated to the INPS Treasury fund. For these amounts, the amount recognised under personnel expenses is determined on the basis of the contributions due, without applying actuarial calculation methods;
2. "defined benefit plan" recognised according to the actuarial value determined according to the unitary credit projection method, for the amount of employee severance pay accruing up until 31 December 2006.

According to this method, the amount already accrued must be increased by the current service cost, which is projected into the future until the expected date of termination of the contract, and therefore discounted to the reference date. The current service cost is also determined on the basis of the employee's expected working life.
However in this specific case, the past liability is valued without applying the prorate of the services rendered, as the service cost ("service cost") of the TFR is already accrued in full. The annual provision thus only includes the "interest cost" pertaining to the revaluation of the service expected, as a result of the passage of time.
For discounting purposes, the rate used is determined on the basis of the market yield of the bonds of leading companies taking into account the average residual life of the liabilities, weighted according to the percentage of the amount paid and advanced, for each due date, compared to the total to be paid and advanced until the whole bond is completely discharged.
The costs of servicing the plan are recognised under personnel expenses, while the actuarial gains and losses are recognised on the statement of comprehensive income.

Share-based payments

Share-based personnel remuneration plans are recorded in the income statement, with a corresponding increase in shareholders' equity, based on the fair value of the financial instruments attributed on the assignment date, dividing the burden over the period provided for by the plan. In the presence of options, the fair value of the same is calculated using a model that considers, in addition to information such as the exercise price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, as well as the specific characteristics of the existing plan. In the valuation model, the option and the probability of realisation of the conditions under which the options were assigned are assessed separately. The combination of the two values provides the fair value of the allocated instrument. Any reduction in the number of financial instruments allocated shall be accounted for as derecognition of part of them.

Recognition of revenues for commission income

The basic principle of IFRS 15 provides for the recognition of revenues when the transfer of control over the contractual goods or services takes place, at an amount that reflects the price that the company receives or expects to receive from the sale (IFRS15-31).

For the purposes of recognising these revenues on the accounts, there is a five-step process:

- Identification of the contract: contract for the sale of goods or services (or a combination of contracts);
- Identification of the performance obligations in the contract;
- Determination of the transaction price: the transaction price of the contract is defined by taking into account its various components;
- Allocation of price to the contract "performance obligations;
- Recognition of income when (or to the extent to which) the performance obligation has been fulfilled.

Business combinations

The accounting standard applicable to business combinations is IFRS 3.
The transfer of control of a company (or of a group of integrated assets and goods, which are managed as a single unit) constitutes a business combination.

Control is considered to have been transferred when the investor is exposed to variable returns or holds rights to such returns due to its relations with the investee company, and can simultaneously affect the returns by exercising its power over the investee.

Identifying the acquirer

IFRS 3 requires that for all business combinations an acquirer is identified. This is the person who obtains the control of another entity, in the sense of the power to determine that entity's financial and operational policies in order to receive benefits from its activities. If there are business combinations that determine the exchange of shareholdings, the acquirer's identification will be based on factors such as:

1. the number of new ordinary voting shares that will make up the capital of the existing company, post-combination;
2. the fair value of the businesses that participate in the combination;
3. the composition of the new corporate bodies;
4. the entity that issues the new shares.

Determining the cost of the combination

The price transferred in a business combination operation must be determined as a sum of the fair value, on the date of the exchange, of the assets transferred, the liabilities incurred or accepted and the equity instruments issued by the acquirer in exchange for control.

The price transferred by the acquirer in exchange for the acquired entity includes any asset or liability resulting from an agreement on the potential price, to be recorded on the acquisition date based on the fair value. The transferred price may be modified if additional information arises, about facts and events existing on the acquisition date and which can be recognised during the measurement period of the business combination (twelve months from the date of acquisition, as specified below). Any other change arising from any events or circumstances after the acquisition, such as a change for the vendor, linked to the achievement of certain income targets, must be recognised in the income statement.

The costs of the acquisition, including intermediation fees, advisory, legal, accounting and professional expenses, and general administration costs, are recognised in the income statement when they are incurred.

Segment reporting

The operating segment of the Bank is identified on the basis of IFRS 8 Operating Segments. This standard requires that information is given about the valuations made by company management in the aggregation of the operating segments, by describing the aggregated segments and performance measures used to determine that the aggregated segments have similar economic characteristics. As regards the above, reference is made to Part L – Segment reporting.

The fair value of financial instruments

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal operation between market operators (in other words, not a forced liquidation or sale below cost) on the valuation date. The fair value is a market valuation criterion, not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

For financial instruments, the fair value is determined by using the market prices, in the case of instruments listed on active markets, or by using valuation models for the other financial instruments. A market is considered active if the listed prices, representing actual, regular market operations carried out during an appropriate reference period, are readily and regularly available on stock exchanges, through intermediaries, companies in the sector, pricing services or authorised entities.

The measurement method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market conditions.

Mutual open-end investment funds are considered to be listed on an active market, together with the equivalent investment instruments, spot and forward exchange transactions, futures, options and securities listed on a regulated market. Bonds for which at least two "executable" prices are continuously available on a pricing service are also considered to be listed on an active market, if the difference between the demand and supply price is below a range considered to be fair.

Instruments that do not fall into the above categories are not considered to be listed on an active market.

For financial instruments listed on active markets, the reference prices are used, namely the official closing prices or the prices of liquidation of the contract (always recorded at the end of the trading on the last market trading day in the reference period).

Units in mutual investment funds and similar instruments are valued on the basis of the prices given by the management companies, on dates consistent with the prices of the underlying financial instruments.

With regard to the determination of the fair value of funds not listed on official markets, the fund's latest available net asset value (NAV), as communicated by the asset management company, constitutes the main benchmark to be taken into consideration in the valuation, to which can be added an additional level of liquidity discount, depending primarily on the characteristics of the assets invested by the fund itself, in order to align the fair value of the instruments recognised in the financial statements with the price, pursuant to IFRS 13, at which a potential third-party investor would be prepared to buy units of the fund (i.e. the "exit price").

If there is no active, liquid market, the fair value of the financial instruments is mainly determined by using valuation techniques aimed at establishing the price of a hypothetical independent transaction motivated by normal market considerations, on the valuation date. In incorporating all the factors considered by the operators when setting the price, the valuation models take into account the financial value of time at the risk free rate, the risks of insolvency, early payment and redemption, volatility of the financial instrument and, applicable, the exchange rates, prices of raw materials and share prices.

For bonds and derivatives, valuation models have been defined that refer to current market values of substantially identical instruments, to the financial value of time and to options pricing models, by making reference to specific elements of the entity being valued and considering the market-observable criteria. These criteria are identified and applied in view of the liquidity, depth and observability of the reference markets, and the changes in the credit ratings of counterparties and issuers.

Tax credits connected with the "Cura Italia" and "Rilancio" Decrees

Decree Laws 18/2020 (Cura Italia) and 34/2020 ("Rilancio") introduced tax incentives which are commensurate with a percentage of expenditure incurred, and are disbursed as tax credits or tax deductions. Most of the tax credits covered by the tax incentives may be sold to third parties, that will use them according to specific applicable regulations. In fact these receivables are tax credits arising from incentives of which the use, unlike receivables arising from the payment of excess taxes, is governed by the provisions that introduce them.
The receivables in question may be used to offset taxes and contributions or may be further sold to third parties. None of the receivables in question may be refunded (wholly or in party) directly by the State. Moreover, receivables may be used, as applicable, for offsetting, without the possibility of carrying forward or requesting a refund for the part not offset in the reference year due to insufficient balances.

As indicated in the Document of the Bank of Italy/Consob/Ivass no. 9, once acquired from a third party, the specific aspects of the receivables do not allow for them to be immediately attributable to a specific international accounting standard: in fact these receivables are excluded from the provisions of IAS 12 "Income taxes" as they do not come under the taxes that cover the company's ability to generate income; they do not come under the definition of government grants given in IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", as ownership of the receivable as regards the Revenue Agency only arises following the payment of an amount to the assignor; IFRS 9 Financial Instruments is not directly applicable, as the assets comprising the tax credits acquired do not originate from a contract between the assignee and the Italian government; lastly, IAS 38 "Intangible assets" does not apply as the tax credits in question cannot be considered as monetary assets, allowing for the payment of tax payables usually settled in cash. Therefore reference must be made to the provisions of IAS 8, which establish the following: In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is a) relevant for the economic decisions of users; and b) reliable [...]".

Based on these considerations, the Bank considered the following approach applicable:

a. *Initial recognition*: the tax credit is recognised at the time of purchase, for a value corresponding to its fair value, within the item "Other assets";
b. *Subsequent measurement*: application of IFRS 9, which provides for measurement at amortised cost.

With reference to the economic effects of income and expenses arising from the purchase and use of tax credits, this method reflects how financial instruments are managed at amortised cost.

Tax consolidation

illimity Bank S.p.A. has opted to be a part of the national tax consolidation scheme for Corporate Income Tax (IRES), as provided for in Articles 117-129 of the Consolidated Income Tax Act (TUIR). Under this scheme, the taxable income or tax losses of each company which is consolidated are transferred to the consolidating company - along with excess amounts of ACE (economic aid for growth), withheld taxes, tax deductions and receivables - for which a single taxable income or a single tax loss to carry forward is calculated, corresponding to the algebraic sum of the taxable income or tax losses of each company.

Regulations on national tax consolidation establish optional take-up, which is binding for three financial years (with automatic renewal) and is allowed for companies between which control exists as contemplated in Article 2359, paragraph 1) no. 1 of the Italian Civil Code.

A.3 Information on transfers between portfolios of financial assets

There were no such transfers in 2022.

A.4 Information on fair value

Qualitative information

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Assessment of non-contributed shares and equity instruments

This section provides a summary, divided by type of instrument, of the measurement techniques used for instruments classified as having a level 2 and level 3 fair value.

Measurement of structured loan products

Items classified as level 3 are shares and equity instruments without market value contributions and for which it is not possible to identify transactions, in particular with reference to the M&A market, that, due to the time from the measurement date or nature of said provide significant information on the instruments being measured, nor are measurement techniques based on observable market multiples applicable.

In these cases, the measurement technique uses estimates of expected cash flows of the assessed entity and their expected value at the measurement date is determined.

Significant exposures in non-contributed shares and equity instruments are, currently, ancillary to loan transactions, therefore the measurement techniques are consistent with the models used to measure loan transactions that evaluate the subject's capacity to repay the entire liability, including equity instruments and shares.

Measurement of loans

The characteristics of loans measured at fair value result in their failing the SPPI test. In fact, illimity does not hold loans for trading. Loans are mainly measured using the discounted cash flow method. That technique is supplemented with the enterprise value measurement method of the debtor (e.g. multiples and comparable transactions) when the loan characteristics mean that its value depends on the value of the company. That dependence is normally due to the convertibility of the loan into equity or its degree of subordination.

Measurement of structured loan products

Structured loan products are attributable to two groups. The first concerns the subordinated tranches of securitisations of NPL portfolios, while the second concerns securitisations of performing underlyings structured by illimity and held with the eventual intention to sell, in line with an HTCS business model.

In the first case the exposures are part of an investment strategy that involves the subscription of the senior quota by the bank; as well as the subscription of part of the subordinate (mezzanine or junior) tranches.

The starting point for the valuation is the purchase transaction, in which the price is determined by analysing the debtor's capacity to repay firstly the senior portion and thereafter the subordinate tranches, according to a waterfall mechanism. This capacity is therefore monitored during payments in order to confirm expectations of recovery predicted during the origination stage.

In the second case, as these are floating-rate senior notes of securitisation, the performance of the collateral is periodically assessed and the strength of the structure in confirming the initial recognition price or applying a write down where necessary.

The measurement includes prudent assumptions on the capacity of the underlying to generate cash flows, preferring an inclusion of expected cash flows when there is a high probability of their occurrence.

Valuation of OTC derivatives

Over The Counter (OTC) derivatives, whose value cannot be directly observed on the market, are valued using specific models and inputs pursuant to the asset class and the characteristics of the specific financial product. The valuation of OTC derivatives takes into consideration, as well as the market variables to which the instruments are sensitive, the specific risks pertaining to the counterparties with which they are traded, in particular:

- for transactions negotiated within a netting and margining agreement (CSA), the counterparty risk is considered non-material and the valuation of the instruments is based exclusively on the underlying risk factors, in accordance with the principle of non-arbitrage;
- for transactions negotiated without a netting and margining agreement, the valuation is carried out by adding the valuation of the instrument, as if it were subject to netting and margining, to the adjustments associated with the counterparty risk (i.e. credit valuation adjustment and debt valuation adjustment).

Derivatives in place at the end of the financial year are primarily allocated, on the underlying basis, to the interest rate and foreign exchange rate classes. For both classes, the prevalent model adopted is the discounting cash flow model, with the addition of the Black & Scholes model for the valuation of caps and floors.

Valuation of closed-end funds

The units in closed-end mutual funds held by the Group are valued periodically at fair value, in accordance with the rules set out by IFRS 13, based on specific methodologies that take into account the nature and type of the funds' underlying assets, and also with reference to the net asset value periodically provided by the asset management company.

The valuation may also include a dedicated liquidity discount, depending primarily on the characteristics of the assets invested by the fund itself, in order to align the fair value of the instruments recognised in the financial statements with the price at which a potential third-party investor would be prepared to buy units of the fund (i.e. the "*exit price*").

The table below shows information about the measurement models and non-observable inputs for assets and liabilities measured at level 3 fair value.

Financial assets	Valuation method	Principal non-observable input
Securities and loans	Discounting Cash Flows	-
ABSs	Discounting Cash Flows	Recovery Rate/Credit Spread
Equity	Direct transactions	-
Fund units	NAV with any liquidity discount	-

A.4.2 Processes and sensitivity of valuations

For a description of the process to measure instruments classified as having a level 3 fair value, reference is made to section A.4.1.

The table below shows the sensitivity of assets and liabilities valued at level 3 fair value with regard to one or more non-observable parameters. Data are reported for instruments measured using models that allow for analysis.

Financial assets	Non-observable parameters	Sensitivity (thousands of euros)	Change in non-observable parameter
FVTPL securities	Credit spread	(6)	1 bp
FVTPL securities	Recovery rate	(209)	(1%)

A.4.3 Fair value hierarchy

For transfers between the various fair value levels, the Group uses the following principles:

- the presence or absence of a price on a regulated market;
- the presence or absence of a price on a non-regulated market, or of one or more counterparties willing to commit to price the stock;
- the quantity of the financial instrument held, such that would allow the forecast, or not, of a negative fluctuation in its valuation or price;
- new elements on which a new methodology could be based;
- the timing (date of the event or change, start and end of year) will be common to all the changes among the various valuation classes.

For securities held at fair value level 2:

- no transfers have been made between different fair value levels;
- the method used was the market price (Bloomberg BGN bid on the last available day), without making any modifications or adjustments;
- as the financial instruments are only debt instruments (bonds) at fixed or variable rates, this method reflects the trends in market interest rates and the risk level associated with the instruments' counterparties and issuers;
- this is the same measurement method used last year, for the same securities.

For securities held at fair value level 3:

- no transfers have been made between different fair value levels;
- in the absence of prices on active markets and without any other elements such as the financial statements, the cost method is the only method that approximates the security's fair value.

To summarise the characteristics of the different fair value levels:

Level 1

The measurement is based on observable inputs or listed prices (without adjustment) on active markets for identical assets or liabilities, which the entity can access on the measurement date. The presence of official prices on active market, namely a market where the listed prices reflect ordinary operations (not forced, readily and regularly available), is the best evidence of fair value. These prices are the prices to be used preferentially, for the purposes of an accurate measurement of these financial instruments (the Mark to Market Approach). To determine the fair value of financial instruments listed on an active market, the market prices on the last day of the financial year are used.

Level 2

The measurement takes place using methods used if the instrument is not listed on an active market, and is based on inputs other than those for Level 1. The measurement of the instrument is based on prices taken from the market prices for similar assets, or using measurement techniques whereby all the significant factors are deduced from market-observable parameters. The pricing is non-discretionary as the main parameters used are drawn from the market and the calculation methods replicate the prices on active markets. If there is no active market, the estimation methods will be based on the measurement of listed instruments with similar characteristics, on the amounts recognised in recent comparable transactions, or by using measurement models that discount future cash flows, also taking into account all the risk factors connected to the instruments, and which are based on market-observable data.

Level 3

The measurement methods will value a non-listed instrument using significant non-market observable data and therefore they require the adoption of estimates and assumptions by management (the "Mark to Model Approach").
With reference to the instruments classified at level 3, a sensitivity analysis was carried out which showed that the changes in fair values are not material.

A.4.4 Other information

As of the reporting date there is no information to be given in relation to IFRS 13, paragraphs 51, 93 (i), 96 as:

- there are no assets measured at fair value on the basis of "highest and best use";
- there was no measurement of fair value at the level of total portfolio exposure to take into account the set-off of credit risk and market risk for a certain group of financial assets or liabilities (an exception ex IFRS 13, para. 48).

Quantitative information

A.4.5 *Fair value* hierarchy

Below is the information required by IFRS 7, for portfolios of financial assets and liabilities measured at *fair value* based on the three-level hierarchy illustrated above.

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by levels of fair value

Financial assets / liabilities measured at fair value	31/12/2023			31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	25,898	706,160	2,078	31,117	211,901
a) financial assets held for trading	-	25,898	19	-	31,117	29
b) financial assets at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	706,141	2,078	-	211,872
2. Financial assets measured at fair value through other comprehensive income	405,860	45,145	5,638	373,950	-	17,760
3. Hedging derivatives	-	21,393	-	-	29,874	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**405,860**	**92,436**	**711,797**	**376,028**	**60,990**	**229,661**
1. Financial liabilities held for trading	-	19,476	-	-	27,244	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	19,770	-	-	32,646	-
Total	**-**	**39,246**	**-**	**-**	**59,890**	**-**

Key:

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

Instruments that are measured to a significant extent on the basis of non-observable parameters (Level 3) amount to 58% of the total financial assets measured at *fair value*, and on the reporting date are mainly represented by investments classified in the portfolio of *"Financial assets mandatorily measured at fair value"*, referable to the Distressed Credit and Growth Credit divisions.

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				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**211,901**	**29**	**-**	**211,872**	**17,760**	**-**	**-**	**-**
2. Increases	**610,505**	**1,986**	**-**	**608,519**	**5,625**	**-**	**-**	**-**
2.1. Purchases	595,230	1,986	-	593,244	5,547	-	-	-
2.2. Gains recognised in:	15,275	-	-	15,275	-	-	-	-
2.2.1. Income Statement	15,275	-	-	15,275	-	-	-	-
- of which capital gains	14,899	-	-	14,899	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	78	-	-	-
3. Decreases	**116,246**	**1,996**	**-**	**114,250**	**17,747**	**-**	**-**	**-**
3.1. Sales	71,173	1,906	-	69,267	17,717	-	-	-
3.2. Repayments	33,729	-	-	33,729	-	-	-	-
3.3. Losses recognised in:	11,344	90	-	11,254	-	-	-	-
3.3.1. Income Statement	11,344	90	-	11,254	-	-	-	-
- of which capital losses	11,207	90	-	11,117	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	30	-	-	-
4. Closing balance	**706,160**	**19**	**-**	**706,141**	**5,638**	**-**	**-**	**-**

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

There are no liabilities measured at fair value on a recurring basis (level 3).

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by levels of fair value

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2023				31/12/2022			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	5,099,579	624,830	55,243	4,411,515	4,454,122	451,776	2,993	4,001,622
2. Property and equipment held for investment								
3. Non-current assets and groups of assets held for disposal	48,386			48,386				
Total	**5,147,965**	**624,830**	**55,243**	**4,459,901**	**4,454,122**	**451,776**	**2,993**	**4,001,622**
1. Amounts due to customers	6,201,748	594,669		5,590,007	5,390,323	630,404		4,737,298
2. Liabilities associated with non-current assets held for sale and discontinued operations								
Total	**6,201,748**	**594,669**	**-**	**5,590,007**	**5,390,323**	**630,404**	**-**	**4,737,298**

Key:

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

For the other financial instruments recognised at amortised cost and mainly classified among credits to banks or customers and among the financial liabilities, a fair value has been determined for the purposes of the Explanatory Notes, as required by the reference accounting standard, IFRS 7.

A.5 Information on “day one profit/loss”

According to paragraph 28 of IFRS 7, it is necessary to provide evidence of the “day one profit or loss” to be recognised on the income statement at year end, together with a reconciliation compared to the initial balance. “Day one profit or loss” refers to the difference between the fair value of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined on that date using a valuation technique.

There are no cases that require reporting in this section.

Part B – Information on the statement of financial position

ASSETS

Section 1 - Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2023	Total 31/12/2022
a) Cash and cash equivalents	1	1
b) Current accounts and on-demand deposits with central banks	367,350	670,373
c) Current accounts and on-demand deposits with banks	25,570	6,135
Total	**392,921**	**676,509**

The sub-item "b) On-demand deposits with Central Banks" records the liquidity deposited with the Bank of Italy.

Section 2 - Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown

Items/Values	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	-	-	18	-	-	29
4. Green Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**18**	**-**	**-**	**29**
B. Derivatives						
1. Financial derivatives	-	25,899	-	-	31,117	-
1.1 held for trading	-	25,899	-	-	31,117	-
1.2 connected to the fair value soption	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**25,899**	**-**	**-**	**31,117**	**-**
Total (A+B)	**-**	**25,899**	**18**	**-**	**31,117**	**29**

Key:

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

2.2 Financial assets held for trading: borrower/issuer/counterparty breakdown

Items/Values	Total 31/12/2023	Total 31/12/2022
A. CASH ASSETS		
1. Debt securities	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. Units of UCIs	18	29
4. Green 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)	**18**	**29**
B. DERIVATIVE		
0	-	-
b) Others	25,899	31,117
Total (B)	**25,899**	**31,117**
Total (A+B)	**25,917**	**31,146**

2.3 Financial assets at fair value: breakdown by product type

The Bank does not hold financial assets at fair value.

2.4 Financial assets at fair value: breakdown by borrower/issuer

The Bank does not hold financial assets at fair value.

2.5 Other financial assets mandatorily measured at fair value: breakdown

Items/Values	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**138,259**	**1,980**	**-**	**158,117**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	138,259	1,980	-	158,117
2. Equity securities	**-**	**-**	**4,291**	**-**	**-**	**9,115**
3. Units of UCIs	**-**	**-**	**528,626**	**98**	**-**	**20,640**
4. Green Loans	**-**	**-**	**34,965**	**-**	**-**	**24,000**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	34,965	-	-	24,000
Total	**-**	**-**	**706,141**	**2,078**	**-**	**211,872**

Key:

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

Financial assets mandatorily measured at fair value through profit and loss as of 31 December 2023 with level 3 fair value amounted to EUR 706.1 million and consisted primarily of units of UCIs for EUR 528.6 million, a considerable increase on the comparative figure due to asset transformations carried out in 2023 by the Distressed Credit Division, and to the subscription of the units of a fund by the b-ilty Division.

This item also includes loans relating to operations attributable to the Growth Credit Division for EUR 35 million..

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

	Total 31/12/2023	Total 31/12/2022
1. Equity securities	**4,291**	**9,115**
of which: banks	-	-
of which: other financial companies	-	-
of which: other non-financial companies	4,291	9,115
2. Debt securities	**138,259**	**160,097**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	32	477
d) Other financial companies	138,160	158,017
of which: insurance companies	-	-
e) Non-financial companies	67	1,603
3. Units of UCIs	**528,626**	**20,738**
4. Green Loans	**34,965**	**24,000**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	34,965	24,000
f) Households	-	-
Total	**706,141**	**213,950**

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 type

Items/Values	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**405,860**	**45,145**	**5,172**	**373,950**	**-**	**17,741**
1.1 Structured securities	3,902	-	-	4,673	-	-
1.2 Other debt securities	401,958	45,145	5,172	369,277	-	17,741
2. Equity securities	**-**	**-**	**466**	**-**	**-**	**19**
3. Green Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**405,860**	**45,145**	**5,638**	**373,950**	**-**	**17,760**

Key:

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

The debt securities in the financial statement item were issued by governments (EUR 254.5 million), credit institutions (EUR 83.5 million), financial companies (EUR 75.1 million) and non-financial companies (EUR 43 million).

Equity instruments classified as "Financial assets measured at fair value through other comprehensive income (IAS)" are represented by equity holdings not qualifying as investments in subsidiaries, associates or joint ventures.

3.2 Financial assets measured at fair value through comprehensive income: breakdown by borrower/issuer

Items/Values	Total 31/12/2023	Total 31/12/2022
1. Debt securities	**456,177**	**391,691**
a) Central banks	-	-
b) Public administrations	254,544	222,047
c) Banks	83,485	77,485
d) Other financial companies	75,149	44,546
of which: insurance companies	-	-
e) Non-financial companies	42,999	47,613
2. Equity securities	**466**	**19**
a) Banks	-	-
b) Other issuers:	466	19
- other financial companies	11	11
of which: insurance companies	-	-
- non-financial companies	455	8
- other	-	-
3. Green Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**456,643**	**391,710**

3.3 Financial assets measured at fair value through comprehensive income: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs				Total partial write-offs
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired	
Debt securities	456,759	331,074	-	1,497	363	1,525	-	917	-	-
Green Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2023	**456,759**	**331,074**	**-**	**1,497**	**363**	**1,525**	**-**	**917**	**-**	**-**
Total 31/12/2022	**393,235**	**241,955**	**768**	**-**	**-**	**2,017**	**295**	**-**	**-**	**-**

With regard to the approach used in the representation of the gross amount and total write-downs/write-backs of non-performing financial assets, refer to Part A - Accounting policies.

Section 4 - Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

Type of operations/Values	Total 31/12/2023						Total 31/12/2022					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	-	-	-	X	X	X	-	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**112,442**	**-**	**-**	**-**	**-**	**112,442**	**57,213**	**-**	**-**	**-**	**-**	**50,675**
1. Green Loans	112,442	-	-	-	-	112,442	57,213	-	-	-	-	50,675
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Time deposits	71,164	-	-	X	X	X	22,884	-	-	X	X	X
1.3. Other loans:	41,278	-	-	X	X	X	34,329	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Others	41,278	-	-	X	X	X	34,329	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**112,442**	**-**	**-**	**-**	**-**	**112,442**	**57,213**	**-**	**-**	**-**	**-**	**50,675**

Key:

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

The obligations to maintain the Compulsory reserve are fulfilled indirectly through BFF Bank S.p.A., with the balance recognised in the sub item "Time deposits".

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of operations/ Values	Total 31/12/2023						Total 31/12/2022					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
1. Green Loans	**2,441,180**	**137,201**	**421,776**	**-**	**-**	**2,972,241**	**2,049,933**	**41,047**	**570,545**	**-**	**-**	**2,694,084**
1.1. Current accounts	18,958	4,259	22,890	X	X	X	17,388	5,076	39,572	X	X	X
1.2. Reverse Repurchase agreements	60,940	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	327,466	11,604	361,060	X	X	X	214,634	7,379	364,916	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	1,129	-	2	X	X	X	940	53	-	X	X	X
1.5 Loans for leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	571,919	2,393	-	X	X	X	467,067	2,859	-	X	X	X
1.7. Other loans	1,460,768	118,945	37,824	X	X	X	1,349,904	25,680	166,057	X	X	X
2. Debt securities	**1,330,486**	**14,202**	**642,292**	**624,830**	**55,243**	**1,326,832**	**1,002,493**	**2,693**	**730,198**	**451,776**	**2,993**	**1,256,863**
1. Structured securities	-	2,691	-	-	2,993	-	-	2,693	-	-	2,993	-
2. Other debt securities	1,330,486	11,511	642,292	624,830	52,250	1,326,832	1,002,493	-	730,198	451,776	-	1,256,863
Total	**3,771,666**	**151,403**	**1,064,068**	**624,830**	**55,243**	**4,299,073**	**3,052,426**	**43,740**	**1,300,743**	**451,776**	**2,993**	**3,950,947**

Legend:

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

The sub-item “Other performing debt securities” primarily includes government bonds for EUR 585 million, as well as securities connected to securitisation operations relating to the Distressed Credit Division.

The “Purchased or originated impaired (POCI) financial assets” item under “Debt securities” also includes EUR 12.2 million relating to the Growth Credit Division and EUR 630 million of securities relating to the Distressed Credit Division.

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

Type of operations/Values	Total 31/12/2023			Total 31/12/2022		
	Stage one and Stage two	Stage three	Assets purchased or originated impaired	Stage one and Stage two	Stage three	Assets purchased or originated impaired
1. Debt securities	**1,330,486**	**14,202**	**642,292**	**1,002,493**	**2,693**	**730,198**
a) Public administrations	585,009	-	-	428,309	-	-
b) Other financial companies	704,628	11,511	631,646	530,092	-	719,587
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	40,848	2,691	10,646	44,092	2,693	10,611
2. Loans to:	**2,441,180**	**137,201**	**421,776**	**2,049,933**	**41,047**	**570,545**
a) Public administrations	11,935	3,393	-	11,030	3,099	-
b) Other financial companies	263,421	16	1,679	282,006	13	7,025
of which: insurance companies	2,405	-	-	468	-	-
c) Non-financial companies	2,107,441	131,619	397,010	1,708,925	35,922	507,948
d) Households	58,383	2,173	23,087	47,972	2,013	55,572
Total	**3,771,666**	**151,403**	**1,064,068**	**3,052,426**	**43,740**	**1,300,743**

4.4 Financial assets measured at amortised cost: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs				Total partial write-offs
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired	
Debt securities	1,333,599	668,668	-	15,042	659,377	3,112	-	840	17,085	-
Green Loans	2,273,375	522,556	292,639	168,243	421,776	9,630	2,762	31,043	-	-
Total 31/12/2023	**3,606,973**	**1,191,223**	**292,639**	**183,285**	**1,081,153**	**12,743**	**2,762**	**31,882**	**17,085**	**-**
Total 31/12/2022	**3,020,583**	**879,068**	**103,599**	**63,944**	**1,302,878**	**11,869**	**2,674**	**20,204**	**2,135**	

With regard to the approach used in the representation of the gross amount and total write-downs/write-backs of non-performing financial assets, refer to Part A - Accounting policies.

Regarding existing loans as of 31 December 2023 that constitute new liquidity granted through mechanisms of public guarantees issued in relation to the COVID-19 context, the following situation is noted:

- that type of loans classified in Stage 1 and in Stage 2 of risk amounted to a gross total of EUR 643 million, for total adjustments/recoveries of EUR 3 million;
- that type of loans classified in Stage 3 of risk amounted to a gross total of EUR 82 million, for total adjustments/recoveries of EUR 4.7 million.

There were no loans of that type classified among "purchased or originated impaired" assets.

Section 5 - Hedging derivatives - Item 50

5.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2023			NV 31/12/2023	Fair Value 31/12/2022			NV 31/12/2022
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value	-	21,393	-	195,000	-	29,874	-	195,000
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**21,393**	**-**	**195,000**	**-**	**29,874**	**-**	**195,000**

Legend:

NV = Nominal Value

L1 = Level 1

L2 = Level 2

L3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolios and by type of hedge

Operations/Type of hedge	Fair Value							Cash flows		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and share indices	currencies and gold	credit	goods	other				
1. Financial assets measured at fair value through other comprehensive income	21,393	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**21,393**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 - Fair value change of financial assets in hedged portfolios - Item 60

The Bank has no generic hedging operations.

Section 7 - Equity investments - Item 70

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Shareholding %	Votes %
A. Wholly-owned subsidiaries				
1. Soperga RE S.r.l.	Milan	Milan	100%	100%
2. Friuli LeaseCo S.r.l.	Milan	Milan	100%	100%
3. Doria LeaseCo S.r.l.	Milan	Milan	100%	100%
4. River LeaseCo S.r.l.	Milan	Milan	100%	100%
5. ARECneprix S.p.A.	Milan	Milan	100%	100%
6. illimity SGR S.p.A.	Milan	Milan	100%	100%
7. Pitti LeaseCo S.r.l.	Milan	Milan	100%	100%
8. River Immobiliare S.r.l.	Milan	Milan	100%	100%
9. Aporti S.r.l.	Milan	Milan	66.7%	66.7%
10. Pitti SPV S.r.l.	Milan	Milan	100%	100%
11. Friuli SPV S.r.l.	Milan	Milan	100%	100%
12. Doria SPV S.r.l.	Milan	Milan	100%	100%
13. River SPV S.r.l.	Milan	Milan	100%	100%
14. SpicyCo 2 S.r.l.	Milan	Milan	100%	100%
15. Abilio S.p.A.	Faenza	Faenza	82%	82%
16. Dagobah SPV S.r.l.	Milan	Milan	100%	100%
17. Dagobah LeaseCo S.r.l.	Milan	Milan	100%	100%
18. Kenobi SPV S.r.l.	Milan	Milan	100%	100%
19. Mida RE S.r.l.	Milan	Milan	100%	100%
20. Sileno SPV S.r.l.	Milan	Milan	100%	100%
21. Ortensia SPV S.r.l.	Milan	Milan	100%	100%
22. Montes SPV S.r.l.	Milan	Milan	100%	100%
23. Montes LeaseCo S.r.l.	Milan	Milan	100%	100%
24. Mia SPV S.r.l.	Milan	Milan	100%	100%
B. Jointly-owned associates				
25 Hype S.p.A.	Biella	Biella	50%	50%
C. Companies in which significant influence is exercised				
26. SpicyCo S.r.l.	Milan	Milan	49%	49%

illimity acquired a 50% stake in Hype, as part of a joint venture with the Sella Group. The partnership was established at the beginning of 2021, with the aim of creating and developing a digital platform for financial and payment services that is more innovative than traditional banking models. The price paid was defined by the parties based on the partnership's shared growth and development goals.

Due to the life cycle stage of the company and of the joint venture project on which the investment is based, at the time the stake in Hype was acquired, no intangible assets could be identified that were distinguishable from goodwill, i.e. from the overall expectations of the future economic benefits generated by the investment in the context of the partnership.

As required by IAS/IFRS, the equity investment was tested for impairment to check for objective evidence that its recognition value may not be fully recoverable. If the test shows a recoverable value that is less than the book value, the difference constitutes an impairment loss to be recognised in the income statement by aligning the book value with the recoverable value determined.

For the purposes of the impairment test, the recoverable value is defined as the greater of value in use and fair value net of sales costs. Value in use expresses the current value of the future cash flows expected to be generated by the continued use of the asset. Fair value represents the price that would be received for the sale of the asset in a regular transaction between market operators on the valuation date, less sales costs.

Pursuant to IAS 36, it is not always necessary to determine both configurations of recoverable value, if one of the two is greater than the book value. It is therefore sufficient for at least one of the two configurations of recoverable value to be greater than the book value for the impairment test to be considered to have been passed.

Criteria for the determination of value in use

The value in use was determined using the *Discounted Dividend Model*, in the *"Excess Capital"* variant, commonly used in valuation practices in the financial industry, on the basis of which the economic value is equal to the sum of the following elements:

- the current value of the dividends potentially available for distribution over a certain period of time, maintaining a minimum level of capitalisation consistent with the growth of the business and with the regulatory requirements;
- the current value of a perpetual yield defined on the basis of a sustainable dividend for the years following the planning period.

For the purposes of the impairment test as of 31 December 2023, the prospective financial information used to determine the value in use was inferred from the financial position as of 31 December 2023 and the 2024-2028 prospective data relating to the subsidiary.

In order to corroborate the results of the impairment test achieved by estimating the value in use, the fair value net of sales costs was also estimated, using (i) the Stock Market Multiples method and (ii) the Transaction Multiples method.

Estimates of cash flows

To extrapolate the cash flows beyond the analytical forecasting period, consideration was given to the market context in which the forward-looking scenario is defined.

With regard to the impairment test as of 31 December 2023 (consistent with the methodology adopted in the previous financial year), the projections for the key economic, financial and regulatory data and KPIs for Hype took into account the factors and assumptions that form the basis of the 2024-2028 Strategic Plan drawn up by the Group's management. The test also took into account a two-year phase of convergence of the growth rate (observed in the last year of explicit planning) towards the long-term sustainable rate, assumed to be equal to the expected rate of inflation for the Italian market.

In order to determine the terminal value, the cash flows for the last year of the analytical forecast were projected in perpetuity based on a growth factor g determined as the average rate of growth of Italy's nominal GDP, which is equal to 2%. Lastly, the cash flows were defined by considering fulfilment of the minimum capital requirements in relation to the specific reference regulation. Specifically, from a prudential perspective, a capital requirement equal to 130% of the regulatory minimum was used, with a buffer of 30%.

Cash flow discounting rate

In determining the value in use, cash flows have to be discounted at a rate that reflects the current market valuations, the current value of money, and the specific risks of the business. In the case of a banking business, it is estimated using the *"equity side"* approach, which means considering only the cost of own capital (Ke), in line with the method used to determine the cash flows which, as mentioned, include the cash flows from the financial assets and liabilities.

The cost of capital was determined by using the *"Capital Asset Pricing Model"* (CAPM). According to that model, the cost of capital is determined as the sum of the return on risk-free investments and of a risk premium, which in turn depends on the specific risk of the activity (which means the risk level of the operating unit and the geographical risk level, which is the so-called "country risk").

The cost of capital is determined after taxes, to be consistent with the discounted cash flows. As the cash flows have been determined in nominal terms, the discounted rates have also been determined in the same way, in other words by incorporating the expectations on inflation.

Looking in detail at the various components that go towards determining the discounting rate, the following decisions were made:

1. as regards the risk free rate, the average monthly yield (average of the preceding 6 months) on 10-year Italian government bonds (BTP) was used;
2. with regard to the *market risk premium*, which represents the premium that an investor would require when investing in the equities market compared to the risk-free rate, the data in the international databases generally used for such valuations, were utilised;
3. with regard to the beta coefficient, which measures the specific risk of an individual company, this was determined by identifying a sample of comparable businesses (in terms of business), and the average beta recorded was then utilised by means of weekly observations over a five-year period.

The Ke discounting rate used for the impairment test for the year ending 31 December 2023 was 14.45% (13.87% as of 31 December 2022).

Results of the impairment tests

The results of the impairment test showed a value in use of the subsidiary that is considerably higher than its carrying amount. Therefore, no write-down was necessary for the purposes of the financial statements for the year ended 31 December 2023.

The criteria and information used for the impairment tests are significantly influenced by the macroeconomic scenario and by the trends on the financial markets, which could show changes that are not currently foreseeable. If the macroeconomic scenario does deteriorate compared to the current forecast, this would impact the estimates of cash flows and the main assumptions, which could lead to results other than those prospected in these accounts, over the coming years.

7.2 Significant shareholdings: book values, fair values and dividends received

Name	Book value	Dividends received
A. Wholly-owned subsidiaries		
1. Soperga RE S.r.l.	10	-
2. Friuli LeaseCo S.r.l.	10	-
3. Doria LeaseCo S.r.l.	10	-
4. River LeaseCo S.r.l.	10	-
5. ARECneprix S.p.A.	44,926	-
6. illimity SGR S.p.A.	4,055	-
7. Pitti LeaseCo S.r.l.	10	-
8. River Immobiliare S.r.l.	10	-
9. Aporti S.r.l.	11	-
10. Pitti SPV S.r.l.	14	-
11. Friuli SPV S.r.l.	14	-
12. Doria SPV S.r.l.	14	-
13. River SPV S.r.l.	14	-
14. SpicyCo 2 S.r.l.	10	-
15. Abilio S.p.A.	14,773	-
16. Dagobah SPV S.r.l.	10	-
17. Dagobah LeaseCo S.r.l.	64	-
18. Kenobi SPV S.r.l.	14	-
19. Mida RE S.r.l.	10	-
20. Sileno SPV S.r.l.	10	-
21. Ortensia SPV S.r.l.	10	-
22. Montes SPV S.r.l.	10	-
23. Montes LeaseCo S.r.l.	42	-
24. Mia SPV S.r.l.	10	-
B. Jointly-owned associates		
25. Hype S.p.A.	99,696	-
C. Companies in which significant influence is exercised		
26. SpicyCo S.r.l.	5	-
Total	**163,773**	**-**

In 2022, the Bank entered into a receivable sale agreement with the special-purpose vehicle COLT SPV for the recourse sale, en bloc, of a portfolio of performing loans to corporate counterparties originated by illimity. COLT SPV is a vehicle incorporated pursuant to Law 130/1999, which, on 19 December 2022, issued senior, mezzanine and junior notes for a total value of EUR 570.1 million. All three tranches were fully subscribed by illimity.
During the course of 2023 the Bank subscribed additional notes issued by the vehicle for a total of approximately EUR 138 million.
This transaction falls under transactions without derecognition ("self-securitisations") typically aimed at expanding the portfolio of assets that can be set aside to constitute a liquidity reserve that can be activated through funding transactions, repos or other transactions. For further details, please refer to the information on self-securitisation operations included in Section E of these financial statements.

In 2022, the Bank subscribed several minibond issues of leading industrial companies, to favour the energy transition and improve issuers' sustainability profiles. Mainly for the purpose of mitigating the risk relating to the Bank's exposure, it was agreed to give priority to issues of minibonds that could benefit from guarantees such as those from SACE and the EIF. It was thus verified, through legal assessments, that the minibonds benefiting from those guarantees cannot be transferred to third parties or to any securitisation vehicle established pursuant to Law 130/99 specifically due to the framework agreements of the guarantors.
In February 2023, the Bank thus structured a synthetic securitisation with the vehicle Energia Sostenibile SPV, established pursuant to Law 130/1999, not held by illimity, which issued single tranche notes fully subscribed by illimity. Using the funds deriving from illlimity's (the sole noteholder) subscription of the single tranche notes, the SPV disbursed a limited recourse loan, of which illimity is the sole borrower,

whose characteristics were exactly replicated from the minibonds at the single closings (in terms of interest, redemptions, economic terms and conditions, etc.).
This transaction falls under transactions without derecognition ("self-securitisations") typically aimed at expanding the portfolio of assets that can be set aside to constitute a liquidity reserve that can be activated through funding transactions, repos or other transactions. For further details, please refer to the information on self-securitisation operations included in Section E of these financial statements.

7.3 Significant shareholdings: accounting information

The information in this Paragraph is not provided pursuant to the provisions of Circular 262.

7.4 Non-significant shareholdings: accounting information

The Bank does not hold such shareholdings as of the reporting date.

7.5 Equity investments: annual changes

	Total 31/12/2023	Total 31/12/2022
A. Opening balances	**155,041**	**113,895**
B. Increases	**44,461**	**54,946**
B.1 Purchases	8,111	39,729
- from business combinations	-	35,729
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	36,350	15,217
C. Decreases	**35,729**	**13,800**
C.1 Sales	-	-
- from business combinations	-	-
C.2 Write-downs/write-backs	-	-
C.3 Depreciation	-	-
C.4 Other changes	35,729	13,800
D. Closing balance	**163,773**	**155,041**
E. Total revaluations	**-**	**-**
F. Total write-downs	**-**	**-**

The sub-item B.1 Acquisitions includes the additional investment in Hype S.p.A., which took place during 2023, and the acquisitions of shareholdings primarily of certain SPVs used for the operations of the Distressed Credit Division.

The sub-item B.4 Other positive changes and the sub-item C.4 Other negative changes include the effects of the merger by incorporation of AREC S.p.A. into neprix s.r.l. with the creation of Arecneprix S.p.A.

Section 8 - Property and equipment – Item 80

8.1 Property and equipment with functional use: breakdown of assets measured at cost

Assets/Values	Total 31/12/2023	Total 31/12/2022
1. Proprietary assets	**687**	**747**
a) land	-	-
b) buildings	-	-
c) furniture and fittings	320	435
d) electronic systems	348	293
e) others	19	19
2. Rights of use acquired through lease agreements	**20,692**	**21,261**
a) land	-	-
b) buildings	19,477	20,472
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	1,215	789
Total	**21,379**	**22,008**
of which: obtained by enforcement of guarantees received	-	-

8.2 Property and equipment held for investment: breakdown of assets measured at cost

The Bank does not hold such assets as of the reporting date.

8.3 Property and equipment with functional use: breakdown of revalued assets

The Bank does not hold such assets as of the reporting date.

8.4 Property and equipment held for investment: breakdown of assets measured at fair value

The Bank does not hold Property and Equipment held for investment measured at fair value as of the reporting date.

8.5 Inventories of property and equipment governed by IAS 2: breakdown

The Bank does not hold these items as of the reporting date.

8.6 Property and equipment with functional use: annual changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total
A. Gross opening balance	**-**	**26,488**	**1,422**	**1,500**	**2,252**	**31,662**
A.1 Total net write-downs	-	6,016	987	1,207	1,444	9,654
A.2 Opening net balance	**-**	**20,472**	**435**	**293**	**808**	**22,008**
B. Increases:	**-**	**1,367**	**25**	**190**	**963**	**2,545**
B.1 Purchases	-	114	25	175	963	1,276
- from business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	1,254	-	15	-	1,269
C. Decreases:	**-**	**2,362**	**140**	**135**	**537**	**3,174**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Depreciation	-	2,242	140	135	518	3,035
C.3 Write-downs/write-backs from impairment charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Foreign exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property and equipment held for investment	-	-	X	X	X	-
b) non-current assets and groups of assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	120	-	-	19	139
D. Closing net balance	**-**	**19,477**	**320**	**348**	**1,234**	**21,379**
D.1 Total net write-downs	-	8,258	1,127	1,342	1,962	12,689
D.2 Gross closing balance	-	27,735	1,447	1,691	3,196	34,068
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

8.7 Property and equipment held for investment: annual changes

The Bank does not hold such assets as of the reporting date.

8.8 Inventories of property and equipment governed by IAS 2: annual changes

The Bank does not hold these items as of the reporting date.

8.9 Commitments to purchase property and equipment

The Bank did not hold such commitments as of the reporting date.

Section 9 - Intangible assets – Item 90

9.1 Intangible assets: breakdown

Assets/Values	Total 31/12/2023		Total 31/12/2022	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**21,643**	**X**	**21,643**
A.2 Other intangible assets	**66,979**	**-**	**54,386**	**-**
of which: software	65,915	-	53,024	-
A.2.1 Assets measured at cost:	66,979	-	54,386	-
a) Intangible assets generated internally	10,977	-	5,481	-
b) Other assets	56,002	-	48,905	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**66,979**	**21,643**	**54,386**	**21,643**

Legend

DEF: definite useful life
INDEF: indefinite useful life

Impairment Tests

The estimate of the value in use, for impairment testing purposes, of intangible assets with an indefinite life (including goodwill), that do not generate cash flows unless with the contribution of other company assets, in line with provisions in IAS 36, requires the preliminary allocation of such intangible assets to organisational units that are fairly autonomous in management terms, that can generate flows of financial resources widely independent of those produced by other areas of activities, but interdependent within the organisational unit generating them. These units are known as *Cash Generating Units* (CGU).

According to IAS 36, when identifying whether incoming cash flows originating from an asset (or group of assets) are widely independent of those arising from other assets (or groups of assets), the entity considers various factors, including the way in which company management controls the operations of the entity or how company management takes decisions on keeping the goods and assets of the entity operational or on their disposal.

In line with provisions in IAS 36, the level at which goodwill is tested must be correlated with the level of *reporting* within which management controls the dynamics that increase and decrease this value. Under this profile, the definition of such a level depends closely on the organisational models and allocation of management responsibilities for the purposes of defining guidance for operating activities and consequent monitoring. The organisational models may leave aside the structure of the legal entities through which operations take place and, very often, are closely related to the definition of operating segments used in the segment reporting contemplated in IFRS 8.

IAS 36 and IFRS 8 require that one factor to be considered when identifying CGUs is the organisation of the information system determined by the entity, to allow *management* to assess the results achieved by the various sectors of the business in order to take strategic decisions.

As the organisational model adopted by illimity Bank is not structured by legal entity, as the adoption of strategic decisions by illimity's *management* takes place at Group level, overall, and not at the level of individual *legal entity*, and as the activities performed by the investees are strictly functional to the activities performed directly by the parent company, the CGUs are identified under a broader scope which coincides with the one used as a reference for the consolidated financial reports . Thus the impairment test performed a consolidation level is also relevant for the individual financial reports, in order to verify the value for the recognition of goodwill that emerged at the time of the *allocation* by SPAXS (the company which merged with illimity on 5 March 2019) of the purchase price of EUR 21.6 million for Banca Interprovinciale, and of the controlling interests.

In light of the above, the impairment testing carried out for the purposes of preparing the Consolidated Financial Statements was considered valid also with reference to the Separate Financial Statements. Where there is a write-down of the goodwill for a certain CGU on the consolidated financial reports, that write-down must be attributed on the individual financial reports to the assets of the same CGU, not tested individually, namely goodwill and the controlling interests.

For a description of the criteria used to determine the CGU and procedures for goodwill impairment testing, reference is made to Part B - Intangible assets of the Explanatory Notes to the Consolidated Financial Statements.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**21,643**	**7,723**	**-**	**66,011**	**-**	**95,377**
A.1 Total net write-downs	-	2,242	-	17,106	-	19,348
A.2 Opening net balance	**21,643**	**5,481**	**-**	**48,905**	**-**	**76,029**
B. Increases	**-**	**7,431**	**-**	**21,517**	**-**	**28,948**
B.1 Purchases	-	4,759	-	20,729	-	25,488
- from business combinations	-	-	-	-	-	-
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	2,672	-	788	-	3,460
C. Decreases	**-**	**1,935**	**-**	**14,420**	**-**	**16,355**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Write-downs/write-backs	-	1,935	-	12,023	-	13,958
- Amortisation	X	1,935	-	12,023	-	13,958
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	2,397	-	2,397
D. Closing net balance	**21,643**	**10,977**	**-**	**56,002**	**-**	**88,622**
D.1 Total net write-downs/write-backs	-	4,177	-	29,130	-	33,307
E. Gross closing balance	**21,643**	**15,154**	**-**	**85,132**	**-**	**121,929**
F. Valuation at cost	-	-	-	-	-	-

Key

DEF: definite useful life

INDEF: indefinite useful life

9.3 Intangible assets: other information

The following information is provided in accordance with IAS 38:

1. there are no revalued intangible assets nor impediments to the distribution of the related gains to shareholders;
2. there are no intangible assets acquired through government concession;
3. there are no intangible assets provided as a guarantee to secure own liabilities nor commitments to buy such assets;
4. there are no leases pertaining to intangible assets.

Section 10 – Tax assets and tax liabilities – Item 100 of assets and Item 60 of liabilities

Prepaid tax assets amounted to approximately EUR 57 million as of 31 December 2023, down from the EUR 67 million recognised as of 31 December 2022. Details of the breakdown of tax assets are shown below.

10.1 Deferred tax assets: breakdown

	Total 31/12/2023	Total 31/12/2022
– As a contra entry to the income statement	40,863	42,185
– As a contra entry to shareholders' equity	16,387	24,898
Total	**57,250**	**67,083**

Main deductible temporary differences: IRES	31/12/2023	31/12/2022
Depreciation of loans and receivables with customers	772	1,150
Tax losses	-	-
Write-down of securities HTCS	13,542	20,619
Goodwill	30,203	31,851
Others	2,631	2,139
Total	**47,148**	**55,759**

Main deductible temporary differences: IRAP	31/12/2023	31/12/2022
Depreciation of loans and receivables with customers	95	142
Write-down of securities HTCS	2,743	4,176
Goodwill	6,118	6,451
Others	1,147	555
Total	**10,102**	**11,324**

10.2 Deferred tax liabilities: breakdown

As regards tax liabilities, relating to deferred taxes, as of 31 December 2023 they amounted to Euro 1.3 million, compared to Euro 0.9 million as of 31 December 2022.

Main taxable temporary differences: IRES	31/12/2023	31/12/2022
Revaluation of securities HTCS - FVOCI	91	8
Others	1,146	755
Total	**1,237**	**763**

Main taxable temporary differences: IRAP	31/12/2023	31/12/2022
Revaluation of securities HTCS - FVOCI	19	2
Others	-	129
Total	**19**	**131**

Deferred tax liabilities are recognised to reflect the temporary differences between the book value of an asset or liability, and its fiscal value. This recognition takes place in accordance with current tax laws.

10.3 Changes in deferred tax assets (through profit or loss)

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**42,185**	**32,170**
2. Increases	**3,313**	**16,024**
2.1 Deferred tax assets recognised during the year	3,313	16,024
a) related to previous years	-	2,989
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) others	3,313	13,035
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- from business combinations	-	-
3. Decreases	**4,635**	**6,009**
3.1 Deferred tax assets cancelled during the year	4,635	5,961
a) reversals	4,292	5,961
b) write-downs of non-recoverable items	-	-
c) changes in accounting criteria	-	-
d) others	343	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions:	-	48
a) conversion into tax credits pursuant to Italian Law no. 214/2011	-	-
b) other	-	48
- from business combinations	-	-
4. Final amount	**40,863**	**42,185**

Deferred tax assets other than those convertible into tax credits (Article 2, paragraph 55 *et seq.* of Italian Legislative Decree no. 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences.

The rates used for advance taxes for IRES and IRAP purposes are 27.50% (including additional IRES) and 5.57% respectively.

10.3 bis Changes in deferred tax assets pursuant to Italian Law no. 214/2011

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**1,292**	**1,488**
2. Increases	**-**	**-**
- from business combinations	-	-
3. Decreases	**425**	**196**
3.1 Reversals	425	196
3.2 Conversion into tax credits	-	-
a) arising from losses for the year	-	-
b) arising from tax losses	-	-
3.3 Other reductions	-	-
4. Final amount	**867**	**1,292**

10.4 Changes in deferred tax liabilities (through profit or loss)

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**2**	**236**
2. Increases	**1,143**	**-**
2.1 Deferred tax liabilities recognised during the year	412	-
a) related to previous years	412	-
b) due to changes in accounting criteria	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	731	-
- from business combinations	-	-
3. Decreases	**-**	**234**
3.1 Deferred taxes derecognised during the year	-	234
a) reversals	-	234
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
- from business combinations	-	-
4. Final amount	**1,145**	**2**

10.5 Changes in deferred tax assets (recognised in shareholders' equity)

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**24,898**	**4,726**
2. Increases	**-**	**21,554**
2.1 Deferred tax assets recognised during the year	-	21,554
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	-	21,554
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- from business combinations	-	-
3. Decreases	**8,511**	**1,382**
3.1 Deferred tax assets cancelled during the year	8,511	1,382
a) reversals	8,511	791
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting criteria	-	-
d) others	-	591
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
- from business combinations	-	-
4. Final amount	**16,387**	**24,898**

10.6 Changes in deferred taxes (recognised in shareholders' equity)

	Total 31/12/2023	Total 31/12/2022
1. Initial amount	**891**	**377**
2. Increases	**99**	**544**
2.1 Deferred tax liabilities recognised during the year	99	544
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	99	544
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- from business combinations	-	-
3. Decreases	**881**	**30**
3.1 Deferred taxes derecognised during the year	881	30
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	881	30
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
- from business combinations	-	-
4. Final amount	**109**	**891**

10.7 Other information

Current taxes for the year and for prior years, where unpaid, are recognised as liabilities; any surplus paid in terms of an advance on the amount due, is recognised as an asset. The current fiscal liabilities (assets) for the current year and for prior years are determined at the value expected to be paid/recovered from the tax authorities, applying the current tax rates and regulations. Current fiscal assets and liabilities are derecognised in the year in which the assets are realised or the liabilities are discharged. The tables below show the amounts of the current fiscal assets and liabilities.

Current fiscal assets: breakdown

Type of operations/Values	31/12/2023	31/12/2022
Deferred taxes paid to tax authority	-	6,613
Withholding taxes	18	74
Other receivables from the Treasury	346	222
Total	**364**	**6,908**

Current fiscal liabilities: breakdown

Type of operations/Values	31/12/2023	31/12/2022
Balance for the previous year	32,629	16,064
Provision for taxes	21,616	32,629
Withdrawals to pay taxes	(32,629)	(16,064)
Other changes	-	-
Total	**21,616**	**32,629**

Section 11 - Non-current assets and groups of assets held for disposal and associated liabilities – Item 110 of assets and Item 70 of liabilities

11.1 Non-current assets and asset groups held for sale: breakdown by asset type

	Total 31/12/2023	Total 31/12/2022
A. Assets held for sale		
A.1 Financial assets	48,386	-
A.2 Equity investments	-	-
A.3 Property and equipment	-	-
of which: obtained by enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total (A)	**48,386**	**-**
of which measured at cost	48,386	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property and equipment	-	-
of which: obtained by enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total (B)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
C. Liabilities associated with assets held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total (C)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
D. Liabilities associated with discontinued operations		
D.1 Amounts due to customers	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Funds	-	-
D.5 Other liabilities	-	-
Total (D)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-

11.2 Other information

As of 31 December 2023, assets held for sale amounted to EUR 48.4 million and refer primarily to credit portfolios that will be disposed of in 2024.

Section 12 - Other assets – Item 120

12.1 Other assets: breakdown

Items	31/12/2023	31/12/2022
Ecobonus tax credits	119,237	99,390
Various borrowers	113,798	96,840
Miscellaneous items	23,210	60,984
Items being processed	21,923	45,107
Leasehold improvements	1,890	1,980
Total	**280,058**	**304,301**

The item is largely composed of ecobonus tax credits, miscellaneous items and items being processed, linked to normal banking operations, which will be properly recorded in the days following their generation, and balances due from various borrowers.

LIABILITIES

Section 1 – Amounts due to customers– Item 10

1.1 Amounts due to customers: breakdown of amounts due from banks

Type of operations/Values	Total 31/12/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**100,050**	**X**	**X**	**X**	**382,290**	**X**	**X**	**X**
2. Due to banks	**841,932**	**X**	**X**	**X**	**822,749**	**X**	**X**	**X**
2.1 Current accounts and on-demand deposits	10,171	X	X	X	9,847	X	X	X
2.2 Time deposits	38,387	X	X	X	30,092	X	X	X
2.3 Loans	783,319	X	X	X	751,815	X	X	X
2.3.1 Repurchase agreements - payable	783,319	X	X	X	751,815	X	X	X
2.3.2 Others	-	X	X	X	-	X	X	X
2.4 Liabilities in respect of commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	10,055	X	X	X	30,995	X	X	X
Total	**941,982**	**-**	**-**	**941,982**	**1,205,039**	**-**	**-**	**1,205,039**

Key:

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

The explanation of the criteria for determining fair value is reported in Part A - Accounting policies. Repurchase agreements - payable against financial assets sold and not derecognised are detailed in Part E - Section E of the Explanatory Notes.

1.2 Amounts due to customers: breakdown of amounts due to customers

Type of operations/Values	Total 31/12/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	915,694	X	X	X	956,052	X	X	X
2. Time deposits	3,567,950	X	X	X	2,542,884	X	X	X
3. Green Loans	139,202	X	X	X	7,125	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	139,202	X	X	X	7,125	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	24,834	X	X	X	25,386	X	X	X
6. Other payables	344	X	X	X	834	X	X	X
Total	**4,648,024**	**-**	**-**	**4,648,024**	**3,532,281**	**-**	**-**	**3,532,259**

Key:

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

1.3 Amounts due to customers: breakdown of securities issued

Type of securities/Values	Total 31/12/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	611,741	594,669	-	-	653,002	630,404	-	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	611,741	594,669	-	-	653,002	630,404	-	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**611,741**	**594,669**	**-**	**-**	**653,002**	**630,404**	**-**	**-**

Key:

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

Securities issued amounted to EUR 611.7 million, down by EUR 41.3 million compared with the end of the 2022 financial year, due to the maturity of a bond in December, which was only partially offset by a new issue for a lower nominal amount.

1.4 Detail of subordinated securities/debts

	31/12/2023	31/12/2022
B.1 Subordinated securities	**201,137**	**200,787**
- banks	-	-
- customers	201,137	200,787

1.5 Detail of structured debts

The Group does not hold such structured debts on the reporting date.

1.6 Lease liabilities

At the reporting date, the Bank had outstanding payables for leases equal to EUR 24.8 million, divided between EUR 23.6 million relating to the lease fee component of Properties for personal and business use, and EUR 1.2. million relating to the component of long-term rental of automobiles.

Section 2 - Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product type

Type of operations/Values	Total 31/12/2023					Total 31/12/2022				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. Cash and cash equivalents liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	-	19,476	-	-	-	-	27,244	-	-
1.1 Held for trading	X	-	19,476	-	X	X	-	27,244	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**-**	**19,476**	**-**	**X**	**X**	**-**	**27,244**	**-**	**X**
Total (A+B)	**X**	**-**	**19,476**	**-**	**X**	**X**	**-**	**27,244**	**-**	**X**

Key:

NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3
Fair value (*) = Fair value calculated excluding changes in value due to a change in the issuer's creditworthiness compared with the issue date.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

The Bank does not hold such liabilities as of the reporting date.

2.3 Breakdown of "Financial liabilities held for trading": structured debts

The Bank does not hold such liabilities as of the reporting date.

Section 3 – Financial liabilities designated at fair value - Item 30

The Group does not hold such financial liabilities measured at fair value on the reporting date.

Section 4 - Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2023			NV 31/12/2023	Fair Value 31/12/2022			NV 31/12/2022
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value	-	19,770	-	497,100	-	32,646	-	624,336
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**19,770**	**-**	**497,100**	**-**	**32,646**	**-**	**624,336**

Key:

NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolios and by type of hedge

Operations/Type of hedge	Fair Value							Cash flows		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and share indices	currencies and gold	credit	goods	other				
1. Financial assets measured at fair value through other comprehensive income	1,868	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1,868**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	17,902	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**17,902**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 5 - Fair value change of financial liabilities in hedged portfolio - Item 50

The Bank does not hold such generic hedging financial liabilities on the reporting date.

Section 6 - Tax liabilities - Item 60

Refer to Section 10 of Assets.

Section 7 - Liabilities associated with non-current assets held for sale and discontinued operations - Item 70

The Group does not hold liabilities associated with non-current assets held for sale and discontinued operations at the reporting date.

Section 8 - Other liabilities – Item 80

8.1 Other liabilities: breakdown

Items	31/12/2023	31/12/2022
Miscellaneous items	47,302	34,740
Due to suppliers	28,807	21,296
Due to the Treasury	26,254	14,328
Due to employees	20,997	10,187
Due to social security and welfare bodies	3,196	2,805
Various borrowers	2,389	2,060
Total 31/12/2023	**128,945**	**85,416**

The item consists mainly of miscellaneous items and trade payables to suppliers; this item also includes tax payables.

Section 9 - Employee severance pay – Item 90

Following the reforms to supplementary pensions in Italian legislative decree no. 252 of 5 December 2005, post-employment benefits accruing from 1 January 2007 can be allocated either to supplementary pension schemes or transferred to the INPS pension fund, at the employee's discretion. The provisions take into account the actuarial valuations.

9.1 Employee severance pay: annual changes

	Total 31/12/2023	Total 31/12/2022
A. Opening balance	**2,049**	**2,335**
B. Increases	**1,117**	**732**
B.1 Provision for the year	673	732
B.2 Other changes	444	-
- from business combinations	-	-
C. Decreases	**230**	**1,018**
C.1 Payments made	230	223
C.2 Other changes	-	795
- from business combinations	-	-
D. Closing balance	**2,936**	**2,049**
Total	**2,936**	**2,049**

The following criteria were used to calculate the TFR for IAS purposes:

SUMMARY OF TECHNICAL ECONOMIC ASSUMPTIONS

	31/12/2023	31/12/2022
Annual discount rate	3.36%	4.17%
Annual inflation rate	2.00%	2.30%
Annual rate of TFR increase	3.00%	3.23%
Annual rate of salary increase	1.00%	1.00%

In particular, it should be noted that:

- the annual discount rate used to determine the current value of the obligation is taken, in accordance with paragraph 83 of IAS 19, from the Iboxx Corporate A index with a duration of 10+ as recorded on the measurement date. The yield with a comparable duration to that of the collective body of workers being valued was chosen for this purpose;
- the annual rate of increase in TFR as provided for in Article 2120 of the Italian civil code is 75% of inflation +1.5 percentage points;

The technical demographic assumptions used are illustrated below.

SUMMARY OF TECHNICAL DEMOGRAPHIC ASSUMPTIONS

Death	RG 48 mortality tables published by the State General Accounting Office
Incapacity	INPS tables by age and gender
Retirement	100% on reaching the AGO requirements

9.2 Other information

IAS19, for post-employment defined benefit plans, requires a series of additional pieces of information which must be included in the Explanatory Notes to the financial statements, such as:

- a sensitivity test for each actuarial scenario at year-end, highlighting the effect that would arise if there were changes to the actuarial scenarios that were reasonably possible on that date, in absolute terms;
- an indication of the contribution for the following year;
- an indication of the average financial duration of the obligation for defined-benefit plans;
- the payments provided for in the plan.

That information is detailed below:

Sensitivity test for the main valuation criteria	31/12/2023
Turnover rate +1.00%	2,950,904
Turnover rate -1.00%	2,917,470
Inflation rate +0.25%	3,019,187
Inflation rate -0.25%	2,856,537
Discount rate +0.25%	2,836,552
Discount rate -0.25%	3,041,463

Estimated future payments	31/12/2023
Payments scheduled for 1st year	143,175
Payments scheduled for 2nd year	191,379
Payments scheduled for 3rd year	203,399
Payments scheduled for 4th year	234,481
Payments scheduled for 5th year	380,783

Reconciliation of IAS 19 valuations for the period	31/12/2023
Defined Benefit Obligation as of 01/01/23	2,048,449
Service Cost	581,414
Interest Cost	91,894
Benefits paid	(229,345)
Transfers in/(out)	9,776
Expected DBO as of 31/12/2023	2,502,188
Actuarial (Gains)/ Losses from experience	214,578
Actuarial (Gains) or Losses due to change in financial assumptions	219,415
Defined Benefit Obligation as of 31/12/23	2,936,181

Reconciliation of TFR IAS 19 and statutory TFR	31/12/2023
Defined Benefit Obligation as of 31/12/23	2,936,181
Statutory TFR as of 31/12/2023	2,838,914
Surplus/(Deficit)	(97,267)

Service Cost and Duration	31/12/2023
Service Cost per future year	741,438
Duration of plan (years)	22.3

The book values, relating to the interval between the previous valuation and the current one are represented by the following components:

- the initial DBO, namely the current expected value of benefits payable in the future for work done in the past, already available at the start of the period;
- the Curtailment/Settlement, i.e. the change in the liability due to modifications to the plan or events resulting in a reduction in personnel, such as plant closures, mobility, etc.;
- the Service Cost (SC), which is the current expected value of benefits payable in the future in relation to work done in the current period, which in conceptual terms is assimilated to the accruing quota of statutory TFR (obviously if the methodology described in paragraph 3 point B is used, this amount will be nil);
- the Interest Cost (IC), which is the interest on what was set aside at the start of the period and on the corresponding changes in the same period; this element is conceptually similar to the net legal revaluation of TFR;
- the Benefits paid and Transfers in/(out) which represent all the payments and any incoming or outgoing transfers in relation to the period in question, elements that result in the utilisation of the provision set aside.

The sum of the above elements gives the Expected DBO for the end of the period of observation. When this is compared with the DBO recalculated at the end of the period based on the actual collective, as of that date and based on the new valuation scenarios, this identifies the Actuarial Gains/Losses (AGL).

Section 10 - Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: breakdown

Items/Values	Total 31/12/2023	Total 31/12/2022
1. Allowances for credit risk relating to commitments and financial guarantees given	5,374	4,863
2. Provisions for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	-	-
4. Other allowances for risks and charges	2,657	1,202
4.1 legal and tax disputes	1,469	510
4.2 personnel cost	1,148	652
4.3 others	40	40
Total	**8,031**	**6,065**

10.2 Allowances for risks and charges: annual changes

	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other allowances for risks and charges	Total
A. Opening balance	**-**	**-**	**1,202**	**1,202**
B. Increases	**-**	**-**	**1,916**	**1,916**
B.1 Provision for the year	-	-	1,916	1,916
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to variations in the discount rate	-	-	-	-
B.4 Other changes	-	-	-	-
- from business combinations	-	-	-	-
C. Decreases	**-**	**-**	**461**	**461**
C.1 Utilisations for the year	-	-	-	-
C.2 Changes due to variations in the discount rate	-	-	-	-
C.3 Other changes	-	-	461	461
- from business combinations	-	-	-	-
D. Closing balance	**-**	**-**	**2,657**	**2,657**

10.3 Allowances for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to financial commitments and guarantees given				
	Stage one	Stage two	Stage three	Purchased or originated impaired	Total
Commitments to disburse funds	519	58	-	4,459	5,036
Financial guarantees	103	235	-	-	338
Total	**622**	**293**	**-**	**4,459**	**5,374**

10.4 Allowances for other commitments and guarantees issued

The Bank does not have any allowance for other commitments and guarantees issued as of the reporting date.

10.5 Defined-benefit pension funds

The Bank does not present any corporate pension funds as of the reporting date.

10.6 Allowances for risks and charges– other provisions

The item mainly includes other allowances for risks and charges undertaken in the year related to operations of the Distressed Credit and Growth Credit Divisions.

Section 11 - Redeemable shares - Item 120

The Bank does not hold redeemable shares as of the reporting date.

Section 12 - Bank's equity - Items 110, 130, 140, 150, 160, 170 and 180

12.1 "Capital" and "Treasury shares": breakdown

As of 31 December 2023, the Bank's share capital amounted to EUR 54,690,661.10, fully subscribed and paid up, divided into 83,916,330 ordinary shares, without indication of the par value.

12.2 Capital - Number of shares: annual changes

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**83,556,663**	**-**
- fully paid-up	83,645,108	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	(88,445)	-
A.2 Shares outstanding: initial balance	**83,556,663**	**-**
B. Increases	**271,222**	**-**
B.1 New issues	-	-
- against payment:	-	-
- bonds converted	-	-
- warrants exercised	-	-
- others	-	-
- free:	-	-
- for employees	-	-
- for directors	-	-
- others	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	271,222	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**83,827,885**	**-**
D.1 Treasury shares (+)	88,445	-
D.2 Shares existing at the end of the year	83,916,330	-
- fully paid-up	83,916,330	-
- not fully paid-up	-	-

12.3 Capital - other information

On 30 May 2023, the Board of Directors of illimity approved the share capital increase for the "Employee Stock Ownership Plan – ESOP" incentive plan (for 2023) for a total of EUR 156,724.73, corresponding to 240,486 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 3 of the By-laws, granted by the Shareholders' Meeting of 18 January 2019;

The Board also resolved to exercise the authority granted also by the Shareholders' Meeting of 18 January 2019, in accordance with that set out in Article 5, paragraph 4 of the By-laws in force, in favour of employees of the illimity Group who are the beneficiaries of the first MBO Plan, and of any compensation paid on early termination of employment, granting a mandate to the Chief Executive Officer for the accurate execution of the capital increase, up to a maximum of 102,168 new ordinary shares.

On 25 July 2023, illimity Bank announced the new composition of its share capital, following the Chief Executive Officer's resolution that resulted in the partial exercise of the authorisation to increase the share capital pursuant to Article 2443 of the Italian Civil Code and of Article 5, paragraph 5 of the By-laws, for the beneficiaries of the MBO Plan or of any compensation paid in the event of early termination of the employment contract, with a share capital increase of EUR 20,030.65 and issuance of 30,736 new ordinary shares for the purpose of such share capital increase.

12.4 Profit reserves: other information

Items/Values	31/12/2023	31/12/2022
A. Profit reserves	**170,261**	**104,365**
1. Legal reserve	9,082	5,046
2. Reserve for purchase of treasury shares	16	-
3. Extraordinary reserve	10,288	10,444
4. Profits (losses) carried forward	142,217	80,602
5. First-time reserves	507	508
6. Other reserves	8,151	7,765
B. Capital reserves	**37,823**	**36,262**
1. Reserve on account of future capital increase	-	-
2. Other reserves	37,823	36,262
Total	**208,084**	**140,627**

The profit reserves as of 31 December 2023 amount to a positive EUR 170 million.

As reported in Section A of these Explanatory Notes, the Board of Directors of the Bank proposed that the Shareholders' Meeting, during approval of the Financial Statements for 2023, allocate part of the profit for the year to a specific non-distributable reserve equal to EUR 27.4 million, instead of paying the extraordinary tax on extra profits provided for pursuant to Article 26 of Decree-Law 104/2023.

As required by Article 2427, paragraph 1, no. 7 bis) Italian civil code, below is a report summarising the shareholders' equity items, distinguished by origin, with details of the possibility of use and distribution.

Nature/Description	Amount	Possibility of use	Available share	Summary of the amounts used in the past three years	
				to cover losses	for other reasons
Share capital	**54,691**		**-**		
Share premium reserve	**624,584**	**ABC (1)**	**624,584**		
Valuation reserves	**(30,269)**	**-**	**-**		
Financial assets measured at fair value	(30,296)	-	-		
through comprehensive income					
Actuarial gains (losses) relating	27	-	-		
to defined benefit plans					
Reserves	**208,084**		**199,003**	**(16,840)**	
Legal reserve	9,082	B (2)	-		
Reserve for purchase	16	ABC	16		
treasury shares					
Extraordinary reserve	10,288	ABC	10,288		
Other reserves	188,699	ABC	188,699	(16,840)	
Treasury shares	**(747)**		**-**		
Profit (loss) for the year	**102,307**		**-**		
Total	**958,650**		**760,164**	**(16,840)**	

Key:

A = for capital increases

B = to cover losses

C = for distribution to shareholders

(1) According to Article 2431 Italian Civil Code, the issue premium reserve can be fully utilised, as the legal reserve has reached the limit of one-fifth of the share capital as required by Article 2430 of the Italian civil code.

(2) The legal reserve is available for a capital increase and distribution only for the portion exceeding one-fifth of the share capital, according to Article 2430 (1) of the Italian civil code.

(3) The revaluation reserve is not available pursuant to Article 6 of Legislative Decree no. 38/2005.

12.5 Equity instruments: breakdown and annual changes

The Bank does not hold equity instruments.

12.6 Other information

Basic and diluted earnings per share

The basic earnings (loss) per share is calculated by dividing the Bank's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

(amounts in thousands of euros)

Basic and diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings (loss) per share
Year ended 31 December 2023	102,307	83,712,134	1.22
Year ended 31 December 2022	80,715	81,149,186	0.99

The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the potential shares in service of the Long-Term Incentive (LTI) plan.

(amounts in thousands of euros)

Diluted earnings (losses) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (losses) per share
Year ended 31 December 2023	102,307	85,470,710	1.19
Year ended 31 December 2022	80,715	83,180,280	0.97

Other information

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees issued				Total 31/12/2023	Total 31/12/2022
	Stage one	Stage two	Stage three	Purchased or originated impaired		
1. Commitments to disburse funds	**220,559**	**18,841**	**9,502**	**53,819**	**302,721**	**142,770**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	-	-	-	-	-	-
d) Other financial companies	148,150	-	-	1,675	149,825	54,186
e) Non-financial companies	70,530	18,794	9,497	49,973	148,794	156,816
f) Households	1,879	47	5	2,171	4,102	2,408
2. Financial guarantees	**15,704**	**13,020**	**103**	**12,291**	**41,118**	**7,270**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	84	-	-	-	84	84
d) Other financial companies	-	-	-	-	-	-
e) Non-financial companies	15,601	13,020	103	11,004	39,728	13,522
f) Households	19	-	-	1,287	1,306	19

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2023	Nominal value Total 31/12/2022
1. Other guarantees issued		
of which: non-performing	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments		
of which: non-performing	2,687	2,295
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	12,589	8,843
e) Non-financial companies	24,357	37,742
f) Households	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2023	Amount 31/12/2022
1. Financial assets measured at fair value through profit or loss	79,612	1,634
2. Financial assets measured at fair value through other comprehensive income	281,654	217,196
3. Financial assets measured at amortised cost	1,355,120	419,684
4. Property and equipment	-	-
of which: Property and Equipment held as inventories	-	-

4. Administration and brokerage for third parties

Type of service	Amount
1. Execution of orders for customers	**-**
a) purchases	-
1. settled	-
2. not settled	-
b) sales	-
1. settled	-
2. not settled	-
2. Individual portfolio management	**-**
3. Custody and administration of securities	**10,769,763**
a) third-party securities held in deposit: relating to depositary bank activities (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) third party securities deposited (excluding portfolio management): others	12,817
1. securities issued by the reporting bank	-
2. other securities	12,817
c) third party securities deposited with third parties	951,094
d) proprietary securities deposited with third parties	9,832,852
4. Other transactions	**-**

5. Assets subject to offsetting in financial statements, or subject to master netting agreements or similar agreements

Technical formats	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Related amounts not offset in the financial statements		Net amount (f=c-d-e) 31/12/2023	Net amount 31/12/2022
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	70,989	-	70,989	-	70,989	-	-
2. Repurchase agreements	60,940	-	60,940	60,940	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 31/12/2023	**131,929**	**-**	**131,929**	**60,940**	**70,989**	**-**	**X**
Total 31/12/2022	**60,788**	**-**	**60,788**	**-**	**60,788**	**X**	**-**

6. Financial liabilities subject to offsetting in financial statements, or subject to master netting agreements and or similar agreements

Technical formats	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Related amounts not subject to accounting offsetting		Net amount (f=c-d-e) 31/12/2023	Net amount 31/12/2022
				Financial instruments (d)	Cash deposits as guarantees (e)		
1. Derivatives	49,301	-	49,301	-	49,301	-	-
2. Repurchase agreements	783,319	-	783,319	783,319	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2023	**832,620**	**-**	**832,620**	**783,319**	**49,301**	**-**	**X**
Total 31/12/2022	**799,650**	**-**	**799,650**	**751,815**	**47,835**	**X**	**-**

Since 1 January 2013, the changes to IFRS 7 concerning disclosures on set-off agreements, as approved with Regulation no. 1256 of 13 December 2012, came into mandatory application. IFRS 7 requires specific disclosures to be given about financial instruments that have been offset in the statement of financial position under IAS 32, and which can potentially be offset under certain conditions, but presented in the statement of financial position with opening balances as they are regulated by “master netting agreements or similar” which do not however meet the criteria of IAS 32 to make the set off in the financial statements.

In providing *disclosures* of these agreements, the standard also requires that consideration be given to the effects of the real financial guarantees (including guarantees in cash) received and given.

7. Securities lending transactions

There are no securities lending transactions at the reference date.

8. Disclosure on joint control activities

There are no joint control activities at the reference date.

Part C - Information on the income statement

Section 1 - Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Green Loans	Other transactions	Total 31/12/2023	Total 31/12/2022
1. Financial assets measured at fair value through profit or loss:	**3,275**	**92**	**-**	**3,367**	**1,904**
1.1 Financial assets held for trading	77	-	-	77	-
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	3,198	92	-	3,290	1,904
2. Financial assets measured at fair value through other comprehensive income	**10,726**	**-**	**X**	**10,726**	**8,135**
3. Financial assets measured at amortised cost:	**129,879**	**214,827**	**-**	**344,706**	**209,862**
3.1 Due from banks	-	15,256	X	15,256	1,284
3.2 Loans to customers	129,879	199,571	X	329,450	208,578
4. Hedging derivatives	**X**	**X**	**32,089**	**32,089**	**4,394**
5. Other assets	**X**	**X**	**3,131**	**3,131**	**2,223**
6. Financial liabilities	**X**	**X**	**X**	**1,209**	**1,213**
Total	**143,880**	**214,919**	**35,220**	**395,228**	**227,731**
of which: interest income on impaired assets	29,589	50,804	-	80,393	130,141
of which: interest income on finance leasing	X	-	X	-	-

1.2 Interest income and similar income: other information

1.2.1 Interest income on assets denominated in foreign currency

Items/Values	31/12/2023	31/12/2022
Interest income on assets denominated in foreign currency	4,091	2,149

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debt	Securities	Other transactions	Total 31/12/2023	Total 31/12/2022
1. Amounts due to customers	(131,958)	(36,901)	X	(168,859)	(68,397)
1.1 Amounts due to central banks	(2,464)	X	X	(2,464)	(406)
1.2 Amounts due to banks	(35,799)	X	X	(35,799)	(5,548)
1.3 Amounts due to customers	(93,695)	X	X	(93,695)	(41,683)
1.4. Securities issued	X	(36,901)	X	(36,901)	(20,760)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	(32,909)	(32,909)	(4,435)
6. Financial assets	X	X	X	(928)	(1,695)
Total	**(131,958)**	**(36,901)**	**(32,909)**	**(202,696)**	**(74,527)**
of which: interest expense relative to leasing liabilities	(1,693)	X	X	(1,693)	(1,640)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Items/Values	31/12/2023	31/12/2022
Interest expenses on liabilities denominated in foreign currency	-	(14)

1.5 Differentials arising from hedging transactions

Items	Total 31/12/2023	Total 31/12/2022
A. Differentials arising from hedging transactions	32,089	4,394
B. Negative differentials arising from hedging transactions	(32,909)	(4,435)
C. Balance (A-B)	**(820)**	**(41)**

Section 2 - Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Values	Total 31/12/2023	Total 31/12/2022
a) Financial instruments	100	1
1. Placement of securities	100	1
1.1 With underwriting and/or on the basis of an irrevocable commitment	-	-
1.2 Without an irrevocable commitment	100	1
2. Receipt and transmission of orders and execution of orders for customers	-	-
2.1 Receipt and transmission of orders of one or more financial instruments	-	-
2.2 Execution of orders for customers	-	-
3. Other fees and commissions connected with activities related to financial instruments	-	-
of which: proprietary trading	-	-
of which: individual portfolio management	-	-
b) Corporate Finance	3,653	5,419
1. Consultancy on mergers and acquisitions	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	3,653	5,419
c) Investment consultancy activities	-	-
d) Netting and settlement	-	-
e) Custody and administration	-	1
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	-	1
f) Central administrative services for collective portfolio management	-	-
g) Fiduciary activities	-	-
h) Payment services	1,854	1,259
1. Current accounts	777	375
2. Credit cards	634	491
3. Debit cards and other payment cards	104	97
4. Bank transfers and other payment orders	140	112
5. Other fees and commissions related to payment services	199	184
i) Distribution of third party services	133	216
1. Collective portfolio management	-	-
2. Insurance products	2	4
3. Other products	131	212
of which: individual portfolio management	-	-
j) Structured finance	-	-
k) Servicing activities for securitisation operations	539	3
l) Commitments to disburse funds	-	-
m) Financial guarantees	1,299	250
of which: credit derivatives	-	-
n) Loan operations	37,071	31,423
of which: for factoring operations	9,435	6,947
o) Currency trading	56	60
p) Goods	-	-
q) Other fee and commission income	2,441	5,027
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading systems	-	-
Total	**47,146**	**43,660**

The sub-item “q) Other fee and commission income” relates mainly to Ecobonus commissions.

2.2 Fee and commission income: distribution channels of products and services

Channel/Amount	Total 31/12/2023	Total 31/12/2022
a) at own branches:	**100**	**1**
1. portfolio management	-	-
2. placement of securities	100	1
3. third-party services and products	-	-
b) off-site:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
c) other distribution channels:	**133**	**216**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	133	216

2.3 Fee and commission expenses: breakdown

Type of service/Values	Total 31/12/2023	Total 31/12/2022
a) Financial instruments	-	-
of which: trading in financial instruments	-	-
of which: placement of financial instruments	-	-
of which: individual portfolio management	-	-
- Proprietary	-	-
- Delegated to third parties	-	-
b) Netting and settlement	-	-
c) Custody and administration	(356)	(239)
d) Collection and payment services	(2,008)	(1,572)
of which: credit cards, debit cards and other payment cards	(1,709)	(1,292)
e) Servicing activities for securitisation operations	(42)	-
f) Commitments to receive funds	-	-
g) Financial guarantees received	(81)	-
of which: credit derivatives	-	-
h) Off-site distribution of financial instruments, products and services	-	-
i) Currency trading	-	-
j) Other fee and commission expense	(5,174)	(3,762)
Total	**(7,661)**	**(5,573)**

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 31/12/2023		Total 31/12/2022	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	45	-	200
C. Financial assets measured at fair value through comprehensive income	-	-	-	-
D. Equity investments	-	-	-	-
Total	**-**	**45**	**-**	**200**

Section 4 – Profits (losses) on trading – Item 80

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**(10)**	**(80)**	**(90)**
1.1 Debt securities	-	-	-	(80)	(80)
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	(10)	-	(10)
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**(2,990)**
4. Derivatives	**66,607**	**40,935**	**(65,489)**	**(41,666)**	**2,621**
4.1 Financial derivatives:	66,607	40,935	(65,489)	(41,666)	387
- On debt securities and interest rates	66,607	40,935	(65,489)	(41,666)	387
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	2,234
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	-
Total	**66,607**	**40,935**	**(65,499)**	**(41,746)**	**(459)**

Section 5 – Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income items/Amounts	Total 31/12/2023	Total 31/12/2022
A. Income relating to:		
A.1 Fair value hedging derivatives	63,657	17,624
A.2 Hedged financial assets (fair value)	31,770	8,770
A.3 Hedged financial liabilities (fair value)	11,876	3,266
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total income from hedging (A)	**107,303**	**29,660**
B. Costs relating to:		
B.1 Fair value hedging derivatives	(56,355)	(12,036)
B.2 Hedged financial assets (fair value)	(20,540)	(16,421)
B.3 Hedged financial liabilities (fair value)	(30,794)	(1,203)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total costs from hedging (B)	**(107,689)**	**(29,660)**
C. Fair value adjustments in hedge accounting (A - B)	**(386)**	**-**
of which: result of hedging of net positions	-	-

Section 6 - Profits (Losses) on disposal/repurchase – Item 100

6.1 Profits (Losses) on disposal/repurchase: breakdown

Item/Income item	Total 31/12/2023			Total 31/12/2022		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net profit/ loss
A. Financial assets						
1. Financial assets measured at amortised cost	30,788	(30,919)	(131)	296	(285)	11
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	30,788	(30,919)	(131)	296	(285)	11
2. Financial assets measured at fair value through other comprehensive income	1,960	(2,684)	(724)	869	(1,043)	(174)
2.1 Debt securities	1,960	(2,684)	(724)	869	(1,043)	(174)
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**32,748**	**(33,603)**	**(855)**	**1,165**	**(1,328)**	**(163)**
B. Amounts due to customers				**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	(304)	(304)
Total liabilities (B)	**-**	**-**	**-**	**-**	**(304)**	**(304)**

Section 7 – Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss – Item 110

7.1 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

Bank did not record any profits or losses from such assets or liabilities in 2023.

7.2 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transaction/Income items	Capital gains (A)	Realised profits (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**8,550**	**6,349**	**(2,037)**	**(9,080)**	**3,782**
1.1 Debt securities	3,983	29	(1,721)	(8,646)	(6,355)
1.2 Equity instruments	-	6,320	-	(433)	5,887
1.3 UCITS units	1,514	-	(316)	(1)	1,197
1.4 Loans	3,053	-	-	-	3,053
2. Financial assets denominated in foreign currencies: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**8,550**	**6,349**	**(2,037)**	**(9,080)**	**3,782**

Section 8 - Net losses/recoveries for credit risk – Item 130

8.1 Net losses/recoveries for credit risk relating to financial assets measured at amortised cost: breakdown

Transaction/Income items	Write-downs (1)						Write-backs (2)				Total 31/12/2023	Total 31/12/2022
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Due from banks	**(86)**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**(84)**	**214**
- Loans	(86)	-	-	-	-	-	2	-	-	-	(84)	214
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(6,637)**	**(2,383)**	**-**	**(13,752)**	**-**	**(64,425)**	**5,646**	**3,186**	**1,980**	**106,554**	**30,169**	**26,370**
- Loans	(5,451)	(2,383)	-	(13,219)	-	(48,816)	3,949	2,889	1,980	90,623	29,572	28,666
- Debt securities	(1,186)	-	-	(533)	-	(15,609)	1,697	297	-	15,931	597	(2,296)
Total	**(6,723)**	**(2,383)**	**-**	**(13,752)**	**-**	**(64,425)**	**5,648**	**3,186**	**1,980**	**106,554**	**30,085**	**26,584**

The sub-item "purchased or originated *impaired* financial assets" refers to the amount of write-downs/write-backs of loans classified as purchased or originated *impaired* loans as a result of receipts or revisions of business plans.

8.2 Net losses/recoveries for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transaction/Income items	Write-downs (1)						Write-backs (2)				Total 31/12/2023	Total 31/12/2022
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Debt securities	(320)	-	-	-	-	(917)	812	295	-	-	(130)	(1,292)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(320)**	**-**	**-**	**-**	**-**	**(917)**	**812**	**295**	**-**	**-**	**(130)**	**(1,292)**

Section 9 - Profits/losses on changes in contracts without derecognition – item 140

No profits/losses on changes in contracts without derecognition were recorded as of 31 December 2023.

Section 10 - Administrative expenses – Item 160

10.1 Personnel expenses: breakdown

Type of expense/Amount	Total 31/12/2023	Total 31/12/2022
1) Employees	(68,977)	(56,055)
a) wages and salaries	(31,455)	(28,122)
b) social security contributions	(9,337)	(8,500)
c) provision for employee severance pay	-	-
d) pension costs	-	-
e) provision for employee severance pay	(680)	(764)
f) provision for post-employment benefits and similar provisions:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external supplementary pension funds:	(1,455)	(1,208)
- defined contribution	(1,455)	(1,208)
- defined benefits	-	-
h) costs related to share-based payments	(1,335)	-
i) other employee benefits	(24,715)	(17,461)
2) Other personnel in service	(1,059)	(1,077)
3) Directors and statutory auditors	(1,912)	(1,832)
4) Early retirement costs	-	-
5) Recoveries of costs of employees seconded to other companies	825	790
6) Reimbursement of costs of third-party employees seconded to the company	-	-
Total	**(71,123)**	**(58,174)**

10.2 Average number of employees per category

Category	2023
a) senior managers	57
b) middle managers	184
c) other employees	277
Total employees	**518**
Other personnel	**49**

10.3 Defined-benefit pension funds: costs and revenues

There are no company defined-benefit pension funds.

10.4 Other employee benefits

The other benefits to employees mainly relate to remunerated benefits, canteen vouchers and various insurance policies.

10.5 Other administrative expenses: breakdown

Type of expense/Amount	31/12/2023	31/12/2022
Insurance	(3,044)	(2,393)
Various consulting services	(6,642)	(7,635)
Membership fees	(7,804)	(6,687)
Cost of services	(2,856)	(2,665)
Financial information	(4,343)	(3,239)
Adverts and advertising	(3,007)	(2,614)
Financial statement audit	(637)	(454)
IT and software expenses	(24,755)	(24,934)
Legal and notary's fees	(2,519)	(1,963)
Property management expenses	(1,770)	(1,306)
Expenses for professional services	(17,658)	(15,203)
Utilities and services	(1,301)	(1,531)
Other indirect taxes and duties	(7,876)	(5,867)
Others	(3,096)	(3,153)
Total 31/12/2023	**(87,308)**	**(79,644)**

Section 11 - Net provisions for allowances for risks and charges – Item 170

11.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

Items / values	Write-downs (1)			Write-backs (2)			Total
	Stage one and Stage two	Stage three	Impaired	Stage one and Stage two	Stage three	Impaired	
Guarantees issued	(285)	-	-	60	-	-	(225)
Irrevocable commitments to disburse funds	(476)	-	(3,381)	94	-	3,477	(286)
Total 31/12/2023	**(761)**	**-**	**(3,381)**	**154**	**-**	**3,477**	**(511)**

11.2 Net provisions relating to other commitments and guarantees issued: breakdown

In 2023 the Bank did not make any net provisions relating to other commitments and guarantees issued.

11.3 Net provisions for other allowances for risks and charges: breakdown

During 2023 the Bank set aside net provisions for other allowances for risks and charges of EUR 20,166 in relation to legal disputes.

Section 12 - Net adjustments/recoveries on property and equipment - Item 180

12.1. Net adjustments/recoveries on property and equipment: breakdown

Asset/Income items	Amortisation (a)	Write-downs/ write-backs for impairment (b)	Recoveries (c)	Net profit/loss (a + b - c)
A. Property and equipment				
1 For business use	(3,035)	-	-	(3,035)
- Owned	(275)	-	-	(275)
- Rights of use acquired through lease agreements	(2,760)	-	-	(2,760)
2 Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through lease agreements	-	-	-	-
3 Inventories	X	-	-	-
Total	**(3,035)**	**-**	**-**	**(3,035)**

Section 13 - Net adjustments/recoveries on intangible assets – Item 190

13.1 Net adjustments/recoveries on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Write-downs/ write-backs for impairment (b)	Recoveries (c)	Net profit/loss (a+b-c)
A. Intangible assets		-	-	
of which: software	(13,958)			(13,958)
A.1 Owned	(13,958)	-	-	(13,958)
- Generated internally by the company	(1,934)	-	-	(1,934)
- Other	(12,024)	-	-	(12,024)
A.2 Rights of use acquired through lease agreements	-	-	-	-
B. Assets held for sale	-	-	-	-
Total	**(13,958)**	**-**	**-**	**(13,958)**

Section 14 - Other operating expenses/income – Item 200

14.1 Other operating expenses: breakdown

Items/Technical forms	31/12/2023
Amortisation of expenses for improvements on third party assets	(176)
Other operating expenses	(4,855)
Total Other operating expenses 31/12/2023	**(5,031)**
Total Other operating expenses 31/12/2022	**(514)**

Other operating expenses include non-recurring adjustments attributable to trade receivables for around EUR 4.3 million.

14.2 Other operating income: breakdown

Items/Technical forms	31/12/2023
Recoveries of expenses from other customers	9,343
Other income	55,601
Total Other operating income 31/12/2023	**64,944**
Total Other operating income 31/12/2022	**25,279**

The increase in other operating expenses is mainly attributable to the commercial agreement with the Engineering Group for EUR 54 million, recognised in the second quarter of the current year, in addition to EUR 0.4 million recognised in the 2023 financial year in relation to the time value component associated with the deferral of part of the consideration. This agreement, which brought non-recurring economic benefits in the 2023 financial year, involves a long-term industrial partnership relating to the IT platform.

Section 15 - Profits (losses) on equity investments – Item 220

15.1 Profits (losses) on equity investments: breakdown

The Bank did not record any profits (losses) on equity investments during the course of the year.

Section 16 - Net gains/losses on the measurement at fair value of property and equipment and intangible assets - Item 230

The Bank did not hold any property and equipment or intangible assets measured at fair value over the course of the year.

Section 17 - Write-downs/write-backs of goodwill - item 240

The Bank did not carry out any write-downs/write-backs of goodwill during the financial year.

Section 18 - Profits (losses) on disposal of investments – Item 250

There are no profits (losses) from disposals of investments during 2023.

Section 19 - Income tax for the year on continuing operations – Item 270

19.1 Income tax for the year on continuing operations: breakdown

Income items/Sectors	Total 31/12/2023	Total 31/12/2022
1. Current tax (-)	(45,435)	(34,287)
2. Adjustment to current taxes for prior years (+/-)	2,152	-
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current tax for the year due to tax credits (Italian Law 214/2011 (+))	-	-
4. Change in deferred tax assets (+/-)	(1,322)	10,015
5. Change in deferred taxes (+/-)	(1,143)	234
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(45,748)	(24,038)

Total income tax for the year amounted to EUR 45,748 thousand, broken down as follows: an expense of EUR 45,435 thousand relating to current taxes and substitute taxes, an income of EUR 2,152 thousand relating to current taxes for the previous year, an expense of EUR 1,322 thousand relating to the change in prepaid IRES and IRAP taxes, and an expense of EUR 1,143 thousand relating to the change in deferred IRES taxes.

19.2 Reconciliation of theoretical tax charge with actual tax charge

Items/Components	31/12/2023
Profit (loss) from continuing operations before tax	**148,055**
IRES - theoretical tax charge (27.5%)	(40,715)
effect of lower rate	-
effect of non-deductible expenses and other increases - permanent	(1,057)
effect of non-taxable income and other decreases - permanent	2,859
Non-current IRES	1,789
IRES - actual tax charge	**(37,124)**
IRAP - theoretical tax charge (5.57%)	(8,247)
effect of lower rate	-
effect of income/charges that to not contribute to the taxable base	(740)
Non-current IRAP	362
IRAP - actual tax charge	**(8,642)**
Other taxes	**0**
Financial statements actual tax charge	**(45,748)**

The theoretical tax charge considered on an individual basis was equal to 33.07% (24% ordinary IRES, 3.5% additional IRES and 5.57% IRAP). The effective tax rate in 2023 was 30.9%. The effective tax rate was lower than the theoretical tax rate due to the positive effects primarily of the application of the "Patent Box" regime and the "ACE" deduction.

Section 20 - Profit (loss) from discontinued operations after tax – Item 290

There are no profits (losses) from discontinued operations during 2023.

Section 21 - Other information

There is no other information as of the reporting date.

Section 22 - Earnings per share

The basic earnings (loss) per share is calculated by dividing the Bank's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

Basic and diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings (loss) per share
Year ended 31 December 2023	102,307	83,712,134	1.22
Year ended 31 December 2022	80,715	81,149,186	0.99

Diluted earnings (losses) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (losses) per share
Year ended 31 December 2023	102,307	85,470,710	1.19
Year ended 31 December 2022	80,715	83,180,280	0.97

Part D – Comprehensive income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

		31/12/2023	31/12/2022
10.	**Profit (loss) for the year**	**102,307**	**80,715**
	Other income components not transferred to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	(0)	1
	a) fair value changes	(0)	1
	b) transfers to other items of shareholders' equity	-	-
30.	Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)	-	-
	a) fair value changes	-	-
	b) transfers to other items of shareholders' equity	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(434)	773
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity	-	-
100.	Other income components without recycling to the income statement	119	(195)
	Other income components with recycling to the income statement		
110.	Hedging of foreign investments	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes of which: result of net positions	-	-
140.	Hedging instruments (undesignated elements)	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equities) measured at fair value through other comprehensive income	26,166	(63,973)
	a) fair value changes	26,760	(65,057)
	b) reclassification through income statement	(594)	1,084
	- adjustments for credit risk	130	1,292
	- profits/losses on disposals	(724)	(208)
	c) other changes	-	-
160.	Non-current assets and asset groups held for sale:	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
170.	Share of valuation reserves for equity investments measured at equity:	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	- adjustment due to impairment	-	-
	- profits/losses on disposals	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with recycling to the income statement	(7,845)	21,156
190.	**Total other income components**	**18,006**	**(42,238)**
200.	**Other comprehensive income (Item 10+190)**	**120,313**	**38,477**

Part E - Information on risks and related hedging policies

Introduction

Quantitative information on the risks referred to the Bank is provided in this part of the Explanatory Notes to the Financial Statements. For qualitative information, refer to the exposure in Part E of the Explanatory Notes to the consolidated financial statements.

Section 1 – Credit Risk

Qualitative information

Qualitative information on credit quality is illustrated in Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

For the purposes of quantitative information on credit quality, the term "credit exposures" means financial assets excluding equity securities and units of UCIs.

A. CREDIT QUALITY

A.1 Non-performing and performing credit exposures: amounts, write-downs/write-backs, trends and economic distribution

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

Portfolio/quality	Bad loans	Unlikely-to-pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	513,497	607,281	18,494	202,464	3,757,843	5,099,579
2. Financial assets measured at fair value through other comprehensive income		943			455,233	456,176
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	3,305	-	-	169,919	173,224
5. Financial assets held for sale	5,732	42,655	-	-	-	48,387
Total 31/12/2023	**519,229**	**654,184**	**18,494**	**202,464**	**4,382,995**	**5,777,366**
Total 31/12/2022	**738,405**	**597,155**	**1,010**	**79,903**	**3,613,437**	**5,029,910**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total write-downs/ write-backs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs/ write-backs	Net exposure	
1. Financial assets measured at amortised cost	1,188,240	(48,967)	1,139,273		3,975,811	(15,505)	3,960,306	5,099,579
2. Financial assets measured at fair value through other comprehensive income	1,860	(917)	943		456,758	(1,525)	455,233	456,176
3. Financial assets designated at fair value	-				x	-		
4. Other financial assets mandatorily measured at fair value	3,305		3,305		x	x	169,920	173,225
5. Financial assets held for sale	48,386		48,386				-	48,386
Total 31/12/2023	**1,241,791**	**(49,984)**	**1,191,907**	**-**	**4,432,569**	**(17,030)**	**4,585,459**	**5,777,366**
Total 31/12/2022	**1,358,250**	**(21,680)**	**1,336,570**	**-**	**3,526,757**	**(17,514)**	**3,693,340**	**5,029,910**

Portfolio/quality	Assets of evidently low credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	25,899
2. Hedging derivatives	-	-	21,393
Total 31/12/2023	**-**	**-**	**47,292**
Total 31/12/2022	**-**	**-**	**60,991**

A.1.3 Breakdown of financial assets by past due bracket (book values)

Portfolios/risk stages	Stage one			Stage two			Stage three			Purchased or originated impaired		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	96,932	3,288	-	95,498	4,513	1,033	1,166	33,422	110,996	34,749	11,984	807,239
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	580	-	-	363
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	252	16,531
Total 31/12/2023	**96,932**	**3,288**	**-**	**95,498**	**4,513**	**1,033**	**1,166**	**33,422**	**111,576**	**34,749**	**12,236**	**824,133**
Total 31/12/2022	**35,666**	**5**	**7**	**39,060**	**1,928**	**2,940**	**808**	**157**	**32,396**	**8,232**	**55,281**	**1,111,405**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: trend in the total write-downs/write-backs and total provisions

*p.*1

Description/risk stages	Total write-downs/write-backs											
	Assets in stage one						Assets in stage two					
	Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**8**	**11,870**	**2,017**	**-**	**-**	**13,896**	**-**	**2,674**	**295**	**-**	**-**	**2,969**
Increases in purchased or originated financial assets	-	6,717	260	-	-	6,976	-	565	-	-	-	565
Derecognitions other than write-offs	-	(3,826)	(550)	-	-	(4,376)	-	(621)	(295)	-	-	(916)
Net value adjustments/write-backs for credit risk (+/-)	22	(787)	(202)	-	-	(968)	-	92	-	-	-	92
contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	(1,261)	-	-	-	(1,261)	-	52	-	-	-	52
Final total adjustments	**30**	**12,713**	**1,525**	**-**	**-**	**14,267**	**-**	**2,762**	**-**	**-**	**-**	**2,762**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: trend in the total write-downs/write-backs and total provisions (continued)

p.2

Description/risk stages	Total write-downs/write-backs					
	Assets in stage three					
	Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**-**	**20,204**	**-**	**-**	**19,629**	**575**
Increases in purchased or originated financial assets	-	7,155			6,885	270
Derecognitions other than write-offs	-	(2,043)	-	-	(1,991)	(52)
Net value adjustments/write-backs for credit risk (+/-)	-	86	917	-	1,239	(236)
contractual amendments without derecognitions	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-
Other changes	-	6,481	-	-	5,927	554
Final total adjustments	**-**	**31,883**	**917**	**-**	**31,689**	**1,111**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-

p.3

	Total write-downs/write-backs									Total
	purchased or originated credit impaired financial assets					Total provisions on commitments to disburse funds and financial guarantees issued				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Stage one	Stage two	Stage three	Commitments to disburse funds and financial guarantees issued purchased or originated impaired	
Opening total adjustments	**2,135**	**-**	**-**	**1,476**	**659**	**258**	**48**	**-**	**4,556**	**44,065**
Increases in purchased or originated financial assets	x	x	x	x	x	480	273	-	-	15,450
Derecognitions other than write-offs	(4)	-	-	-	(4)	(73)	(2)	-	-	(7,414)
Net value adjustments/write-backs for credit risk (+/-)	15,019	-	-	15,609	(596)	(43)	(29)	-	(95)	14,973
contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	(59)	-	-	-	(59)	(1)	2	-	-	5,215
Final total adjustments	**17,085**	**-**	**-**	**17,085**	**-**	**621**	**292**	**-**	**4,461**	**72,289**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross values / nominal value					
	Transfer between Stage 1 and Stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	141,710	9,494	48,367	2	20,959	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	16,550	12	0	632	117	
Total 31/12/2023	**158,260**	**9,506**	**48,367**	**634**	**21,076**	**-**
Total 31/12/2022	**58,503**	**6,295**	**6,460**	**57**	**18,611**	**86**

A.1.6 On and off-balance-sheet credit exposures to banks: gross and net

Type of exposures/values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A.1 On demand	**392,951**	**392,951**	**-**	**-**	**-**	**30**	**30**	**-**	**-**	**-**	**392,921**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	392,951	392,951	-	X	-	30	30	-	X	-	392,921	-
A.2 Other	**196,182**	**195,355**	**827**	**-**	**-**	**224**	**219**	**4**	**-**	**-**	**195,958**	**-**
a) bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely-to-pay	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Non-performing past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	196,182	195,355	827	X	-	224	219	4	X	-	195,958	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**589,133**	**588,306**	**827**	**-**	**-**	**254**	**249**	**4**	**-**	**-**	**588,879**	**-**
B. Off-balance sheet credit exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	84	84	-	X	-	-	-	-	X	-	84	-
Total (B)	**84**	**84**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84**	**-**
Total (A+B)	**589,217**	**588,390**	**827**	**-**	**-**	**254**	**249**	**4**	**-**	**-**	**588,963**	**-**

A.1.7 On and off-balance-sheet credit exposures to customers: gross and net

Type of exposures/values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure	Total partial write-offs*
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A. On-balance sheet credit exposures												
a) bad loans	556,342	X	-	48,710	507,633	37,113	X	-	20,028	17,085	519,229	-
- of which: forborne exposures		X	-				X	-		-	0	-
b) Unlikely-to-pay	665,920	X	-	119,999	545,922	11,736	X	-	11,736	-	654,184	-
- of which: forborne exposures	131,294	X	-	5,769	125,525	1,066	X	-	1,066	-	130,228	-
c) Non-performing past due exposures	19,530	X	-	19,379	150	1,035	X	-	1,035	-	18,495	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	0	-
d) Performing past due exposures	204,624	100,742	102,683	X	1,199	2,161	522	1,639	X	-	202,463	-
- of which: forborne exposures	44,410	-	44,410	X	-	323	-	324	X	-	44,087	-
e) Other performing exposures	4,201,682	3,937,553	189,129	X	74,999	14,646	13,527	1,119	X	-	4,187,036	-
- of which: forborne exposures	32,026	-	12,250	X	19,776	37	-	37	X	-	31,989	-
Total (A)	**5,648,098**	**4,038,228**	**291,812**	**188,088**	**1,129,903**	**66,691**	**14,049**	**2,758**	**32,799**	**17,085**	**5,581,407**	**-**
B. Off-balance sheet credit exposures												
a) Non-performing	55,875	X	-	12,291	43,584	3,627	X	-	-	3,627	52,248	-
b) Performing	326,970	248,768	32,058	X	22,527	1,199	621	293	X	285	325,771	-
Total (B)	**382,845**	**248,768**	**32,058**	**12,291**	**66,111**	**4,826**	**621**	**293**	**-**	**3,912**	**378,019**	**-**
Total (A+B)	**6,030,943**	**4,287,063**	**323,870**	**200,379**	**1,196,014**	**71,517**	**14,670**	**3,051**	**32,799**	**20,997**	**5,959,426**	**-**

A.1.8 On-balance sheet credit exposure to banks: trend in gross non-performing exposures

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

A.1.8bis On-balance sheet credit exposure to banks: trend in gross non-performing forborne exposures, distinguished by credit quality

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

A.1.9 On-balance sheet credit exposure to customers: trend of the gross non-performing exposures

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**754,235**	**602,942**	**1,073**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**106,028**	**389,781**	**53,153**
B.1 transfers from performing exposures	4,986	67,540	52,308
B.2 transfers from purchased or originated credit impaired financial assets	34,620	196,406	-
B.3 transfers from other non-performing exposures	29,988	32,148	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	36,434	93,687	845
C. Decreases	**303,921**	**326,803**	**34,696**
C.1 transfers to performing exposures	-	71,646	69
C.2 write-offs	-	-	-
C.3 collections	220,288	88,194	448
C.4 proceeds from disposals	79,804	138,394	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	27,958	34,178
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	3,829	611	-
D. Gross exposure closing balance	**556,342**	**665,920**	**19,530**
- of which: assets sold but not derecognised	-	10,529	14,508

A.1.9 On-balance sheet credit exposure to customers: trend in non-performing exposures (of which POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**733,730**	**558,951**	**730**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**73,567**	**278,877**	**863**
B.1 transfers from performing exposures	0	1	863
B.2 transfers from purchased or originated credit impaired financial assets	34,620	196,406	-
B.3 transfers from other non-performing exposures	3,355	1,127	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	35,592	81,343	-
C. Decreases	**299,664**	**291,906**	**1,443**
C.1 transfers to performing exposures	-	71,625	-
C.2 write-offs	-	-	-
C.3 collections	217,179	77,921	316
C.4 proceeds from disposals	79,804	138,394	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	3,355	1,127
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	2,681	611	-
D. Gross exposure closing balance	**507,633**	**545,922**	**151**
- of which: assets sold but not derecognised	-	-	-

A.1.9 On-balance sheet credit exposures to customers: trend in non-performing exposures (of which no POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**20,505**	**43,992**	**343**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**32,460**	**110,904**	**52,289**
B.1 transfers from performing exposures	4,986	67,539	51,444
B.2 transfers from purchased or originated credit impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures	26,633	31,021	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	842	12,344	845
C. Decreases	**4,256**	**34,897**	**33,253**
C.1 transfers to performing exposures	-	21	69
C.2 write-offs	-	-	-
C.3 collections	3,108	10,273	132
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	24,603	33,052
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	1,148	-	-
D. Gross exposure closing balance	**48,710**	**119,999**	**19,379**
- of which: assets sold but not derecognised	-	10,529	14,508

A.1.9bis On-balance sheet credit exposures to customers: gross forborne exposures by credit quality

Descriptions/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening balance - gross exposure	**94,562**	**13,493**
- of which: assets sold but not derecognised	-	-
B. Increases	**81,779**	**64,027**
B.1 transfers from performing exposures not forborne	26	879
B.2 transfers from performing forborne exposures	245	-
B.3 transfers from non-performing forborne exposures	-	-
B.4 inflows from non-performing, non-forborne exposures	-	-
B.5 other increases	81,508	63,147
C. Decreases	**45,047**	**1,083**
C.1 transfers to performing exposures not forborne	-	-
C.2 transfers to performing forborne exposures	-	-
C.3 outflows towards non-performing forborne exposures	-	245
C.4 write-offs	-	-
C.5 collections	27,894	838
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	17,152	-
D. Gross exposure closing balance	**131,294**	**76,436**
- of which: assets sold but not derecognised	-	-

A1.10 On-balance sheet non-performing credit exposure to banks: trend in total write-downs/write-backs

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

A.1.11 On-balance sheet non-performing credit exposures to customers: trend of total write-downs/ write-backs

Descriptions/Categories	Bad loans		Unlikely-to-pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**15,829**	**-**	**5,788**	**1,690**	**63**	**-**
- of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**22,174**	**-**	**10,892**	**318**	**2,954**	**-**
B.1 write-downs/write-backs from purchased or originated credit impaired financial assets	15,609	X	-	X		X
B.2 other write-downs/write-backs	2,423	-	8,105	318	2,954	-
B.3 losses on disposal	-	-		-	-	-
B.4 transfers from other non-performing exposures	4,142	-	1,604	-	-	-
B.5 contractual amendments without derecognition	-	-	-	-		-
B.6 other increases	-	-	1,183	-	-	-
C. Decreases	**889**	**-**	**4,944**	**943**	**1,982**	**-**
C.1 write-backs from measurement	252	-	328	100	62	-
C.2 write-backs from recoveries	264	-	700	59	10	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposures	-	-	3,846	-	1,900	-
C.6 contractual amendments without derecognition	-	-	-	-	-	-
C.7 other decreases	373	-	70	784	10	-
D. Total closing adjustments	**37,114**	**-**	**11,736**	**1,065**	**1,035**	**-**
- of which: assets sold but not derecognised	-	-	500	-	290	-

A.2 Classification of financial assets, of commitments to disburse funds and financial guarantees issued on the basis of external and internal ratings

For the purposes of calculating the capital requirement for credit risk, illimity Bank uses the external rating agency (ECAI) Fitch Ratings only for positions included in the "Exposures to central governments or central banks" and "Exposures to institutions" classes; no external ratings are used for other asset classes.

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees issued, by classes of external ratings (gross values)

Exposures	External rating classes						No Rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**21,597**	**2,011**	**14,723**	**6,810**	**153**	**-**	**5,118,756**	**5,164,050**
- Stage one	21,597	1,957	13,918	6,810	56	-	3,562,634	3,606,972
- Stage two	-	54	805	-	97	-	291,684	292,640
- Stage three	-	-	-	-	-	-	183,285	183,285
- Purchased or originated impaired	-	-	-	-	-	-	1,081,153	1,081,153
B. Financial assets measured at fair value through comprehensive income	**1,979**	**2,854**	**80,969**	**58,607**	**-**	**-**	**314,209**	**458,618**
- Stage one	1,979	2,854	80,969	58,607	-	-	312,349	456,758
- Stage two								0
- Stage three	-	-	-	-	-	-	1,497	1,497
- Purchased or originated impaired	-	-	-	-	-	-	363	363
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**48,386**	**48,386**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	48,386	48,386
Total (A+B+C)	**23,576**	**4,865**	**95,692**	**65,417**	**153**	**-**	**5,481,351**	**5,671,054**
D. Commitments to disburse funds and financial guarantees given								
- Stage one	-	-	-	-	-	-	236,263	236,263
- Stage two	-	-	-	-	-	-	31,862	31,862
- Stage three	-	-	-	-	-	-	9,604	9,604
- Purchased or originated impaired	-	-	-	-	-	-	66,111	66,111
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**343,840**	**343,840**
Total (A+B+C+D)	**23,576**	**4,865**	**95,692**	**65,417**	**153**	**-**	**5,825,191**	**6,014,894**

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees issued, by classes of internal ratings (gross values)

p.1

Exposures	Internal rating classes							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	-	-
B. Financial assets measured at fair value through comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by category of internal rating (gross values)

p.2

Exposures	Internal rating classes							TOTAL
	Class 9	Class 10	Class 11	Class 12	Class 13	Class 14	No Rating	
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**5,164,050**	**5,164,050**
- Stage one	-	-	-	-	-	-	3,606,972	3,606,972
- Stage two	-	-	-	-	-	-	292,640	292,640
- Stage three	-	-	-	-	-	-	183,285	183,285
- Purchased or originated impaired	-	-	-	-	-	-	1,081,153	1,081,153
B. Financial assets measured at fair value through comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**458,618**	**458,618**
- Stage one	-	-	-	-	-	-	456,758	456,758
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	1,497	1,497
- Purchased or originated impaired	-	-	-	-	-	-	363	363
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**48,386**	**48,386**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
- Purchased or originated impaired	-	-	-	-	-	-	48,386	48,386
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**5,671,054**	**5,671,054**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	236,263	236,263
- Stage two	-	-	-	-	-	-	31,862	31,862
- Stage three	-	-	-	-	-	-	9,604	9,604
- Purchased or originated impaired	-	-	-	-	-	-	66,111	66,111
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**343,840**	**343,840**
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**6,014,894**	**6,014,894**

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Guaranteed on- and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collaterals			
			Real estate - mortgages	Real estate - loans for leasing	Securities	Other real guarantees
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Collaterals (1)			
			Real estate - liens	Real estate - Loans for leasing	Securities	Other real guarantees
1. Guaranteed on-balance sheet credit exposures:	**2,065,846**	**2,051,350**	**246,957**	**-**	**152,636**	**27,013**
1.1 totally secured	735,028	728,112	246,183	-	147,804	15,156
- of which non-performing	220,344	216,960	148,386	-	305	100
1.2 partially secured	1,330,818	1,323,238	774	-	4,832	11,857
- of which non-performing	145,997	142,434	329	-	442	393
2. Guaranteed “Off-Balance Sheet” credit exposures:	**39,025**	**38,975**	**16,426**	**-**	**248**	**2,684**
2.1 totally secured	19,843	19,821	14,066	-	248	1,358
- of which non-performing	17,968	17,968	13,834	-	-	103
2.2 partially secured	19,182	19,155	2,360	-	-	1,326
- of which non-performing	12,005	12,005	2,360	-	-	1,154

	Personal guarantees (2)									Total (1)+(2)
	Credit derivatives					Endorsement credits				
	CLN	Other derivatives								
		Central Counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-

	Personal guarantees (2)									Total (1)+(2)
	Credit derivatives					Endorsement credits				
	CLN	Other derivatives								
		Central Counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**208,373**	**-**	**22,871**	**985,654**	**1,643,505**
1.1 totally secured	-	-	-	-	-	46,688	-	15,644	228,525	699,999
- of which non-performing	-	-	-	-	-	1,350	-	1,070	43,055	194,266
1.2 partially secured	-	-	-	-	-	161,685	-	7,228	757,129	943,506
- of which non-performing	-	-	-	-	-	13,426	-	18	70,221	84,828
2. Guaranteed “Off-Balance Sheet” credit exposures:	**-**	**-**	**-**	**-**	**-**	**710**	**-**	**1,015**	**5,527**	**26,610**
2.1 totally secured	-	-	-	-	-	338	-	25	3,563	19,598
- of which non-performing	-	-	-	-	-	338	-	25	3,449	17,748
2.2 partially secured	-	-	-	-	-	372	-	989	1,965	7,012
- of which non-performing	-	-	-	-	-	-	-	1	1,957	5,472

A.4 Financial and non-financial assets obtained through the enforcement of guarantees received

There are no financial and non-financial assets obtained through the enforcement of guarantees received.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Sector breakdown of on- and off-balance sheet credit exposures to customers (book value)

p.1

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs
A. On-balance sheet credit exposures						
A.1 Bad loans	-	-	421,381	17,116	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.2 Unlikely to pay	3,393	-	224,167	740	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	2	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	851,488	1,084	1,180,784	3,374	2,405	14
- of which: forborne exposures	-	-	-	-	-	-
Total (A)	**854,881**	**1,084**	**1,826,334**	**21,230**	**2,405**	**14**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures	-	-	1,675	-	-	-
B.2 Performing exposures	-	-	148,341	338	-	-
Total (B)	**-**	**-**	**150,016**	**338**	**-**	**-**
Total (A+B) 31/12/2023	**854,881**	**1,084**	**1,976,350**	**21,568**	**2,405**	**14**
Total (A+B) 31/12/2022	**664,485**	**886**	**1,802,574**	**5,922**	**468**	**8**

B.1 Sector breakdown of on- and off-balance sheet credit exposures to customers (book value)

p.2

Exposures/Counterparties	Non-financial companies		Households	
	Net exposure	Total write-downs/write-backs	Net exposure	Total write-downs/write-backs
A. On-balance sheet exposures				
A.1 Bad loans	88,001	18,451	9,846	1,546
- of which: forborne exposures	-	-	-	-
A.2 Unlikely to pay	405,506	10,516	21,119	480
- of which: forborne exposures	127,491	888	2,738	178
A.3 Non-performing past due exposures	18,047	932	446	103
- of which: forborne exposures	-	-	-	-
A.4 Performing exposures	2,298,682	11,955	58,546	394
- of which: forborne exposures	75,311	342	765	19
Total (A)	**2,810,236**	**41,854**	**89,957**	**2,523**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	47,172	3,565	3,401	62
B.2 Performing exposures	175,486	860	1,943	0
Total (B)	**222,658**	**4,425**	**5,344**	**62**
Total (A+B) 31/12/2023	**3,032,894**	**46,279**	**95,301**	**2,585**
Total (A+B) 31/12/2022	**2,595,597**	**34,427**	**107,950**	**2,566**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures
A. On-balance sheet exposures					
A.1 Bad loans	519,229	37,113	-	-	-
A.2 Unlikely to pay	650,148	10,788	4,036	948	-
A.3 Non-performing past due exposures	18,494	1,035	-	-	-
A.4 Performing exposures	3,966,374	14,788	348,164	1,875	34,892
Total (A)	**5,154,245**	**63,724**	**352,200**	**2,823**	**34,892**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	52,249	3,627	-	-	-
B.2 Performing exposures	324,498	1,199	1,264	-	8
Total (B)	**376,747**	**4,826**	**1,264**	**-**	**8**
Total (A+B) 31/12/2023	**5,530,992**	**68,550**	**353,464**	**2,823**	**34,900**
Total (A+B) 31/12/2022	**4,904,785**	**41,095**	**240,392**	**2,671**	**17,918**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	94	18,434	33	21,637	17
Total (A)	**94**	**18,434**	**33**	**21,637**	**17**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2023	**94**	**18,434**	**33**	**21,637**	**17**
Total (A+B) 31/12/2022	**62**	**3,206**	**29**	**4,304**	**19**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs
A. On-balance sheet credit exposures								
A.1 Bad loans	411,396	19,833	62,560	14,470	35,444	2,280	10,219	531
A.2 Unlikely to pay	647,458	10,479	-	-	2,691	309	-	-
A.3 Non-performing past-due exposures	2,060	367	316	58	15,444	484	674	126
A.4 Performing exposures	1,877,623	7,481	599,303	3,191	1,225,180	2,403	264,268	1,713
Total (A)	**2,938,146**	**38,160**	**662,179**	**17,719**	**1,278,759**	**5,476**	**275,161**	**2,370**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	14,955	228	13,233	3,202	17,964	187	6,096	9
B.2 Performing exposures	197,601	783	64,433	201	53,569	170	8,895	45
Total (B)	**212,556**	**1,011**	**77,666**	**3,404**	**71,533**	**357**	**14,991**	**54**
Total (A+B) 31/12/2023	**3,150,703**	**39,170**	**739,846**	**21,123**	**1,350,292**	**5,832**	**290,152**	**2,424**
Total (A+B) 31/12/2022	**2,755,258**	**12,485**	**750,315**	**21,926**	**1,123,602**	**5,486**	**275,611**	**1,198**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	558,751	239	30,128	15	-
Total (A)	**558,751**	**239**	**30,128**	**15**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2023	**558,751**	**239**	**30,128**	**15**	**-**
Total (A+B) 31/12/2022	**811,792**	**183**	**53,847**	**6**	**-**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2023	**-**	**-**	**-**		
Total (A+B) 31/12/2022	**-**	**-**	**-**	**9**	**1**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet credit exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	144,017	178	16,308	22	398,426	39	-	-
Total (A)	**144,017**	**178**	**16,308**	**22**	**398,426**	**39**	**-**	**-**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2023	**144,017**	**178**	**16,308**	**22**	**398,426**	**39**	**-**	**-**
Total (A+B) 31/12/2022	**762,791**	**115**	**15,307**	**26**	**33,694**	**42**	**-**	**-**

B.4 Large exposures

	31/12/2023
Book value	2,707,625
Weighted value	347,360
Number	8

According to the regulations in force, the number of large exposures shown in the table is determined by referring to unweighted "exposures" exceeding 10% of the Eligible Capital, as defined by EU Regulation no. 575/2013 (so-called CRR), where "exposures" means the sum of on-balance sheet risk assets and off-balance sheet transactions (excluding those deducted from Eligible Capital) towards a client, or a group of connected clients, without the application of weighting factors. These exposure criteria lead to including subjects in the financial statements table relating to large exposures who - although weighted at 0% – have an unweighted exposure exceeding 10% of the Eligible Capital for the purposes of large risks.

C. SECURITISATION TRANSACTIONS

Qualitative information

With regard to third-party securitisations, below is a brief description, by Division:

Distressed Credit Division

For its NPL operations, the Parent Company uses some securitisation vehicles in accordance with Law 130/99.

The Parent Company acquires loan portfolios from independent third parties through securitisation vehicles, which funds itself by issuing single-tranche notes fully subscribed by the Bank, replicating the entire return of the underlying portfolio.

Also within the Distressed Credit Division, the Parent Company also structures senior financing operations, represented by financing services to investors of distressed credits through the subscription of Senior, Mezzanine or Junior notes.

Investment Banking Division

To carry out its performing loan securitisation activities, the Parent Company works with the vehicle Piedmont SPV, which was established by Banca Finint, a financial intermediary and securitisation master services, pursuant to Law 130/99. The vehicle Piedmont SPV is subject to line-by-line consolidation.

b-ilty Division

To carry out its performing loan securitisation activities, the Parent Company works with the vehicle GRO SPV, which was established by SPE MANAGEMENT 2 S.R.L.. The vehicle GRO SPV is subject to line-by-line consolidation.

Quantitative information

C.1 Exposures resulting from the main originated securitisation transactions broken down by type of securitisations and by type of exposures

The Group has no exposures in proprietary securitisations.

Information about "self-securitisation" operations can be found in Section E - 4 Liquidity risk. These are operations in which the Bank has fully subscribed the securities issued by the vehicle, with the aim of using them to obtain liquidity, typically by means of repurchase agreements with market counterparties.

C.2 Exposures resulting from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of underlying asset/ Exposures	On-balance sheet exposures							
	Single tranche		Senior		Mezzanine		Junior	
	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs
Distressed Credit Division	961,937	(17,085)	144,965	(924)	4,859	(21)	2,145	-
Investment Banking Division	-	-	342,780	(744)	808	-	205	-
b-ilty division	-	-	31,349	-	4,493	-	9,280	-

C.3 Securitisation vehicles

As described above, in order to carry out the activities of the DCIS and SME Divisions, the Bank utilises securitisation vehicles pursuant to Italian Law 130/99. For further information, please refer to the contents of the relevant section in the Explanatory Notes to the consolidated financial statements.

C.4 Non-consolidated securitisation vehicles

In addition to the operations listed above, subject to line-by-line consolidation, the Convivio SPV securitisation must also be taken into account, in relation to which illimity subscribed 50% of the mono-tranching notes in a joint venture with Apollo Global Management.

C.5 Servicer activities - originated securitisations: proceeds of securitised credits and reimbursements of securities issued by the securitisation vehicle

The bank does not act as servicer of its own securitisations.

D. INFORMATION ABOUT STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (UNLIKE THE SECURITISATION VEHICLES)

The Bank does not use structured entities not consolidated in the accounts, other than special purpose vehicles for securitisation transactions (securitisation vehicles).

E. DISPOSALS

A. Financial assets sold and not fully derecognised

Qualitative information

The sales connected to financial assets sold and not derecognised relate to repurchase agreements - payable, where the buyer has to resell on expiration of the assets (for example securities).

Quantitative information

E.1 Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause	of which non-performing	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**1,535**	**-**	**29,878**	**-**	**30,818**
1. Debt securities	-	-	1,535	-	29,878	-	30,818
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	-	-	-	-
C. Financial assets carried at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Green Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**150,377**	**-**	**150,377**	**-**	**83,508**	**-**	**84,780**
1. Debt securities	150,377	-	150,377	-	83,508	-	84,780
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**1,456,174**	**720,616**	**176,118**	**10,029**	**669,933**	**-**	**636,217**
1. Debt securities	880,446	-	176,118	-	669,933	-	636,217
2. Green Loans	575,728	720,616	-	10,029	-	-	-
Total 31/12/2023	**1,606,551**	**720,616**	**326,495**	**10,029**	**783,319**	**-**	**751,815**
Total 31/12/2022	**875,559**	**513,472**	**362,087**	**-**	**751,815**	**-**	**751,815**

E.2 Financial assets sold and partially recognised and associated financial liabilities: book values

As of the reporting date of 31 December 2023, the Bank did not hold partially recognised financial assets sold and associated financial liabilities.

E.3 Disposal transactions with liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

In table E.1, the book value of the indicated financial assets may be considered a proxy of the same fair value.

B. Financial assets sold and fully derecognised with recognition of continuing involvement

Qualitative information

The Bank has no such operations.

Quantitative information

D. Covered bond transactions

The Bank has no such operations.

F. CREDIT RISK MEASUREMENT MODELS

For information about credit risk measurement models, please see Section E of the Explanatory Notes to the Consolidated Financial Statements.

Section 2 – Market Risks

2.1 Interest rate risk and price risk – regulatory trading portfolio

Qualitative information

Qualitative information on the measurement of the financial risks generated by the regulatory trading portfolio is illustrated in Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

1. Regulatory trading portfolio: distribution by residual maturity (repricing date) on-balance sheet financial assets and liabilities and financial derivatives

Type/Residual maturity	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. Cash assets	**-**	**-**	**35**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	35	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**814,681**	**330,973**	**417,518**	**977,228**	**101,081**	**-**	**-**
3.1 With underlying security	-	64,379	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	64,379	-	-	-	-	-	-
+ Long positions	-	64,379	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	750,302	330,973	417,518	977,228	101,081	-	-
- Options	-	26,743	13,944	6,881	182,513	25,770	-	-
+ Long positions	-	12,953	8,497	3,984	90,605	11,887	-	-
+ Short positions	-	13,790	5,448	2,897	91,908	13,883	-	-
- Other derivatives	-	723,559	317,029	410,637	794,715	75,311	-	-
+ Long positions	-	365,481	156,709	186,017	403,711	49,305	-	-
+ Short positions	-	358,077	160,320	224,620	391,004	26,006	-	-

2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

The Bank did not hold equity instruments and share indices in the trading portfolio, as of the reporting date.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

Refer to Part E of the Explanatory Notes to the consolidated financial statements.

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

Qualitative information

Qualitative information on the measurement of financial risks generated by the banking portfolio is illustrated in Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

1. Banking book: distribution by residual maturity (repricing date) of financial assets and liabilities

Type/Residual maturity	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. Cash assets	**1,131,497**	**2,170,150**	**641,448**	**228,359**	**1,182,227**	**666,350**	**150,255**	**-**
1.1 Debt securities	151,798	676,628	120,695	131,382	800,695	621,771	78,446	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	151,798	676,628	120,695	131,382	800,695	621,771	78,446	-
1.2 Loans to banks	434,199	26,449	-	-	-	-	44,714	-
1.3 Loans to customers	545,500	1,467,073	520,753	96,976	381,532	44,580	27,094	-
- current account	25,754	2,020	2,911	3,595	14,038	360	5	-
- other loans	519,746	1,465,053	517,842	93,381	367,494	44,220	27,088	-
- with early repayment option	109,342	942,561	375,515	13,774	47,557	3,669	-	-
- other	410,404	522,493	142,326	79,607	319,937	40,551	27,088	-
2. On-balance sheet liabilities	**1,861,684**	**543,415**	**461,620**	**1,153,757**	**2,177,915**	**3,357**	**-**	**-**
2.1 Amounts due to customers	1,058,139	404,977	461,620	1,153,757	1,566,174	3,357	-	-
- current account	881,268	-	-	-	-	-	-	-
- other payables	176,871	404,977	461,620	1,153,757	1,566,174	3,357	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	176,871	404,977	461,620	1,153,757	1,566,174	3,357	-	-
2.2 Amounts due to banks	803,545	138,437	-	-	-	-	-	-
- current account	10,171	-	-	-	-	-	-	-
- other payables	793,374	138,437	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	611,741	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	611,741	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	191,487	139,419	361,194	-	-	-	-
+ Short positions	-	81,487	29,419	361,194	50,000	170,000	-	-
4. Other off-balance sheet transactions								
+ Long positions	49,612	20,212	-	20,487	90,873	22,648	1,110	-
+ Short positions	204,983	-	-	-	-	-	-	-

2. Bank portfolio: internal models and other methods of sensitivity analysis

Refer to Part E of the Explanatory Notes to the consolidated financial statements.

2.3 EXCHANGE RATE RISK

Qualitative information

For qualitative information, including exchange rate risk hedging assets, please refer to Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	USD	GBP	CHF	SEK	ZLOTY	OTHER CURRENCIES
A. Financial assets	**119,418**	**127**	**134**	**122**	**266**	**251**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	7	-	-	-	-	-
A.3 Loans to banks	20,642	119	134	122	266	251
A.4 Loans to customers	98,768	8	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**32,482**	**-**	**-**	**-**	**-**	**-**
C.1 Amounts due to banks	18,387	-	-	-	-	-
C.2 Deposits from customers	14,094	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial assets	-	-	-	-	-	-
D. Other liabilities	**100**	**293**	**-**	**-**	**-**	**-**
E. Financial derivatives	**101,652**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	101,652	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	101,652	-	-	-	-	-
Total assets	**119,418**	**127**	**134**	**122**	**266**	**251**
Total liabilities	**134,233**	**293**	**-**	**-**	**-**	**-**
Difference (+/-)	**(14,816)**	**(166)**	**134**	**122**	**266**	**251**

2. Internal models and other methods of sensitivity analysis

Refer to Part E of the consolidated Explanatory Notes.

Section 3 – Derivative instruments and hedging policies

3.1 Trading derivatives

Trading in derivatives was authorised with effect from 2021: the main type of financial derivatives used is interest rate swaps (IRS), either plain or structured (with the presence of caps and floors).

Derivatives are mainly traded in the context of over-the-counter (OTC) agreements with customers in relation to financing operations. Those derivative operations are carried out within the trading portfolio and involve the active management of market risks, through the hedging of the derivatives with institutional counterparties.

A.1 Financial derivatives held for trading: end-of-period notional values

Underlying assets/ Types of derivatives	Total 31/12/2023				Total 31/12/2022			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates								
a) Options	-	503,600	26,379	-	-	189,600	19,109	-
b) Swaps	742,628	-	296,114	-	-	346,300	228,315	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	64,379	-	-	-	29,629	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	101.652	-	-	-	60,566	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**742,628**	**605,252**	**386,872**	**-**	**-**	**596,466**	**277,053**	**-**

A.2 Financial derivatives held for trading: positive and negative gross fair value - distribution by products

Types of derivatives	Total 31/12/2023				Total 31/12/2022			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	8,133	-	-	-	12,950	-	-
b) Interest rate swaps	14,200	-	2,109	-	-	17,996	12	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	1,423	-	-	-	159	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**14,200**	**9,555**	**2,109**	**-**	**-**	**31,105**	**12**	**-**
2. Negative fair value								
a) Options	-	8,607	102	-	-	10,626	59	-
b) Interest rate swaps	5,539	-	5,114	-	-	4,564	11,996	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	113	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**5,539**	**8,720**	**5,217**	**-**	**-**	**15,189**	**12,055**	**-**

A.3 OTC financial derivatives held for trading - notional values, positive and negative gross fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
- notional value	X	64,379	47,750	275,734
- positive fair value	X	0	494	1,615
- negative fair value	X	-	224	4,993
2) Equity securities and share indices		**-**	**-**	**-**
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold		**-**	**-**	**-**
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Goods		**-**	**-**	**-**
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Others		**-**	**-**	**-**
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting agreements		-	-	-
1) Debt securities and interest rates		**-**	**-**	**-**
- notional value	-	1,246,228	-	-
- positive fair value	-	22,332	-	-
- negative fair value	-	14,146	-	-
2) Equity securities and share indices		**-**	**-**	**-**
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold		**-**	**-**	**-**
- notional value	-	101,652	-	-
- positive fair value	-	1,423	-	-
- negative fair value	-	113	-	-
4) Goods				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying assets/Residual life	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	399,682	1,026,512	206,905	1,633,099
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	101,652	-	-	101,652
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2023	**501,334**	**1,026,512**	**206,905**	**1,734,751**
Total 31/12/2022	**126,855**	**523,086**	**223,578**	**873,519**

3.2 Hedge accounting

For qualitative information, refer to Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: end-of-period notional values

Underlying assets/ Types of derivatives	Total 31/12/2023				Total 31/12/2022			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**692,100**	**-**	**-**	**-**	**819,336**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	692,100	-	-	-	819,336	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**692,100**	**-**	**-**	**-**	**819,336**	**-**	**-**

A.2 Financial hedging derivatives: positive and negative gross fair value - distribution by products

Types of derivatives	Positive and negative fair value								Change in the value used to recognise the ineffectiveness of the hedge	
	Total 31/12/2023				Total 31/12/2022				Total 31/12/2023	Total 31/12/2022
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	21,393	-	-	-	29,874	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**21,393**	**-**	**-**	**-**	**29,874**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	19,770	-	-	-	32,646	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**19,770**	**-**	**-**	**-**	**32,646**	**-**	**-**	**-**	**-**

A.3 OTC financial hedging derivatives - notional values, positive and negative gross fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and share indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Others				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting agreements				
1) Debt securities and interest rates				
- notional value	-	629,100	-	-
- positive fair value	-	21,393	-	-
- negative fair value	-	19,770	-	-
2) Equity securities and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Goods				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others	**-**	**-**	**-**	**-**
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying assets/Residual life	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	472,100	50,000	170,000	629,100
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2023	**472,100**	**50,000**	**170,000**	**629,100**
Total 31/12/2022	**127,236**	**522,100**	**170,000**	**819,336**

B. Credit hedging derivatives

The Bank does not hold credit derivatives classified as hedges.

B. Non-derivative hedging instruments

The Bank does not hold non-derivative instruments classified as hedges.

D. Hedged instruments

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: book value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: Book value
			Cumulative changes in fair value of the hedged instrument	Termination of the hedge: residual cumulative changes in fair value	Changes in the value used to recognise the ineffectiveness of the hedge	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income - hedging of:	**208,246**	**-**	**33**	**-**	**-**	**-**
1.1 Debt securities and interest rates	208,246	-	33	-	-	X
1.2 Equity securities and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Receivables	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
2. Financial assets measured at amortised cost - hedging of:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities and interest rates	-	-	-	-	-	X
1.2 Equity securities and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Receivables	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
Total 31/12/2023	**208,246**	**-**	**33**	**-**	**-**	**-**
Total 31/12/2022	**193,818**	**-**	**8,445**	**-**	**-**	**-**
B. Liabilities						
1. Amounts due to customers - hedging of:	**599,338**	**-**	**(2,266)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	599,338	-	(2,266)	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Others	-	-	-	-	-	X
Total 31/12/2023	**599,338**	**-**	**(2,266)**	**-**	**-**	**-**
Total 31/12/2022	**398,150**	**-**	**(3,676)**	**-**	**-**	**-**

D.2 Cash flow hedges and foreign investments

The Bank does not hold cash flow hedges or foreign investments.

E. Effects of hedging operations on Shareholders' equity

The Bank does not hold cash flow hedges or foreign investments.

3.3. Other information on (trading and hedging) derivatives

A. Financial and credit derivatives

A.1 Over the counter financial and credit derivatives: net fair value for counterparties

The portfolio does not contain any netting carried out in the financial statements for derivatives whose netting agreements that meet the criteria set out in IAS 32, par. 42.

Section 4 – Liquidity risk

Qualitative information

For qualitative information, refer to Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

1. Breakdown of financial assets and liabilities by residual contractual maturity

EUROS

Type/Residual maturity	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 months to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
A. Cash assets	**720,317**	**379,236**	**34,495**	**168,003**	**537,646**	**401,418**	**483,212**	**2,508,423**	**1,532,394**	**26,482**
A.1 Government bonds	273	-	215	-	3,722	69,910	45,126	425,000	339,055	-
A.2 Other debt instruments	16,110	875	1,338	21,268	116,391	61,770	116,154	472,512	818,833	-
A.3 Units in UCIs	528,645	-	-	508	1,157	929	5,325	65,218	-	-
A.4 Loans	175,290	378,361	32,942	146,227	416,376	268,809	316,606	1,545,693	374,505	26,482
- Banks	37,104	367,228	-	-	23	-	-	-	44,777	26,482
- Customers	138,186	11,133	32,942	146,227	416,353	268,809	316,606	1,545,693	329,729	-
B. On-balance sheet liabilities	**936,828**	**160,400**	**51,720**	**104,071**	**247,461**	**488,406**	**1,276,260**	**2,850,232**	**207,851**	**-**
B.1 Deposits and current accounts	936,828	160,400	51,720	102,767	238,762	475,254	1,199,818	1,684,881	9,101	-
- Banks	14,615	120,000	-	20,000	-	-	-	-	-	-
- Customers	922,213	40,400	51,720	82,767	238,762	475,254	1,199,818	1,684,881	9,101	-
B.2 Debt instruments	-	-	-	-	-	3,128	31,878	408,525	198,750	-
B.3 Other liabilities	-	-	-	1,304	8,698	10,024	44,563	756,827	-	-
C. "Off-balance sheet transactions"	**76,080**	**78,691**	**5,262**	**50,196**	**220,829**	**57,492**	**42,329**	**226,324**	**67,108**	**-**
C.1 Financial derivatives with exchange of principal	-	78,691	5,262	50,196	179,388	57,004	-	-	-	-
- Long positions	-	39,867	2,683	25,128	89,783	28,407	-	-	-	-
- Short positions	-	38,824	2,579	25,068	89,605	28,597	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	0	0	1,017	318	1,375	22,496	18,598	-
- Long positions	-	-	0	0	911	318	1,253	12,397	9,562	-
- Short positions	-	-	-	-	106	0	123	10,099	9,036	-
C.3 Deposits and loans to be collected	76,080	0	0	0	40,424	169	40,954	203,828	48,510	-
- Long positions	38,040	0	0	0	20,212	85	20,477	101,914	24,255	-
- Short positions	38,040	0	0	0	20,212	85	20,477	101,914	24,255	-
C.4 Commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

2. Self-Securitisations

Below is a brief illustration of the self-securitisations originated by illimity, existing as of 31 December 2023, in which the Bank subscribed 100% of the securities issued by the related vehicle (self-securitisation).

In December 2022, the Bank entered into a receivable sale agreement with the special-purpose vehicle COLT SPV for the recourse sale, en bloc, of a portfolio of performing variable-rate loans to corporate counterparties originated by illimity. COLT SPV is a vehicle incorporated pursuant to Law 130/1999, not owned by illimity, which, on 19 December 2022, issued senior, mezzanine and junior notes for a total notional value of EUR 570.1 million, fully subscribed by illimity.

During the course of 2023 the Bank subscribed additional notes issued by the vehicle for a total of approximately EUR 138 million.

This transaction falls under transactions without derecognition aimed at expanding the portfolio of assets that can be set aside to constitute a liquidity reserve that can be activated through funding transactions with the ECB, repos or other transactions. The notes subscribed by illimity were used as a guarantee for reverse repurchase agreements in order to ensure that the bank has sufficient liquidity for its funding policies.

In 2022, the Bank subscribed several minibond issues of leading industrial companies, to favour the energy transition and improve issuers' sustainability profiles. Mainly for the purpose of mitigating the risk relating to the Bank's exposure, it was agreed to give priority to issues of minibonds that could benefit from guarantees such as those from SACE and the EIF. It was thus verified, through legal assessments, that the minibonds benefiting from those guarantees cannot be transferred to third parties or to any securitisation vehicle established pursuant to Law 130/99 specifically due to the framework agreements of the guarantors.

In February 2023, the Bank thus structured a synthetic securitisation with the vehicle Energia Sostenibile SPV, established pursuant to Law 130/1999, not held by illimity, which issued single tranche notes fully subscribed by illimity. Using the funds deriving from illlimity's (the sole noteholder) subscription of the single tranche notes, the SPV disbursed a limited recourse loan, of which illimity is the sole borrower, whose characteristics were exactly replicated from the minibonds at the single closings (in terms of interest, redemptions, economic terms and conditions, etc.).

This transaction falls under transactions without derecognition ("self-securitisations") typically aimed at expanding the portfolio of assets that can be set aside to constitute a liquidity reserve that can be activated through funding transactions, repos or other transactions.

Section 5 – Operational Risks

Qualitative information

For qualitative information, including legal risks and tax litigation, see Part E of the Explanatory Notes to the consolidated financial statements.

OTHER RISKS

For information relating to Other Risks, refer to Part E of the Explanatory Notes to the consolidated financial statements.

Part F – Information on shareholders' equity

Section 1 – Bank's shareholders' equity

Qualitative information

Shareholders' equity is defined by the International accounting standards as "what remains of the company's assets after deducting all the liabilities". From a financial viewpoint, equity is the monetary amount of the funds contributed by the proprietors, or generated by the business.

B.1 Equity: breakdown

Items/Values	Amount 31/12/2023	Amount 31/12/2022
1. Share capital	**54,691**	**54,514**
2. Share premium reserve	**624,584**	**624,584**
3. Reserves	**208,084**	**140,627**
- earnings	170,261	104,365
a) legal	9,082	5,047
b) Articles of Association	-	-
c) treasury shares	16	-
d) others	161,163	99,318
- others	37,823	36,262
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**(747)**	**(747)**
6. Valuation reserves:	**(30,269)**	**(48,275)**
- Equities measured at fair value through comprehensive income	5	5
- Hedging of equity instruments measured at fair value through other comprehensive income	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	(30,301)	(48,621)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging of foreign investments	-	-
- Cash flow hedges	-	-
Hedging instruments (undesignated elements)	-	-
- Foreign exchange differences	-	-
- Non-current assets and asset groups held for sale	-	-
- Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)	-	-
- Actuarial gains (losses) relating to defined benefit plans	27	341
- Share of valuation reserves for equity investments measured at equity	-	-
- Special revaluation laws	-	-
7. Profit (loss) for the period	**102,307**	**80,715**
Total	**958,650**	**851,418**

B.2 Valuation reserves of the financial assets measured at fair value through comprehensive income: breakdown

Assets/Values	Total 31/12/2023		Total 31/12/2022	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	7,235	(37,536)	13,173	(61,793)
2. Equity securities	5	-	5	-
3. Green Loans	-	-	-	-
Total	**7,240**	**(37,536)**	**13,178**	**(61,793)**

B.3 Valuation reserves of the financial assets measured at fair value through comprehensive income: annual changes

	Debt securities	Equity securities	Green Loans
1. Opening balance	**(48,621)**	**5**	**-**
2. Positive changes	**63,515**	**-**	**-**
2.1 Increases in fair value	39,150	-	-
2.2 Write-downs/write-backs for credit risk	963	X	-
2.3 Transfer to income statement of negative reserves following disposal	22	X	-
2.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
2.5 Other changes	23,380	-	-
3. Negative changes	**(45,195)**	**-**	**-**
3.1 Decreases in fair value	(2,116)	-	-
3.2 Adjustments in value for credit risk	(833)	-	-
3.3 Reclassification through profit or loss of positive reserves: following disposal	(2,542)	X	-
3.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
3.5 Other changes	(39,704)	-	-
4. Closing balance	**(30,301)**	**5**	**-**

B.4 Revaluation reserves on defined benefit plans: annual changes

	31/12/2023	31/12/2022
1. Opening balance	**341**	**(237)**
2. Positive changes	**120**	**773**
2.1 Increases in fair value Actuarial (Gains)/Losses		773
2.2 Reclassification through profit or loss of negative reserves		
2.3 Other changes	120	
3. Negative changes	**(434)**	**(195)**
3.1 Decreases in fair value Actuarial (Gains)/Losses	(434)	
3.2 Reclassification through profit or loss of positive reserves		
3.3 Other changes		(195)
4. Closing balance	**27**	**341**

Section 2 – Own funds and capital ratios

For information on own funds and capital adequacy, reference is made to the separate document Basel Pillar 3 - Public disclosure, 31 December 2023.

PART G - Business combinations

Section 1 - Transactions carried out during the financial year

1.3 Transactions of business combinations

The acquisition of Residenze Porta Nuova (now Quimmo Prestige Agency)

Coima, a company operating in investment, development and management of real estate assets on behalf of institutional investors, on 18 April 2023 signed a real estate partnership with Abilio S.p.A., the illimity Group company that specialises in the digital brokerage of property and capital goods. Specifically, the agreement provided for Coima to acquire a minority stake of 18 per cent in Abilio's share capital, by means of a reserved capital increase against contribution.

The transaction, which was completed on 25 May 2023, was resolved upon by the Shareholders' Meeting of Abilio and provided in particular for the transfer to Abilio by Coima of 100% of Residenze Porta Nuova S.r.l. ("RPN"), and Coima's subsequent acquisition of 18% of Abilio's share capital for a total amount of EUR 5 million.

Please see Section G of the Explanatory Notes to the Consolidated Financial Statements for further details about the acquisition and the consequent accounting effects recognised as of 31 December 2023.

The total consideration transferred, the sum of the part in cash and cash equivalents and the part in shares, was valued at EUR 5 million. This amount was therefore considered the initial recognition value of the Bank's controlling stake in RPN.

1.4 Transactions between subjects under common control

With effect for legal, accounting and tax purposes from 1 January 2023, the merger by incorporation of the subsidiary AREC S.p.A. into neprix S.r.l. was completed, resulting in the creation of the legal entity AREC neprix S.p.A. That operation has had no effects on the consolidated financial statements, as both companies were wholly controlled by illimity Bank S.p.A. and included in the consolidated financial statements on a line-by-line basis.

It should also be pointed out that on 15 December 2023, a deed was signed to assign the "Industrial Sales" business unit of Abilio S.p.A. to the previously incorporated company Industrial Discount S.r.l., with effect from 20 December 2023.

These transactions, classified as "business combinations between entities under common control" and therefore outside the scope of IFRS 3, had no effects on the consolidated financial statements as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

Section 2 – Business combinations carried out after the balance sheet date

2.1 Transactions of business combinations

There were no business combinations governed by IFRS 3 after the end of 2023.

Section 3 – Retrospective adjustments

No retrospective adjustment was made during 2023 to business combinations taking place in previous years.

Part H – Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure "the transparency and material and procedural fairness of operations with related parties" carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.
In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions.
In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.
Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

In 2023 a material related party transaction was carried out involving an agreement to manage operations with said counterparty related to the liquidity deposited by the latter in current and deposit accounts with illimity Bank S.p.A. (about which adequate information was disclosed to the market, which should be referred to for further details). There were no further material or minor related party transactions in 2023 which significantly affected the Bank's capital or profit and loss.

In relation to CONSOB communication no. DEM/6064293 of 28 July 2006, operations or positions with related parties as classified in IAS 24 and the CONSOB Regulation have a limited impact on the financial situation and capital, profit and loss and cash flows of the Bank.

According to IAS 24, related parties are parties:

a) that directly or indirectly, through one or more intermediaries,
    (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
    (ii) hold an investment in the entity to the extent that they may exercise considerable influence on the latter; or
b) jointly control the entity;
c) represent an associate of the entity;
d) represent a joint venture in which the entity participates;
e) are one of the key senior managers of the entity or its parent;
f) are a close family member of one of the parties in points (a) or (d);
g) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
h) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the 9th update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks, issued in implementation of Article 53, paragraph 4 et seq., of the Consolidated Law on Banking and in accordance with Resolution of the Interministerial Committee for Credit and Savings no. 277 of 29 July 2008, as well as the regulations set forth by Article 136 of the Consolidated Law on Banking. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

1. Information on remuneration of key senior managers

The total remuneration and other benefits paid pertaining to the financial year to directors, statutory auditors and other key senior managers is EUR 11,795 thousand. As required by the new IAS 24, paragraph 17, further information has been provided about the following categories of remuneration for senior managers with strategic responsibilities and employees:

(Thousands of euros)

Category	Amount
a) short-term employee benefits	9,609
b) post-employment benefits	282
d) share-based payments for employees	(9)
e) compensation of members of the Board of Directors and the Audit and Internal Control Committee	1,912

2. Information on related party transactions

With regard to the financial relations, and remembering that key senior managers also include the directors and statutory auditors of the Bank, the situation on the reporting date is that shown in the following table, expressed in thousands of euros.

Under the terms of CONSOB Communication no. 6064293 of 28 July 2006, the effects on the consolidated financial statements of transactions with related parties as referred to in the table below, are highlighted in the relevant column.

STATEMENT OF FINANCIAL POSITION

(Thousands of euros)

Assets		31/12/2023	of which with related parties	Impact of related parties
10.	Cash and cash equivalents	392,921	3,765	1.0%
	- Other related parties		3,765	
20.	Financial assets measured at fair value through profit or loss	732,058	215,899	29.5%
	a) financial assets held for trading	25,917	-	
	b) financial assets at fair value	-	-	
	c) other financial assets mandatorily measured at fair value	706,141	215,899	30.6%
	- Other related parties		109	
	- Subsidiaries		215,790	
40.	Financial assets measured at amortised cost	5,099,579	972,323	
	a) due from banks	112,442	-	
	b) loans to customers	4,987,137	972,323	19.1%
	- Other related parties		92,167	
	- Subsidiaries		873,232	
	- Senior managers		4,189	
	- Companies subject to significant influence		2,735	
70.	Equity investments	163,773	163,773	100%
	- Subsidiaries		64,072	
	- Companies subject to significant influence		5	
	- Companies subject to joint control		99,696	
90.	Intangible assets	88,622	350	0.4%
	- Other related parties		350	
	- Subsidiaries		-	
	- Companies subject to joint control		-	
120.	Other assets	280,058	5,888	2.1%
	- Other related parties		20	
	- Subsidiaries		5,806	
	- Companies subject to joint control		62	

(Thousands of euros)

	Liabilities and shareholders' equity	31/12/2023	of which with related parties	Impact of related parties
10.	Amounts due to customers	6,201,748	358,290	5.8%
	a) due to banks	941,982	-	
	b) due to customers	4,684,024	358,290	7.6%
	- Other related parties		29,189	
	- Subsidiaries		135,942	
	- Senior managers		4,325	
	- Companies subject to significant influence		90	
	- Companies subject to joint control		188,744	
	c) securities issued	611,741		
80.	Other liabilities	128,945	13,395	10.4%
	- Other related parties		482	
	- Subsidiaries		8,313	
	- Senior managers		4,574	
	- Companies subject to joint control		26	
90.	Employee severance pay	2,936	352	12.0%
	- Senior managers		352	
100.	Allowances for risks and charges	8,031	221	2.8%
	a) commitments and guarantees given	5,374	221	
	- Other related parties		221	
	b) post-employment benefits and similar obligations	-		
	c) other allowances for risks and charges	2,657		
140.	Reserves	208,084	3,481	1.7%
	- Senior managers		3,481	

INCOME STATEMENT

	Items	31/12/2023	of which with related parties	Impact of related parties
10.	Interest income and similar income	395,228	87,149	22.1%
20.	Interest expenses and similar charges	(202,696)	(5,090)	2.5%
40.	Fee and commission income	47,147	829	1.8%
50.	Fee and commission expense	(7,661)	(67)	0.9%
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	3,782	3,572	94.5%
	a) financial assets and liabilities designated at fair value	-	-	-
	b) other financial assets mandatorily measured at fair value	3,782	3,572	94.5%
130.	Net losses/recoveries for credit risks associated with:	29,955	(15,982)	53.4%
	a) financial assets measured at amortised cost	30,085	(15,982)	53.1%
	b) financial assets measured at fair value through other comprehensive income	(130)	-	-
160.	Administrative expenses:	(158,431)	(26,361)	16.6%
	a) personnel expenses	(71,123)	(11,338)	16.0%
	b) other administrative expenses	(87,038)	(15,023)	17.3%
190.	Net adjustments/recoveries on intangible assets	(13,958)	(59)	0.4%
200.	Other operating income/expenses	59,913	(129)	0.2%

PART I – SHARE-BASED PAYMENTS

Qualitative information

1. Description of payment agreements based on own equity instruments

As to the variable component, the Group Remuneration Policy provides for the following plans:

- an "*Employee Stock Ownership Plan*" (ESOP);
- a "*Long Term Incentive Plan*" (LTI).

"Employee Stock Option Plan" (hereinafter also "ESOP")

The ESOP provides for the free allocation of up to 700,000 Ordinary Shares, which will be issued in execution of the decision article 2443 of the Italian Civil Code for the free increase of share capital, Article 2349, paragraph 1, of the Italian Civil Code up to a maximum of EUR 498,890, authorised by the Meeting on 18 January 2019. The Ordinary Shares will be allocated in five cycles on an annual basis.

The ESOP is intended for all the employees of the Bank and/or of its subsidiaries, who have, either with the Company or with one of its direct or indirect subsidiaries (i) a permanent contract of employment, or (ii) a fixed term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment").

As decided by the Meeting on 18 January 2019, the body currently responsible for implementing and managing the ESOP is the Bank's Board of Directors which on 18 January 2019 approved the "*Employee Stock Ownership Plan* Regulation", without affecting the characteristics of the Plan which is examined and approved by the Meeting (the "ESOP Regulation").

The beneficiaries' entitlement to the Ordinary Shares is subject to the following conditions being met:

- admission for trading on the MTA of the Ordinary Shares and Conditional Share Rights;
- the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiary on the allocation date of the Ordinary Shares;
- the maintenance of certain capital and liquidity requirements (so-called *gates*), in line with the applicable laws and regulations on the date of allocation of the Ordinary Shares.

The fulfilment of these conditions for the purposes of awarding the Ordinary Shares will be verified by the Board of Directors and/or the body or persons authorised for that purpose by the Board itself.

The ESOP Regulation requires that the Ordinary Shares be held in a restricted account for each employee, for at least three years. The Ordinary Shares will become available to the employee on conclusion of the three-year restriction period.

Each allocation is related to performance conditions relative to the financial statements of the previous year being attained at the allocation date. Therefore, each annual assignment will be independently recognised at the specific grant date. The ESOP was classified, in accordance with IFRS 2, as equity-settled, since it provides for payments based on the Bank's shares.

"Long Term Incentive Plan" (hereinafter also "LTIP")

On 15 December 2021, the illimity Bank S.p.A. Ordinary Shareholders' Meeting, on the premise that remuneration represents one of the most important factors for attracting and retaining individuals with the professional expertise and skills appropriate to the company's medium- and long-term needs, approved a *Long Term Incentive Plan* ("LTIP", "the Plan") for the 2021-2025 period, associated with the economic, financial and ESG targets set out in the Strategic Plan.

This LTI Plan replaces:

- the "Stock Option Plan" ("SOP") whose adoption was resolved upon on 18 January 2019 by the Shareholders' Meeting, reserved for a select number of employees of illimity and of companies directly and/or indirectly controlled by illimity; and

- the 2020-2023 Long Term Incentive Plan reserved for the Chief Executive Officer and the rest of illimity's Top Management, whose adoption was resolved upon on 22 April 2020 by the Shareholders' Meeting.

The LTI Plan aims to ensure that the time horizon of the long-term incentive plan for key resources of the Bank is aligned with that of the 2021-25 Strategic Plan presented on 22 June 2021; to ensure strict alignment between the interests of the Bank, its shareholders and the beneficiaries of the LTI Plan, by incentivising commitment to achieving the Strategic Plan goals; and to support the achievement of ESG (Environmental, Social & Governance) targets in addition to economic and financial targets, in accordance with the overall framework of the aforementioned Strategic Plan.

The LTI was classified, in accordance with IFRS 2, as equity-settled, since it provides for payments based on the Bank's shares.

Quantitative information

1. Annual changes

Items / Number of options and exercise prices	31/12/2023			31/12/2022		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balance	**1,555,137**	**-**	**31/12/2025**	**1,696,386**	**-**	**31/12/2024**
B. Increases			**X**			**X**
B.1 New issues	87,224	-	31/12/2025	62,409	-	31/12/2024
B.2 Other changes			X			X
C. Decreases			**X**			**X**
C.1 Derecognised	(143,215)	-	X	(203,658)	-	X
C.2 Exercised	-	-	X	-	-	X
C.3 Past-due	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**1,499,146**	**-**	**31/12/2025**	**1,555,137**	**-**	**31/12/2024**
E. Options exercised as of the end of the financial year	**-**	**-**	**X**	**-**	**-**	**X**

2. Other information

During 2023, as part of the ESOP, 137,900 illimity shares were assigned to Bank employees as part of a capital increase to service the Plan, which was approved by the Board of Directors of illimity Bank on 30 May 2023.

PART L – SEGMENT REPORTING

illimity S.p.A., the parent company of the illimity, banking group, opting for the possibility in IFRS 8, prepares segment reporting in Part L of the Explanatory Notes to the Consolidated Financial Statements, to which reference is made.

PART M – LEASE REPORTING

Section 1 – Lessee

Qualitative information

The Bank holds lease contracts that may be classified in the two following categories:

1. Leasing of properties for business and personal use;
2. Long-term rental of cars.

As of 31 December 2023, there were 88 leasing contracts, of which 16 related to real estate *leasing*, with a total value of rights of use of EUR 19.5 million, of which 72 related to cars, with a total value of rights of use of EUR 1.2 million.

Real estate leasing contracts refer to the leasing of buildings intended for instrumental (office) use and personal use.

Contracts, as a rule, have a duration of greater than 12 months, and typically have renewal and termination options that can be exercised by the parties according to the provisions of law or specific contractual provisions.

Contracts relating to other *leases* relate to cars. These are long-term rental contracts available to employees. Generally, these contracts have a four-year duration, with monthly or quarterly payments, without the option of renewal and do not include the option of purchasing the asset.

Sub-lease transactions are attributable to properties intended for residential use.

As previously specified in the accounting policies, the scope of application of IFRS 16 excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

Quantitative information

The following table provides a summary of the components of the Statement of Financial Position relating to *leasing* contracts; for further information, see Part B of the Explanatory Notes:

TYPE OF CONTRACT	Right of use	Lease Liability
Real estate leasing	19,477	23,595
Long Term Rental Cars	1,215	1,239
Total	**20,692**	**24,834**

The following table contains a summary of the components of the Income Statement relating to *leasing* contracts; for further information refer to the contents of Part C of the Explanatory Notes:

TYPE OF CONTRACT	Interest expense	Net write-downs/ write-backs on property and equipment
Real estate leasing	1,649	2,242
Long Term Rental Cars	44	518
Total	**1,693**	**2,760**

As of 31 December 2023 there were no material amounts relating to lease commitments not yet entered into.

Section 2 – Lessor

QUALITATIVE INFORMATION

At the reporting date, the Bank had no leases in the role of lessor to third parties.

Certification of the Financial Statements

pursuant to Article 154-bis of Italian Legislative Decree 58/1998

illimity

Certification of the Financial Statements pursuant to Article 154-bis of Italian Legislative Decree 58/1998

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in relation to the characteristics of the enterprise and
   - the effective application of the administrative and accounting procedures used to prepare the financial statements during financial year 2023.
2. The adequacy of the administrative and accounting procedures used in the formation of the accounts as of 31 December 2023 is checked according to the "*Internal Control – Integrated Framework*" (CoSO) and the "*Control Objective for IT and related Technologies*" (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.
3. We can also certify that:

   3.1 the financial statements:

   a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of 19 July 2002;

   b) correspond to the accounting records;

   c) provide a true and fair view of the financial position, performance and cash flows of the issuer.

   3.2 The report on operations includes a reliable analysis of the progress and results of operations as well as the issuer's situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Milan, 08 March 2024

Chief Executive Officer
Corrado Passera
Signed

Financial Reporting Officer
Sergio Fagioli
Signed


ENERGY
STORAGE

Report of the Audit and Internal Control Committee

illimity

REPORT OF THE AUDIT AND INTERNAL CONTROL COMMITTEE TO THE SHAREHOLDERS' MEETING OF ILLIMITY BANK S.p.A. ON ITS SUPERVISORY ACTIVITIES IN 2023

Pursuant to Article 153, paragraph 1 of Legislative Decree no. 58 of 24 February 1998

Shareholders,

The Audit and Internal Control Committee (hereafter referred to as the "**AICC**", the "**Committee**" or the "**Control Body**") appointed by the Shareholders' Meeting of 28 April 2022 reports in this document submitted to the Shareholders' Meeting of illimity Bank S.p.A. (hereafter also "**illimity**", "**illimity Bank**" or the "**Bank**) - pursuant to Article 153 of Legislative Decree no. 58/1998 (hereafter "**TUF**") - on its activities for the year ending 31 December 2023.

The Shareholders' Meeting of 28 April 2022 directly appointed the members of the Audit and Internal Control Committee, also designating its Chair, all of whom meet the requirements of good reputation, professionalism and independence, requirements set forth by the TUF, the Corporate Governance Code for Listed Companies, the Company's By-laws, Legislative Decree no. 385/1993 (hereinafter the "**TUB**") and Decree no. 169 of the Ministry of Economy and Finance of 23 November 2020.

In addition to performing the tasks envisaged by law and the By-laws, in accordance with the provisions of Bank of Italy Circular no. 285/2013 the Committee also performs the same tasks assigned to the Control Body (Board of Statutory Auditors) in the traditional model, as well as the tasks envisaged by Article 19 of Legislative Decree no. 39/2010 as the Internal Control and Audit Committee.

The Committee therefore points out that the overall operation of the body leverages the specificities of the one-tier corporate governance, which envisages the complete circularity and timeliness of information, the full participation of the members of the Board of Directors, including taking prior control actions, as well as the active participation, as members, of some Directors in other Board Committees, thereby achieving a two-way communication between the Committees themselves. Thus are acquired additional elements, broader perspectives on existing risks and controls and more information on issues deserving attention, allowing for timely responses in the course of the action plan. Also key to the effectiveness of the work is the continuous exchange of information and ideas with the other Board Committees, in particular with the Risk Committee, with which issues and operations of common interest are agreed to while still respecting their respective functions and objectives, defining a coordinated work plan, shedding light on the different perspectives and interpretations.

During the 2023 financial year, the Committee carried out its statutory duties in compliance with the Civil Code, the TUB, the TUF, Bank of Italy Circular no. 285/2013, the guidance provided by CONSOB in communication no. 1025564 of 6 April 2001 as amended, Legislative Decree no. 39/2010 (Decree implementing Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts) as amended, statutory provisions and provisions issued by the regulatory and supervisory authorities, and also taking into account the rules of conduct for Control Bodies of listed companies issued by the National Council of Chartered Accountants and Accounting Experts.

The Committee also complied with the regulations applicable to public interest bodies, as the "Internal Control and Audit Committee", performing additional specific control and monitoring duties with regard to financial reporting and statutory auditing, as provided for in Article 19 of the abovementioned Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016.

The Committee held a total of 42 meetings in 2023 lasting an average of approximately two and a half hours each, of which 18 joint meetings, partly or as a whole, with the Risks Committee and 7 with other Committees; it attended the Shareholders' Meeting of 20 April 2023 and 24 meetings of the Board of Directors. In addition, the Committee, mostly with all of its members, attended all the other meetings of the Board Committees.

During the financial year, the Committee also issued 17 opinions on compliance or the sharing of decisions taken by the Executive Body, required by the law or regulations.

The Chair of the Risks Committee and the Secretary of the Board of Directors were notified of the Committee's invitations, with details of the items on the agenda. The CFO and the General Counsel (the latter with the support of the Corporate Governance function to act as Secretary) duly participated in the work of the Committee, while depending on the agenda items numerous executives – first and foremost the Financial Reporting Officer (hereinafter, the **Financial Reporting Officer**), the Head of Internal Audit, the Chief Compliance & AFC Officer, not to mention the CRO, the Head of Human Resources & Organisation, the CIO and other executives – regularly took part in the Committee's work.

At the first Board of Directors' meeting held after each meeting, the Committee Chair updated the members of the Board of Directors on the most relevant results of the work done, as recorded in the Board minutes. A semi-annual report on the work done was also formally submitted to the Board, as envisaged by the Regulation.

As in the previous year, in 2023 the Committee, like the Bank's other governance bodies, carried out its activities and held its meetings by video/audio conference, operating in remote working mode. This was permitted under Article 30 of the By-laws, as well as being provided for under law, as an effective *modus operandi*, due to the functionality illimity's IT tools.

As part of its control activities, the Committee, among other things:

- monitored compliance with the laws, By-laws and industry regulations, including with reference to the obligations regarding regulated or insider information or information requested by the Supervisory Authorities;
- supervised compliance with the principles of proper administration, specifically it monitored the compliance of the Internal Policy on Transactions with Related Parties and Connected Parties with the principles set out in CONSOB resolution no. 17221 of 12 March 2010 as amended, and with the provisions of Circular no. 285/2013 of the Bank of Italy, as well as with compliance with the Policy itself;
- monitored the adequacy, efficiency and functionality of the organisational set-up, including the prior review of corporate regulations of strategic importance introduced for the first time or subject to significant updating, and the review of updates prepared by the CIO on IT issues, including the monitoring of the evolution of the recommendations of the control functions and the Business Continuity Plan and disaster recovery;
- assessed the adequacy and effectiveness of the internal control and risk management system with respect to the characteristics of the Bank and the risk profile assumed, including by means of:
    a. a review of the periodic reports prepared by the Internal Audit Department, the annual final report for 2023, the annual planning for 2024, the annual reports concerning Whistleblowing and the outsourced Essential or Important Functions;
    b. during joint meetings with the Risks Committee, in the perspective of their respective tasks and roles, and prior to the approval of the Directors, the assessment of the definition and approval of strategic guidelines and risk governance policies, examining the following information prepared by the risk control functions and division management:
        i. periodic reports and quarterly Tableau de Bord prepared by the control functions, annual report of the Chief Compliance & AFC Officer, the CRO and the Head of Internal Audit, work plans prepared for 2024 by these functions;
        ii. the updating of the Risk Appetite Framework and Risk Appetite Statement indicators for 2023 and 2024;
        iii. the preparation of the 2024 Budget;

- analysed the performance reports of the Growth Credit (now Corporate Banking), Distressed Credit (now Specialised Credit), Direct Banking, Investment Banking and b-ilty Divisions, as well as the formalisation reports of Level II controls and the collective adjustments to loans on a quarterly basis.
- checked the adequacy, efficiency and functionality of the administrative accounting and internal control systems through direct examination, data and information collection from the Heads of the main business Functions concerned, the Financial Reporting Officer pursuant to Article 154-*bis* of the TUF and the company responsible for the independent auditing of the accounts, KPMG S.p.A. (hereafter "**KPMG**" or the "**Independent Auditors**");
- examined the independent auditing process, monitored the financial and non-financial reporting process, and independence of the Independent Auditors;
- examined the material transactions finalised during the year and referred to below, as well as performed analyses and studies on other activities brought to the Committee's attention or requested thereby;
- within its scope of responsibility, supervised the adoption and proper application of the remuneration policies, in particular through the performance review and goal setting of the Chief Executive Officer, the Head of Internal Audit and of the Financial Reporting Officer and the participation, within its scope of responsibility, in the performance review and goal setting of other heads of control functions;
- monitored the adequacy of the company control functions and their independence;
- pursuant to Article 149, paragraph 1, letter c-*bis* of the TUF, supervised the procedures for the concrete implementation of the Corporate Governance Code (2020 edition), as well as the proper application of the criteria and assessment procedures adopted by the Board to evaluate the various requirements for Directors and members of the Control Body;
- examined the actions taken by the Bank to comply with requests or suggestions of the Bank of Italy regarding best practices in internal organisation and control systems;
- met with the Boards of Statutory Auditors of the main subsidiaries Arec neprix S.p.A. (hereafter "**Arecneprix**") and illimity SGR S.p.A. (hereafter "**illimity SGR**") and Abilio S.p.A. for the usual periodic exchanges of information.

In their capacity as members of the Supervisory Body set up pursuant to Legislative Decree no. 231/2001 concerning the administrative liability of entities and assigned by a resolution of the Board of Directors of 15 June 2022, the members of the AICC were further able to supervise the measures adopted by the Board of Directors and Management and compliance with legislation relating to the Bank's business, verifying the application of the relevant Organisational Model pursuant to Legislative Decree no. 231/2001 that illimity put in place (OMM).

Compliance with laws, regulations and statutory provisions

The Committee monitored compliance with the law and the By-laws and has no comments worthy of note.

With regard to the provisions of Article 2408 of the Civil Code, the Committee notes that in 2023 no complaints of reportable matters were received from Shareholders. Similarly, during the year the Committee did not receive reports of actions or matters that may constitute a breach of the rules governing banking activities pursuant to Article 52 *bis* of the TUB, or pursuant to Article 6, paragraph 2 *bis* of Legislative Decree no. 231/2001. Neither did it receive reports from customers or other parties of irregularities or reportable conduct by Bank personnel.

We believe that there were no alleged cases of breach of duties by the Directors in 2023 as set out by Articles 2406 and 2409 of the Civil Code.

Lastly, the Committee examined the Descriptive Document of illimity Bank S.p.A. relating to 2022, which sets out the controls adopted by the Banks regarding the deposit and sub-deposit methods of financial instruments and money pertaining to customers, in compliance with the regulatory provisions of the TUF, and also received the final certificates issued by KPMG pursuant to the ISAE 3000 Revised auditing standard.

As required by internal rules, the Committee renewed the customary annual self-assessment of its composition and operation in a process separate from what was done by the Board. As is well known, the purpose of this exercise is also to assess the proper and effective performance of the functions entrusted to the Committee as the Bank's control body according to criteria and methods consistent with its characteristics.

The qualitative and quantitative results confirmed the adequacy of the Committee and its overall compliance with the provisions of the Corporate Governance Code (the "Corporate Governance Code"), with the EBA guidelines, with the provisions of Bank of Italy Circular no. 285/2013 and with best practices.

Compliance with the principles of sound management

In 2023, using the methods described above the Committee obtained the information about the activities performed and the major financial and equity transactions carried out in the Bank's operations or those of its subsidiaries. The exchange of information between the Committee, Management and the Chief Executive Officer is enriched by periodic meetings, including during Board meetings, focused on the one hand on the performance of the Bank and the Group, and on the other on the operation and effectiveness of the internal control and risk management system.

Based on this information, supplemented by periodic meetings with Management and the control functions, the Committee monitored compliance with the provisions on the fulfilment of the requirements for such transactions. In this regard, it can reasonably conclude that they are in compliance with the law and the By-laws and are not manifestly imprudent, risky, in conflict of interest, in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company's assets.

Disclosures pursuant to Article 150, paragraphs 1 and 2 of the TUF are made both as part of the reporting produced by the Financial Reporting Officer and during periodic meetings with the Chief Executive Officer. The Committee also periodically receives reports in accordance with internal rules on the governance of Material Transactions (hereinafter "**MT**"), transactions involving a potential significant change to the overall risk profile detailed in the Risk Appetite Framework (hereinafter "**RAF**"). Pursuant to the Policy on Transactions with entities covered by the illimity Bank Group's Single Perimeter, the Committee receives quarterly reports on transactions with related parties and associates, including an assessment of the significance of financial relationships for the purpose of the requirement of Directors' independence.

Lastly, the Committee was able to observe the adoption and governance of the illimity Way (Group Code of Ethics), which effectively represents the Group's commitment to customers, shareholders, suppliers and business partners, to Supervisory Authorities and the Public Administration, to the media and to the country.

In light of the above, there were no atypical and/or unusual transactions – neither with third parties nor with related parties or intercompany – to be considered as operations that could give rise to doubts as to the correctness/completeness of the information in the financial statements, conflicts of interest, the safeguarding of company assets, or the protection of minority shareholders. Likewise, no management irregularities or performance anomalies were identified.

The Committee also examined the company's management planning and reporting documents, and did not identify any atypical or unusual transactions carried out with subsidiaries, with securitisation vehicles pursuant to Law 130/1999 (SPVs) included in the consolidation, with related parties or with third parties.

The development of the Group's operations and business model is evidenced on the one hand by the continuous development initiatives in lending, but also by the support for strategic investment initiatives in innovative businesses that are still in a consolidation phase, as well as the achievement of its medium-term objectives. In this respect, see the support provided for the consolidation of HYPE S.p.A.'s capital structure, the growth of ABILIO S.p.A.'s structure, with strategic partnerships in the real estate trading business including through the QUIMMO channel, and the development plan of b-ilty, as the channel for digital credit for mainly small corporate customers.

Lastly, illimity SGR's product range has been successfully consolidated, having launched highly innovative alternative investment funds also in 2023, expanding the Group's offering across the entire value chain in the area of credit management, including non-performing loans.

In order to monitor compliance with the principles of sound management, the Committee regularly met with the Head of Administration & Accounting and Financial Reporting Officer, among others, discussing the various issues within their areas of responsibility, with particular reference to the implementation of ICT instruments and their impact on operations of the administrative structure and data quality.

The Financial Reporting Officer did not highlight any significant shortcomings in the operational and control processes that could impair its opinion of adequacy and effective application of the administrative and accounting procedures for the purposes of providing an accurate representation of the Bank and Group's asset and financial situation, as required under Article 154-bis of the TUF.

The Committee exercised constant control over the process of continuous adaptation of the overall ICT system, consistent also with the significant expansion of the business, in particular b-ilty, which also continued in 2023.

The Bank has set up a "*Policy on Transactions with entities covered by the Single Perimeter of the illimity Banking Group*" adopted in compliance with the provisions of CONSOB Regulation 17221/2010 as amended, Article 2391-*bis* of the Civil Code and Bank of Italy Circular no. 285/2013 on "Risk activities and conflicts of interest of banks and banking groups with regard to Related Parties".

The Policy was updated, most recently on 8 February 2024, in order to (i) include associates in the perimeter of companies that can benefit from the exemption for transactions with or between subsidiaries, (*ii*) define the regulations on transactions concluded by and/or with AIFs managed by illimity SGR and (iii) better define the responsibilities of the Legal & Corporate Affairs and Compliance & AFC functions with regard to their respective roles in maintaining the Single Perimeter, preparing quarterly reporting and monitoring accumulations and the assessments to verify the applicability of any exemptions from procedural and authorisation controls under the Policy.

The Committee takes the view that that Policy complies with the requirements of CONSOB Regulation 17221/2010, as amended, and Bank of Italy Circular 285 of 2013: during the year the Committee monitored the Company's compliance with them.

In the Directors' Report on Operations and Explanatory Notes, the Board of Directors provided an illustration of the transactions with Related Parties, according to internal regulations and under the control of the Committee, indicating the related income statement, equity and financial effects. Also described are the methods used to determine the amount of the related considerations, illustrating that these transactions were carried out in the interests of the Company and were conducted according to the principles of sound management.

Adequacy of the organisational structure

In the organisational structure set up by illimity, the duties and responsibilities of company departments, the hierarchical and functional relations between them and the related coordination mechanisms, both with regard to the Parent Company and to the subsidiaries, are always governed by formalised policies.

The Committee continuously monitored the adequacy of the overall organisational structure of illimity and the Group as well as the instructions issued to subsidiaries pursuant to Article 114, paragraph 2 of the TUF.

The body of rules composed of Regulations, Policies and Guidelines governing the operations of the Bank and the Group was also supplemented in 2023, to take account of the evolution of the business as well as the regulatory context and best practices.

In advance of the presentation to the Board of Directors the Committee analysed and then continuously followed this process for producing and implementing internal regulations, which overall, can be considered as adequately regulating the governance, expertise and responsibilities of the corporate bodies and corporate structures as well as operational processes, in the context of an organisational system that is consistent overall with the nature and characteristics of the activities of the Bank and the Group.

The AICC actively participated in the significant updates to the body of policies, to the extent of its responsibility.

The Committee has the necessary knowledge of the Bank’s organisational structure and ICT system and monitored, within the scope of its responsibility, the implementation of the adjustment and/or improvement measures requested by Operational and Control Functions, by acquiring information from the Heads of all the internal Functions concerned, which reported on the specific control activities carried out by them. The efficiency of the organisational structure and ICT system was constantly discussed also with the Auditors of KPMG.

This particular business model necessitates the adoption of innovative IT solutions that are in part handled by the ICT servicer and in part by outsourcing several ICT activities closely related to business expansion, and, above all, developing advanced digital banking services and products. The Audit and Internal Control Committee supervises these activities.

The ICT Department (Information and Communication Technologies) is regarded by the Bank of Italy as an “Essential or Important Function”) and, as it has been partially outsourced, must be subject to specific annual controls by the Internal Audit Department, with a specific report on its operations, approved by the Board of Directors and accompanied by comments of the AICC.

During 2023 the Committee was able to review the overall effectiveness of the ICT core banking performance since the dynamism of the Bank's digital services requires continuous updates and upgrades of the ICT system. The functionality of the system has been assessed as adequate.

Specifically, the Committee reviewed the status of the Business Continuity and Disaster Recovery Plans for illimity and the Group's main subsidiaries both with respect to 2023 outcomes and planned reinforcements, also in response to the suggestions of the control functions. No critical security or incident management issues emerged, as confirmed by the absence of IT security incidents of a serious nature, the dynamics of minor and medium incidents and the results of the periodically conducted testing.

As mentioned, the Committee, whose members also perform the functions of a Supervisory Body pursuant to Legislative Decree no. 231/2001, has also consulted and obtained information concerning organisational and procedural arrangements adopted previously (which are always being updated), which are relevant for the purposes of that Decree, as amended and supplemented, in relation to the administrative responsibility of entities for the offences provided for under that legislation. In this regard, the we received the annual report of the Body in which no critical issues were reported.

The Committee, within the scope of its responsibility, monitors the effective internal and external flows, also regarding the instructions given by the Parent Company to subsidiaries pursuant to Article 114, paragraph 2 of the TUF (fulfilment of reporting obligations established by law).

Corporate governance

As reported in the Report on Corporate Governance and Ownership Structure, some time ago illimity adopted the Corporate Governance Code approved by the Corporate Governance Committee, which was published on 31 January 2020 and became applicable on 1 January 2021.

The Committee acknowledges that the Board of Directors, in a formal meeting, carried out an assessment of its operations, size and composition, as well as similar assessments of Board committees. The process and results of self-assessment activity were most recently examined by the Board of Directors at the meeting held on 22 February 2024. The same self-assessment as mentioned above was carried out by the Committee on the adequacy of its composition and operations. The Committee concluded that its composition meets the regulatory requirements and is in line with the composition indicated as optimal by best practices, and complies with the requirements regarding professionalism, competence, honourability, incompatibility, fairness and independence and the other requirements, specifically including the time availability and situations of potential conflict of interest of individual members.

An induction plan for Directors continued during the year with the aim of continuously strengthening skills and judgement.

Adequacy of the internal control and risk management system

The Report on Corporate Governance and Ownership Structure also describes the principal characteristics of the internal control and risk management system (hereinafter the "**SCIGR**").

This system consists of the rules, procedures and corporate structures that act to enable the effective operation of the Bank and the Group and to identify, measure, manage and monitor the main risks they are exposed to in order to contribute to the company's sustainable success. The SCIGR is an integrated system that covers the entire organisational structure; both corporate bodies and corporate structures, including the control functions, are required to contribute to its operation in a coordinated and interdependent manner.
The Chief Executive Officer oversees the organisational, administrative and accounting structure so that the internal control and risk management system is appropriate to the Company's nature and size, and reports to the Board and specifically to the Committee. The Chief Executive Officer is in charge of setting up and maintaining the SCIGR, thus serving as "Director in charge of the internal control and risk management system" pursuant to the Corporate Governance Code. Finally, note also that pursuant to the Corporate Governance Code and internal governance rules, the AICC expresses its opinion on the adequacy of the internal control and risk management system, while the Risks Committee reports on the risk analysis carried out and its findings.

The Audit and Internal Control Committee monitored the adequacy of the SCIGR operated by illimity and the Group, and verified its specific operation. Specifically, it:

i. examined and assessed the evolution of the organisational structure, to adjust to the natural growth of the operations of the Bank and the Group and its business initiatives;
ii. acknowledged the assessment expressed by the Chief Executive Officer and the Board of Directors ("as regards the adequacy and efficacy of the internal control and risk management system, the Board confirms that there are effective safeguards against risks");
iii. had periodic meetings with the Group Internal Audit, Compliance & AFC and CRO functions (hereinafter, the "**Control Functions**") to assess the methods of planning work, based on identifying and assessing the main risks inherent in the processes and organisational units;
iv. examined the reports (*Tableau de Bord*) of the Control Functions submitted on a quarterly basis to the attention of the Risks Committee, the AICC and then the Board of Directors;

v. examined the summary documents concerning the assessment of the adequacy and efficacy of the internal control and risk management system, also attending the meetings of the Risks Committee and acquiring adequate information also regarding the measures that this Committee decided to promote or require on specific matters;

vi. examined the control instruments designed as a whole by the Bank to promptly detect signs of critical issues, specifically the risk profile for regulatory capital and liquidity, including the risk that the company can no longer operate as a going concern;

vii. verified the autonomy, independence and manner of operation of the Internal Audit Department, and maintained appropriate and constant links with it;

viii. examined the Audit Plan drawn up by the Internal Audit Department and approved by the Board of Directors, after verifying compliance with it and receiving information concerning the results of the audit as well as the implementation of the related remediation measures for any problems;

ix. acknowledged the assessment and adequacy of the Internal Audit Function's SCIGR issued at six-monthly intervals, after obtaining information from the Director Responsible for the Control System on 20 February 2024 and the Heads of the company functions involved in the SCIGR;

x. met with the control bodies of the main subsidiaries pursuant to Article 151, paragraphs 1 and 2 of the TUF, and, in such meetings, the CCG acquired information on the situations deemed significant that involved the Group companies and its internal control system;

xi. discussed the results of the work of the independent auditors;

xii. took note of the development of the Group's regulatory system.

With regard to the adequacy of the professional resources of the control functions, the AICC acknowledged that at the end of 2023, the Risk Competence Line was comprised of 32 FTE resources, who were appropriate both professionally and in terms of their number, 5 of whom have the status of senior manager. As of the same date, the Compliance & AFC Officer Competence Line had 18 staff (plus one contractor and one intern), 1 of whom with the status of senior manager, whilst the Internal Audit function comprised 12 staff, 1 of whom with the status of senior manager. The Committee will ensure that the Control Functions continue - also in future, in line with the growth plans - to have staff in the appropriate number and with the appropriate professional profile within the context of the ongoing expansion of the Group and the focus on new business and initiatives.

The Committee's overall assessment of their autonomy as well as the adequacy, effectiveness and efficiency of their operations is positive.

Internal Audit

In 2023 the Internal Audit Function completed the action plan for the Bank and its subsidiaries approved by the Board of Directors at the start of the year.

Each quarter, the Internal Audit Department prepares a *Tableau de Bord* for the Bank of Italy and senior management detailing the work done, the results achieved and the status of the improvement measures requested. Specifically, a comprehensive flow of information on the completed audits and the implementation of the remediation plan was ensured to the Committee.

During the period under review, Internal Audit assessed the adequacy of the analyses performed and the compliance of the processes with the provisions of Circular 285/2013. It also provided the Committee with information pertaining to the following issues, among others: (i) Verification of the "Single Customer View" report for the FITD; (ii) Verification of the effectiveness of the Business Continuity Plan, and the (iii) Annual Report on Outsourced EIF Functions.

On the whole, the activities carried out by the Audit Function showed that the corporate structures substantially supervised the residual risks – overall of a limited entity – underlying the processes analysed, with areas for improvement that the Committee focused on, which did not significantly affect the Bank's operations and the efficacy of its controls.

The Committee assessed the autonomy, adequacy, effectiveness and efficiency of the Internal Audit function, raising no exceptions.

Chief Risk Officer

The CRO function carried out activity of primary importance during 2023, monitoring the main banking risks in accordance with the requirements set forth in Bank of Italy Circular no. 285. The activity also concerned the verification of the consistency of indicators with the Risk Appetite Framework - RAF as well as specific controls required by the supervisory authorities. This activity was focused on:

- (i) Regulatory requirements, with particular reference to the adequacy of Tier 1 capital;
- (ii) Credit profile, with reference to credit quality and concentration;
- (iii) Financial profile;
- (iv) Income profile in relation to Return on investment – ROI, Return on equity – ROE and the Cost/Income ratio;
- (v) Other management indicators capable of monitoring the Bank's performance (operational risk, ICT risk, reputational risk, etc.);
- (vi) Management framework and business profiles, with checks for consistency with the Group's risk appetite (understood as second-level controls).

The CRO reports to the governance bodies on the performance of risks in the quarterly *Tableau de Bord*. The Committee systematically interacted with the Risks Committee and with the CRO function with particular attention to the ICAAP and ILAAP reports, the refinements of the new calculation model of the collective adjustment of performing loans, the backtesting and updating of the parameters for collective adjustment, and the improvement of the second-level controls of the credit area.

With regard to these risks, the Committee also analysed the performance and monitoring reports of the Growth Credit (now Corporate Banking), Distressed Credit (now Specialised Credit), Investment Banking and b-ilty divisions and the quarterly formalisation reports of the Level II credit controls and indicated that the Level I reports of the above divisions were substantially complete and the Level II controls also included a focus on senior financing, energy and repossessed assets. Furthermore, the CRO function assessed the level of write-downs on loans for performing and non-performing counterparties, considering that the collective adjustment estimates as at 31 December 2023 reflect the due rating update and the internalisation of the modelling. The Committee highlights the importance for the Bank's business of monitoring the administrative activities necessary to correctly manage government guarantees.

In a joint meeting with the Risks Committee and the Sustainability Committee (for the matters within its remit), the Committee also received information on the process followed for the mapping of sustainability risks relevant to the Group, the outcome of which is included in the 2023 NFS, as well as an update on the state of identification activities, development and commissioning of analysis frameworks and methodological approaches for the assessment of the Group's exposure to ESG risks, with particular reference to climate-related and environmental risks, along with the plan of initiatives concerning these issues, and thus with a view to inclusion in the 2024 ICAAP/ILAAP processes and the update of the 2024 RAS.

Lastly, the Committee analysed the 2023 final report of the CRO Department and, jointly with the Risks Committee, examined the calendar of controls for 2024, including the plan for subsidiaries.

Chief Compliance & AFC Officer

There was also ongoing dialogue and cooperation with the Chief Compliance & AFC Officer regarding both investigations carried out on products and services offered to customers and *"ex post"* controls on compliance with the internal regulations and, above all, the control activities specific to the Supervisory Body, which receives the necessary operating support from the Compliance Function as well as the Internal Audit Department.

In light of these documents and the information acquired in the meetings with the head of the function, the Committee notes that it has had a regular flow of information on the work done. In that regard, it is noted that:

a) the Compliance Risk Assessment update reported a low residual risk of non-compliance for the Growth Credit (now Corporate Banking), Distressed Credit (now Specialised Credit) and Direct Banking divisions, despite delays in the rectification of some findings. The catalogue of compliance controls was updated to include those focused on new businesses such as investment banking;

b) the Chief Compliance & AFC Officer updated the Anti-Money Laundering Policy, approved by the Parent Company's Board of Directors on 23 November 2023 (having obtained the favourable opinion of the Risks Committee and the Audit and Internal Control Committee), with the aim of correctly representing the changes in the Group's operations and the evolution of the processes and operating procedures adopted in the area of anti-money laundering, also to align with regulatory changes;

c) as far as AML activities are concerned, the main issues that emerge from the audits are related to regulatory document preservation and due diligence;

d) the joint report of the control functions on the subsidiaries was acquired.

The Committee also oversaw, within the scope of its responsibility, the constant, continuous monitoring of regulatory capital, with specific regard to the maintenance of adequate buffers with respect to regulatory requirements in view of the evolution of the Bank's provisions and discussions with the Supervisory Authority. It also oversaw:

- compliance with the provisions of the Internal Capital Adequacy Assessment Process and the Internal Liquidity Adequacy Assessment Process (ICAAP/ILAAP), more specifically investigating methodological and process scenarios and aspects, as well as the CRO function's evidence of the adequacy of the framework for quantifying economic capital and managing liquidity risk;
- the completeness, adequacy, functionality and reliability of the internal risk measurement systems for determining capital requirements, verifying their compliance with regulatory requirements;
- the completeness, adequacy, functionality and reliability of the RAF for 2024, examining the methodological aspects, the definition process and consistency with the 2024 Budget.

The Committee also reviewed the following periodic reports during the year:

- outcomes of the annual IT risk exposure assessment of procedures in operation in the Group;
- results of checks and controls of the Group's business continuity plan;
- preparation of the Group's IT security plan for the current financial year.

Business continuity and IT risk

The update of corporate governance on IT carried out in 2023 endorsed the indications in the 40th update to Bank of Italy Circular no. 285/2013 on IT and security risk, specifying the responsibilities for steering and control of the Board of Directors and the management body.

The Group's policies require ongoing risk assessment both relating to the main application resources (applications) and technological resources (infrastructures).

In a general context of governance focused on risk profiles and careful monitoring of their evolution by the Digital Division as well as the second level control functions, the Bank's IT and security risk analysis for 2023 did not show any critical or high risks.

The IT and security risk analysis process considers, among others, also the potential impact and frequency of occurrence of cyber threats, as well as illimity's ability to identify and effectively combat those event.

As regards business continuity, a Business Impact Analysis was conducted, whose results were positive on the whole, and resulted in the updating of the Business Continuity Plan and the Disaster Recovery Plan, examined by the Committee to the extent of its responsibility.

ESG issues

In view of the importance of ESG issues, the Committee pays great attention to the action and supervisory plan on the management, measurement and control of environmental, social and governance risks adopted by the Bank with increasing pervasiveness, which is also evidenced by the cross-cutting nature of the corporate functions actively involved.

Among other things, the Committee continued to examine a number of important steps in the process of integrating ESG issues into the strategic processes as well as into day-to-day operations, such as:

- the definition of a 2023-2025 Sustainability Plan, identifying ambitious targets for each business sector in line with stakeholder and regulatory expectations on sustainable finance and climate and environmental risk management;
- the monitoring of the continuous improvements in ESG ratings and indices earned by the Bank from rating agencies, considered a continuous stimulus for the evolution of best practice, conduct and commitment;
- the Group's adoption of international schemes such as the UN Global Compact in 2021 and the PRI - Principles for Responsible Investment in January 2023 through illimity SGR, as examples of operating in sync with general ESG objectives;
- the inclusion in the 2024 budget as well as in the 2024 RAF indicators of new ESG risks, including those related to climate and environmental factors, in order to monitor, measure and mitigate them in the long term, and even to factor these aspects into the valuation of capital and liquidity.

The Committee also furthered its self-analysis with respect to the "Expectations on Climate and Environmental Risk Supervision" indicated by the Bank of Italy, and positively assessed the work done and the general plan implemented by the Bank, considering both the results already achieved to date, including results recognised by the market, and the pervasiveness of the approach adopted to make ESG issues a priority and strategic issue with a view to medium- and long-term returns.

Administration and accounting system

As already highlighted, the Committee systematically met with the Financial Reporting Officer in order to ensure the exchange of information required, among other things, for the fulfilment of the necessary supervision as well as for the purpose of acquiring information and clarifications concerning the adequacy of the administrative-accounting system, functionality of the ICT system and the progress in the requested recalibration, improvement and implementation actions necessary in order to adapt the system to new business lines, with results that the Committee considered satisfactory.

In particular, over time the Committee carried out specific assessments, among others, of the process of preparing the consolidated financial statements, the derecognition of assigned receivables, specifically in the transformations of assets of Distressed Credit (now Specialised Credit), the recognition of the long-term business partnership agreement regarding the IT platform, the process of estimating the accounting of provisions for risks, the process applied for the impairment test of assets with a definite and indefinite life, the determination of the fair value of certain financial instruments with fair value levels 2 and 3, and the process of preparing non-financial information useful for drafting the Group's Non-Financial Statement.

Independent auditing, monitoring of the financial and non-financial reporting process, and independence of the independent auditors

By the resolution of the Shareholders' Meeting of 17 December 2018, independent auditing of the Group was assigned to the independent auditors KPMG S.p.A. for the financial years 2018 to 2026.

In accordance with Article 19 of Legislative Decree no. 39/2010, which designates the Audit and Internal Control Committee as the "Internal Control and Audit Committee", in 2023 the Committee verified the process of drawing up regular financial reports (Consolidated Financial Report as at 30 June and Consolidated Interim Reports as at 31 March and 30 September), the Consolidated Financial Statements and the Separate (Company) Financial Statements of illimity Bank for 2023, their compliance with the laws and regulations in force and consistency with the resolutions adopted by the Board of Directors. The same control activities were performed on non-financial reporting, to express the opinion pursuant to Article 5, paragraph 3 of Legislative Decree 254/2016.

Similar to the practice adopted in previous periods, the Committee met with the independent auditors with respect to both the results presented in the interim reports as well as the separate and consolidated financial statements as at 31 December 2023 of the Bank, for which there were no issues of note. Like the Board of Directors, the Committee also received information from the Financial Reporting Officer concerning the issue of the certification pursuant to Article 154-bis, paragraph 5 of the TUF of the Financial Statements and the Consolidated Financial Statements as at 31 December 2023.

Monitoring of the financial reporting process

With reference to the preparation of the Financial Statements, financial and non-financial reporting and the management of related risks, the Board held regular meetings and ongoing dialogue with the Financial Reporting Officer to acquire elements regarding the accounting rules applied, the efficiency of ICT systems, as well as data quality, with specific reference to the classification of loans to customers according to the degree of impairment.

In this role, with regard to the financial statements for 2023, among other things the Committee:

- informed the illimity Bank Board of Directors of the outcome of the audit of the 2023 interim figures and the progress of the audit of illimity Bank's 2023 Financial Statements by KPMG;
- monitored the elaboration and limited audit of interim financial reporting;
- verified and monitored the independence of KPMG, with particular reference to the provision of non-audit services provided to the Bank.

With the Partner of the Independent Auditors, the Audit Manager of the illimity Group and with his/her staff and specialists for the areas with high-level professional content, in 2023 and 2024 to date, the Committee held numbers meetings (9), exchanging the necessary information and assessments, in accordance with Article 2409-*septies* of the Civil Code. The main topic of the meetings was the work carried out by KPMG, based on the auditing plan shared by the Committee, also benefiting from the collaboration of experts from its network to verify, in particular:

- the impairment tests on the stake in HYPE;
- the recoverability of intangibles with a definite and indefinite life;
- the update of the "collective" adjustment calculation model;
- the valuation of several significant credit exposures;
- the recognition in the financial statements of the transformations of assets of Distressed Credit and the initial recognition of the financial instruments acquired;
- the limited review of the Non-Financial Statement.

The AICC – always in its above-mentioned role – also discussed and shared with KPMG and the Financial Reporting Officer the accounting standards used, the assessments of the adequacy of the asset and liability items, the methodology for implementation and the results of the goodwill impairment testing and the deferred tax asset probability testing (DTA) and the other choices made in the preparation of the 2023 Financial Statements of illimity Bank, Arecneprix and illimity SGR, as well as the reporting packages of the Securitisation Vehicles pursuant to Law 130/1999 (SPVs), companies which illimity relies on for the securitisation of purchased NPLs. It should be noted that Arecneprix, illimity SGR and the SPVs are all subject to independent auditing by KPMG.
In early 2024, meetings between the Committee and the Independent Auditors were intensified (5 meetings) in order to ensure an adequate flow of information in compliance with their respective control duties, including with regard to the timing of the preparation of the relevant Reports.

In light of the provisions in force, in good time for the filing of the financial statements for the Shareholders' Meeting, the Independent Auditors:

- issued, on 19 March 2024, the Reports referring to the Separate and Consolidated Financial Statements as at 31 December 2023, pursuant to Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) no. 537/2014, including the key factors and the opinion that the Management Report and the Report on Corporate Governance and Ownership Structures, limited to the information indicated in Article 123-*bis*, paragraph 4, of Legislative Decree 58/1998, are consistent with the separate and consolidated financial statements and prepared in accordance with the law;
- confirmed that the separate and consolidated financial statements have been prepared in the European Single Format ESEF and have been marked, in all significant aspects, in compliance with the provisions of Delegated regulation (EU) 2019/815;
- pursuant to Article 11 of Regulation (EU) no. 537/2014 issued the Additional Report for the Internal Control and Audit Committee to the Internal Control and Audit Committee, confirming its independence pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) 537/2014 and paragraph 17 of International Auditing Standard (ISA Italia) 260;
- with regard to the Consolidated Non-Financial Statement pursuant to Legislative Decree no. 254/2016, in the presence of a limited assurance engagement performed in accordance with ISAE Standard 3000 (Revised), issued its report on 19 March 2024 (see below).

We have also examined the letter dated 6 March 2023 with which KPMG requested an increase in the fees for the remaining years of the assignment from 2023 to 2026, in line with that set out in paragraph 6 of the original engagement letter dated 29 November 2018. The increase in fees is linked to an increased effort in terms of time and an updated mix of professionals, due to greater use of specialists in the auditing, in application of the new ISA 540 on the Auditing of Accounting Estimates, and the introduction of the International Standard on Quality Management ISQM Italy 1.

Monitoring of the non-financial reporting process

According to Legislative Decree no. 254/2016, as amended, along with the related implementing regulations issued by CONSOB by resolution no. 20267 of 18 January 2018, the Company has prepared the Consolidated Non-Financial Statement (hereafter "**NFS**" or the "**Declaration**") for the year 2023. According to Article 4 of the Decree, the NFS provides non-financial information concerning the Company and its subsidiaries "insofar as necessary in order to ensure an understanding of the Group's operations, its performance, its results and the impact of the product".

The AICC monitored the drafting of the NFS on an ongoing basis, checking its structure, the criteria adopted and the application choices, examining the controls set up to verify the quantitative data, through discussions with the relevant internal function, joint meetings with the Sustainability Committee, the Risks Committee and the designated independent auditors.

On 8 March 2024 the Board of Directors approved the NFS, which was drawn up in accordance with the Decree, taking account also of the international reporting standards of the GRI-Global Reporting Initiative.
The Committee also noted that, as mentioned above, the independent auditors had issued the report referred to in Article 3, paragraph 10 of the Decree. Within that report, KPMG certified that, based on the work carried out, it has not become aware of any circumstances to suggest that the NFS has not been drawn up, in all significant respects, in accordance with the requirements of Articles 3 and 4 of the Decree and the reporting standard referred to above.
The Committee notes in turn that, following the activities carried out, it has not become aware of any instances of non-compliance by the Declaration with the legislative provisions applicable to its preparation and publication.

Monitoring of non-audit services

illimity has adopted specific Group Rules on the engagement of independent auditors and their network envisaging among other things specific processes of prior authorisation, monitoring and periodic reporting to the Committee in order to safeguard their independence.

During the course of 2023, in accordance with the provisions of Article 19, paragraph 1, letter e), of Legislative Decree 39/2010 and Article 5, paragraph 4 of Regulation EU 537/2014, in accordance with the provisions of the aforementioned Regulation, acting in its capacity as the Internal Control and Audit Committee, the AICC has previously examined proposals relating to the award of non-audit services to auditing firms or entities from the relevant network submitted to it for consideration.

As part of its assessments, the Committee has verified both the compatibility of those services with the prohibitions laid down by Article 5 of Regulation EU 537/2014, as well as the absence of potential risks to the Auditor's independence arising from the performance of such services in light of the provisions contained in Legislative Decree no. 39/2010 (Art. 10 et seq.), in the Issuers' Regulation (Art. 149-bis et seq.) and in Auditing Standard no. 100. After verification of the statutory prerequisites, the Committee approved the appointment of KPMG or other entities from the network to perform these services.
The 2023 Financial Statements include an annex containing a statement of the fees (in thousands) on a consolidated basis for the year paid to KPMG. The Committee closely monitored compliance with the relevant regulations and the policy in force in illimity on the assignment of non-audit services to the appointed auditing firm.

Remuneration and incentive system.

Without prejudice to the responsibilities of the Remuneration Committee, in compliance with the tasks entrusted to the Committee with regard to the remuneration and incentive system and more generally for its supervisory functions, the Committee focused on some specific issues.

First of all the Committee verified the company processes that led to the definition of the remuneration policies, which endorsed the instructions form the Bank of Italy on the need for greater detail in the policies and operating rules underlying the annual incentive system (MBO), to limit discretionary powers and to eliminate questions on the exact interpretation of the activities to be performed, those responsible for them and their effects.

The Committee noted that as at 31 December 2023 the Entry Gates had been crossed, and the funding mechanism and the final size of the 2023 bonus pool were applied based on the mechanisms set forth in the Remuneration Policy and the MBO System Rules.

The Committee was adequately informed of the ascertainment of the 2024 MBO System's consistency with the illimity Group's Risk Appetite Framework, and in particular with the process of updating the relevant 2024 guidelines based on the review of the Remuneration Committee and the Board of Directors' approval of the 2024 MBO System at the meeting of 8 February 2024. Lastly, the Committee was informed about the Group's Material Risk Takers Identification Criteria for 2024.

The Committee emphasises that the ESG criteria and the digital mindset have now been fully introduced and are relevant within the 2024 target plans, in line with the evolution of the reference context.

Other topics

The Committee conducted studies and sometimes expressed opinions on other issues brought to its attention by management. It also examined the following, to the extent of its responsibility:

a) the 2024 Budget, and, specifically the 2024 Capital Plan, the 2024 Funding plan and the 2024 Investment Policy, brought to the attention of the Board of Directors, emphasising the importance of ensuring continuous focus on these issues, control over the related risks, as well as the adoption of instruments for monitoring and mitigating risk;

b) the progress of the b-ilty Project, the development of a digital bank dedicated to the Small Corporate customer segment, and the monitoring of its progress;

c) risks within the framework of the contracts for the outsourcing of Essential or Important Functions (EIF) by the Bank and, specifically, among others, to Finwave S.p.A. And BDY.

2023 Consolidated and Separate Financial Statements

The Consolidated Financial Statements of the illimity Bank S.p.A. Group include the Parent Company illimity and the subsidiaries Arecneprix S.p.A., Abilio S.p.A., Quimmo Agency S.r.l., Quimmo Prestige Agency S.r.l., Industrial Discount S.r.l., illimity SGR S.p.A., Aporti S.r.l., Soperga RE S.r.l., Friuli SPV S.r.l., Friuli LeaseCo S.r.l., Doria SPV S.r.l., Doria LeaseCo S.r.l., River SPV S.r.l., River LeaseCo S.r.l., River Immobiliare S.r.l., Pitti SPV S.r.l., Pitti LeaseCo S.r.l., MAUI SPE S.r.l., Kenobi SPV S.r.l., Piedmont SPV S.r.l., Dagobah LeaseCo S.r.l., Dagobah SPV S.r.l., Spicy Green SPV S.r.l., SpicyCo 2 S.r.l., INGENII Open Finance, Sileno SPV S.r.l., Ortensia SPV Sr.l., MIDA RE S.r.l., GRO SPV S.r.l., Metafora SPV S.r.l., Montes Leaseco S.r.l., Montes SPV S.r.l., Mia SPV S.r.l. and Farky SPV S.r.l. Those companies are consolidated using the line-by-line method.
The formation of the Consolidated Financial Statements of the illimity Bank S.p.A. Group also includes HYPE, as a joint venture, as well as the companies subject to significant influence, i.e. SpicyCo S.r.l. and LAISA STA. Those companies are consolidated with the equity method.
The financial statements and packages of the consolidated entities have been prepared in accordance with the coordination guidelines provided to them by illimity Bank. As mentioned above, all companies consolidated using the line-byline method were independently audited by KPMG.
In the Consolidated Directors' Report on Operations, the Directors provide comprehensive information concerning the events that characterised 2023, also with regard to the complex international political and economic environment, which also has had inevitable consequences for the domestic market. Despite

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operating in such a problematic environment, illimity was able to develop its operations well in its various business divisions and achieved growth in its financial results compared to the previous year, with a fully adequate regulatory capital endowment, while continuing to support investments in the tech initiatives currently being launched and consolidated. All of these considerations, in a scenario of favourable earnings performance and outlook, notwithstanding the known international geo-political tensions, led the Bank to adopt accounting principles presuming a going concern basis.
The Report, which has been drawn up by the directors according to statutory and regulatory requirements, clearly illustrates the strategies adopted and the results achieved by the Bank and the Group, and provides appropriate comparisons with those relating to the previous year as well as adequate indications concerning the anticipated development of management. As required, the Explanatory Notes contain full information about the possible risks (credit, market, operational, liquidity and others), on the mentioned geopolitical risk, the uncertainties faced by the Bank at this particular time and the related methods of control. The quali-quantitative information has been accompanied by the required administrative accounting schedules.
This Committee has exercised an overall summary control of the consolidated and separate financial statements for 2023, as well as the interim reports for the period, verifying their correct preparation and adequate level of disclosure. This control related in particular to the application of the Accounting Standards and criteria used for the measurement of financial statement items. In this context, explicit consent is given to the recognition in the financial statements of intangible assets.
As indicated above, the particular focus of the Independent auditors was the recoverability of the goodwill recognised in the consolidated financial statements for the year relating to the acquisition of AREC and for previous years in respect of the acquisitions of Banca Interprovinciale (by Spax) and of IT Auction, as well as the recoverability of the value of the stake in the joint venture in HYPE, in relation to the significance of the investment and the complexity of the estimates involved in the process of determining its value. The Committee also carefully examined and endorsed the methodology used to carry out the impairment tests on both goodwill, supported by an external consultant, and deferred tax assets (DTA).

Conclusions

As detailed in this Report, the Committee verified the operation of the body of internal procedures, deeming them as suitable for ensuring compliance with the law, regulations and the by-laws. The Committee also found that the decision-making process takes due account of the riskiness and effects of the management choices made and is based on an adequate system of information flows, including with respect to any interests of the Directors. The organisational structure, the administrative and accounting system and the statutory audit process were found to be adequate and functional for the tasks to be performed by the designated persons. It was also verified that there were no critical elements that could affect the general structure of the internal control system and the risk governance and management process.

The supervisory activities carried out by the Committee did not reveal any reportable matters or conduct, omissions or irregularities to be outlined herein. As stressed above, from the information obtained through its supervisory activities, the Committee is not aware of any transactions carried out during the year that were not carried out in accordance with the principles of sound management nor any that were authorised and carried out in conflict with the law or Company By-laws, nor any not in the interests of the Bank and Group, in contradiction to the resolutions adopted by the Shareholders' Meetings, nor any that were demonstrably imprudent or reckless or such that would compromise the integrity of the company's assets.

Having considered the content of the reports of the Independent Auditors, who are assigned specific duties and responsibilities on auditing the accounting and verifying the reliability of financial reporting, acknowledging the statements issued jointly by the CEO and the Financial Reporting Officer, the Committee, acting within its scope of responsibility has not identified any obstacles to the approval by the Shareholders' Meeting of the draft financial statements for the year ended 31 December 2023 of illimity Bank S.p.A. accompanied by the Management Report, as approval by Board of Directors on 8 March 2024.

The Committee has no comments to report to the Shareholders' Meeting, pursuant to Article 153 of the T.U.F. regarding the approval of the separate financial statements as at 31 December 2023 or the proposal formulated by the Board of Directors regarding the allocation of profits for the year.

Milan, 19 March 2024

Audit and Internal Control Committee

Marco Bozzola - Chair

Stefano Caringi

Nadia Fontana

This Audit and Internal Control Committee*'s report constitutes a non-official version that has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.*

Independent Auditors' Report

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(The accompanying translated separate financial statements of illimity Bank S.p.A. constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

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

To the shareholders of
illimity Bank S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of illimity Bank S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2023, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include material information on the accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of illimity Bank S.p.A. as at 31 December 2023 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

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

Key audit matters

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

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

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

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets at amortised cost" and paragraph A.2.15 "Other information - Purchased or originated credit-impaired (POCI) financial assets"

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

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

Notes to the separate financial statements "Part E - Information on risks and related hedging policies": section 1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Loans and receivables with customers recognised under financial assets at amortised cost totalled €4,987.1 million at 31 December 2023, accounting for 67.7% of total assets. These loans and receivables include purchased or originated credit-impaired financial assets of €1,064.1 million. Net impairment gains on loans and receivables with customers recognised during the year totalled €30.2 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement or purchase. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the business plans and related regular updates, the existence of any indicators of impairment, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the bank's customers operate. The complexity of the directors' estimation process has been affected by the increased geopolitical uncertainties which have an impact on the current economic conditions and potential future macroeconomic scenarios and have severely affected the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central banks to raise interest rates in the main economies,	Our audit procedures included: • gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; • assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; • analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); • analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the financial effects of the geopolitical situation. We carried out these procedures with the assistance of experts of the KPMG network; • selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; • selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; • assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls in relation to the regular updating of the business

Key audit matter	Audit procedures addressing the key audit matter
and real estate market trends and indicators. This required the directors to revisit the valuation processes and methods. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	plans on which basis the purchased or originated credit impaired ("POCI") exposures are measured; • for a meaningful sample of POCI exposures, checking the underlying business plans and the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; • analysing the significant changes in the categories of loans and receivables with customers and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; • assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets measured at amortised cost.

Measurement of goodwill

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the separate financial statements "Part B - Information on the statement of financial position": section 9 "Intangible assets - caption 90"

Key audit matter	Audit procedures addressing the key audit matter
The bank recognised goodwill of €21.6 million. As disclosed in the notes, in accordance with IFRS 3, the directors allocated goodwill to the cash-generating units ("CGUs") they identified. The directors tested goodwill for impairment by discounting the cash flows that are expected to be generated by the individual CGUs using the dividend discount model to calculate their recoverable amount. Testing goodwill for impairment requires complex valuations and a high level of judgement, especially in relation to: • the CGUs' expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of the bank's sector and the directors' forecasts about its future performance; • the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has been affected by the geopolitical uncertainties which	• Our audit procedures included: • understanding the process adopted to prepare the impairment tests approved by the bank's directors; • gaining an understanding of the process used to draft the bank's long-term plan approved by the directors; • analysing the criteria used to identify the CGUs and tracing the carrying amounts of the assets and liabilities allocated thereto to the separate financial statements; • assessing the key assumptions used by the directors to determine the CGUs' value in use. Our assessment included checking the consistency of the method adopted with that used in the previous year and comparing the key assumptions used to external information, where available, also in the light of the financial effects of the geopolitical situation. We carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
have had an impact on the current economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the measurement of goodwill is a key audit matter.	• checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; • assessing the appropriateness of the disclosures about goodwill and the related impairment test.

Recoverability of the investment in a joint venture

Notes to the separate financial statements "Part A – Accounting policies": paragraph A.2.5 "Equity investments"

Notes to the separate financial statements "Part B - Information on the statement of financial position": section 7 "Equity investments - caption 70"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2023 include an investment in a joint venture of €99.7 million. The bank acquired this investment in Hype S.p.A. during 2022. The bank's directors measured such equity investment at cost and tested it for impairment, by discounting the cash flows that are expected to be generated by the investee using the dividend discount model to calculate its recoverable amount. Testing the equity investment for impairment requires complex valuations and a high level of judgement, especially in relation to: • the investee's expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of investee's sector and the directors' forecasts about its future performance; • the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has been affected by the geopolitical uncertainties which have had an impact on the current economic conditions and potential future macroeconomic scenarios. Considering the materiality of the financial statements caption and the high level of estimate required to measure the equity investment's recoverable amount, we believe that the recoverability of the carrying amount of the investment in the joint venture is a key audit matter.	Our audit procedures included: • understanding the process adopted to prepare the impairment tests approved by the bank's directors; • analysing the reasonableness of the key assumptions used by the bank's directors to determine the recoverable amount of the investment in the joint venture and the related forecast cash flows, as well as the assumptions used to prepare the impairment test. • We carried out these procedures with the assistance of experts of the KPMG network; • assessing the appropriateness of the disclosures provided in the notes about the measurement of the investments in the joint venture.

Responsibilities of the bank's directors and audit committee for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the separate financial statements

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

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

We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures taken to eliminate those threats or the safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in this report.

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

On 17 December 2018, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

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

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the audit committee prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The bank's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the separate financial statements at 31 December 2023 to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the separate financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the separate financial statements at 31 December 2023 have been prepared in XHTML format in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Illimity Bank S.p.A.
Independent auditors' report
31 December 2023

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

The bank's directors are responsible for the preparation of a directors' report and a report on corporate governance and ownership structure at 31 December 2023 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 December 2023 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2023 and have been prepared in compliance with the applicable law.

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

Milan, 19 March 2024

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

Annex 1 – Reconciliation between the reclassified statement of financial position and income statement and financial statements

Below are the reconciliation schemes used for the preparation of the reclassified statement of financial position and income statement. Any discrepancies between the figures presented are due solely to rounding.

Reclassified Statement of Financial Position

Assets	Values as of 31/12/2023
Cash and cash equivalents	**392,921**
Loans to banks and financial entities	**112,442**
Item 40. a) Due from banks	112,442
Loans to financial entities	-
Loans to customers and investments	**4,402,128**
Item 40. b) Loans to customers	4,987,137
To be deducted:	
Loans to financial entities	-
Government Bonds	*(585,009)*
Government Bonds	**585,009**
HTCS Financial assets	**456,643**
FVTPL Financial assets	**732,058**
Investments in equity	**163,773**
Goodwill	**21,643**
Other intangible assets	**66,979**
Item 90. Intangible assets	88,622
To be deducted:	
Goodwill	*(21,643)*
Other assets	**428,831**
Item 50. Hedging derivatives	*21,393*
Item 80. Property and equipment	*21,379*
Item 100. Tax assets	*57,614*
Item 110. Non-current assets held for sale and discontinued operations	*48,386*
Item 120. Other assets	*280,058*
Total assets	**7,362,427**

Liabilities and shareholders' equity	Values as of 31/12/2023
Due to banks	**941,982**
Item 10. a) Due to banks	941,982
Amounts due to customers	**4,623,190**
Item 10. b) Due to customers	4,648,024
To be deducted:	
Lease Liability (IFRS 16)	*(24,834)*
Securities issued	**611,741**
Item 10. c) Securities issued	611,741
Other liabilities	**226,864**
Item 80. Other Liabilities	128,945
Increase:	
Lease Liability (IFRS 16)	*24,834*
Item 20. Financial liabilities held for trading	19,476
Item 40. Hedging derivatives	19,770
Item 60. Tax liabilities	22,871
Item 70. Liabilities associated with non-current assets held for sale and discontinued operations	-
Item 90. Employee severance pay	2,936
Item 100. Allowances for risks and charges	8,031
Shareholders' equity	**958,650**
Capital and reserves	
Item 110. Valuation reserves	(30,269)
Item 140. Reserves	208,084
Item 150. Share premium reserves	624,584
Item 160. Share capital	54,691
Item 170. Treasury shares (-)	(747)
Item 180. Profit (loss) for the period	102,307
Total liabilities and shareholders' equity	**7,362,427**

Reclassified income statement

Income Statement items	Values as of 31/12/2023
Net interest margin	**190,414**
Item 10. Interest income and similar income	395,228
Reclassification from Profit (Loss) from discontinued operations	-
Item 140. Profits/losses on changes in contracts without derecognition	-
Item 20. Interest expenses and similar charges	(202,696)
Reclassification of Raisin operating components	*(3,810)*
To be deducted:	
IFRS 16 interest expenses	*1,693*
Net fee and commission income	**41,786**
Item 40. Fee and commission income	47,147
Item 50. Fee and commission expense	(7,661)
To be deducted:	
Raisin operating components	*2,301*
Profits/losses on financial assets and liabilities	**(4,195)**
Item 70. Dividends and similar income	45
Item 80. Profits (losses) on trading	(459)
Item 90. Fair value adjustments in hedge accounting	(386)
Item 100. Profits (losses) from disposal or repurchase	(855)
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	3,782
Reclassification from item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss - Capital gains on equity instruments from extraordinary transactions	*(6,321)*
Net write-downs/write-backs on closed positions	**14,867**
of which: Net write-downs/write-backs on closed positions - Clients - POCI	*14,867*
of which: Net write-downs/write-backs on closed positions - Clients - PPC	-
of which: Net write-downs/write-backs on closed positions - Clients - Energy performing	-
Other profits (losses) from the disposal of investments	**-**
Item 250. Profits (losses) on disposal of investments	-
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	-
Other operating expenses and income (excluding taxes)	**61,518**
Item 200. Other operating income/expenses	59,913
To be deducted:	
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*(8,376)*
Reclassification of outsourcing services	*(589)*
Reclassification from item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss - Capital gains on equity instruments from extraordinary transactions	*6,321*
Reclassification of one-off components of the income statement related to trade receivables	*4,250*
Total net operating income	**304,391**
Personnel expenses	**(70,856)**
Item 160. Administrative expenses: a) Personnel expenses	(71,123)
To be deducted:	
Reclassification of outsourcing services	*589*
Reclassification of HR expenses from other administrative expenses	(322)
Other administrative expenses	**(70,990)**
Item 160. Administrative expenses: b) Other administrative expenses	(87,308)
Reclassification of IFRS 16 interest expenses	*(1,693)*
Reclassification of HR expenses to personnel expenses	*322*
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*8,376*
Raisin operating components	*1,509*
Reclassification of contributions and other non-recurring expenses	*7,803*
Net adjustments/recoveries on property and equipment and intangible assets	**(16,993)**
Item 180. Net adjustments/recoveries on property and equipment	(3,035)

Income Statement items	Values as of 31/12/2023
Item 190. Net adjustments/recoveries on intangible assets	(13,958)
To be deducted:	
Reclassification from item 180. Net adjustments/recoveries on property and equipment - Write-downs on property portfolio due to extraordinary transactions	-
Operating expenses	**(158,839)**
Operating profit (loss)	**145,552**
Net losses/recoveries for credit risk - HTC Customer Banks and Financial entities	**16,226**
Item 130. Losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost	30,085
Reclassification of Net write-downs/write-backs on closed positions - HTC&S Clients - POCI to item 130b	-
Reclassification of Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance to item 170	*1,008*
To be deducted:	
Net write-downs/write-backs on closed positions - Clients - POCI	*(14,867)*
Net losses/recoveries for credit risk - HTCS	**(130)**
Item 130. Losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income	(130)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC&S Clients - POCI	-
Net adjustments/recoveries for commitments and guarantees	**(1,520)**
Item 170. Net allowances for risks and charges: a) commitments and guarantees given	(512)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance	(1,008)
Total net adjustments/recoveries	**14,576**
Other net provisions	**(20)**
Item 170. Net allowances for risks and charges: b) other net provisions	(20)
Other income (expenses) on investments	-
Item 220. Profits (losses) on equity investments	-
Contributions and other non-recurring expenses	**(12,053)**
of which: Contributions and other non-recurring expenses	*(7,803)*
Reclassification of one-off components of the income statement related to trade receivables	(4,250)
Other profits (losses) from the disposal of investments	**-**
Item 250. Profits (losses) on disposal of investments	-
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	-
Profit (loss) from operations before taxes	**148,055**
Income tax for the period on continuing operations	**(45,478)**
Item 270. Income tax for the period on continuing operations	(45,478)
Reclassification from Profit (Loss) from discontinued operations	-
Net income (loss) from discontinued operations after tax	-
Item 290. Net income (loss) from discontinued operations after tax	-
To be deducted:	
Interest income and similar income	-
Income tax for the year on continuing operations	-
Profit (loss) for the period	**102,307**

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This PDF document represents a supplementary version to the official version in accordance with Delegated Regulation (EU) 2019/815 of the European Commission (ESEF – European Single Electronic Format Regulation), for which a dedicated XHTML file has been created.

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