Consolidated Half-Yearly Financial Report
as at 30 June 2023

GRUPPO CASSA CENTRALE
CREDITO COOPERATIVO ITALIANO

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Cassa Centrale Banca Credito Cooperativo Italiano
Cooperative Banking Group

Consolidated Half-Yearly Financial Report

as at 30 June 2023

This Consolidated Half-Yearly Financial Report (hereinafter also referred to as “Half-Yearly Report”) consists of the interim report on consolidated operations and the condensed consolidated half-yearly financial statements (also the “Consolidated financial statements”) and the interim management report containing the significant events of the half-year and business outlook.

The Explanatory Notes to the Half-Yearly Report have been prepared with reference to the explanatory notes structure envisaged by Bank of Italy Circular no. 262 of 22 December 2005, and subsequent updates, for consolidated financial statements, albeit with limited information, as they are half-yearly financial statements drafted in a condensed format.

For ease of reading, the numbering provided for in the aforementioned Circular has been maintained, although some parts, sections or tables may be omitted for the reasons explained above.

The condensed consolidated half-yearly financial statements provide, in addition to the accounting data at 30 June 2023, comparative information relating to the corresponding period of the previous year, with the exception of the balance sheet, which is compared with the latest financial statements approved at 31 December 2022.

The financial statements item “Profit (Loss) for the year (+/-)” refers to the consolidated half-yearly result for the period.

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Cassa Centrale Banca list of shareholders

Ordinary shareholders

ASSICURA - Limited liability company
BANCA ADRIA COLLI EUGANEI - CREDITO COOPERATIVO - Cooperative Company
BANCA CENTRO EMILIA - CREDITO COOPERATIVO - Cooperative Company
BANCA CENTRO LAZIO CREDITO COOPERATIVO - Cooperative Company
BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - Cooperative Company
BANCA DEL VENETO CENTRALE - CREDITO COOPERATIVO - Cooperative Company
BANCA DELL'ALTA MURGIA CREDITO COOPERATIVO - Cooperative Company
BANCA DI BOLOGNA CREDITO COOPERATIVO - Cooperative Company
BANCA DI CARAGLIO, DEL CUNEESE E DELLA RIVIERA DEI FIORI - CREDITO COOPERATIVO - Cooperative Company
BANCA DI CREDITO COOPERATIVO DEI CASTELLI E DEGLI IBLEI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DEI CASTELLI ROMANI E DEL TUSCOLO - Cooperative Company
BANCA DI CREDITO COOPERATIVO DEL CIRCEO E PRIVERNATE - Cooperative company
BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - Cooperative Company
BANCA DI CREDITO COOPERATIVO DELL'ALTO TIRRENO DELLA CALABRIA VERBICARO (PROVINCE OF COSENZA) - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI ABRUZZI E MOLISE - Cooperative company
BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO, SAMMICHELE E MONOPOLI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI ANAGNI - Cooperative company
BANCA DI CREDITO COOPERATIVO DI AQUARA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI BARLASSINA (MILANO) - Cooperative company
BANCA DI CREDITO COOPERATIVO DI BRESCIA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI CHERASCO - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI CONVERSANO - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI FLUMERI - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI PIANFEI E ROCCA DE' BALDI - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI SARSINA - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI SPELLO E DEL VELINO - Cooperative Company

BANCA DI CREDITO COOPERATIVO LA RISCOSSA DI REGALBUTO - Cooperative Company

BANCA DI CREDITO COOPERATIVO - LODI - Cooperative Company

BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE - Cooperative Company

BANCA LAZIO NORD CREDITO COOPERATIVO - Cooperative joint-stock company

BANCA MALATESTIANA - CREDITO COOPERATIVO - Cooperative Company

BANCA MONTE PRUNO - CREDITO COOPERATIVO DI FISCIANO, ROSCIGNO E LAURINO - Cooperative Company

BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - Cooperative Company

BANCA TERRITORI DEL MONVISO - CREDITO COOPERATIVO DI CASALGRASSO E SANT'ALBANO STURA - Cooperative Company

BANCATER CREDITO COOPERATIVO FVG - Cooperative Company

BANCO MARCHIGIANO Credito Cooperativo - Cooperative Company

BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - Cooperative company

BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO) - Cooperative Company

BVR BANCA - BANCHE VENETE RIUNITE - CREDITO COOPERATIVO DI SCHIO, PEDEMONTE, ROANA E VESTENANOVA - Cooperative company

CASSA DI TRENTO, LAVIS, MEZZOCORONA, VALLE DI CEMBRA E ALTA VALLAGARINA - BANCA DI CREDITO COOPERATIVO - Cooperative company

CASSA PADANA BANCA DI CREDITO COOPERATIVO - Cooperative company

CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - RAIFFEISENKASSEN ST. MARTIN IN PASSEIER - Cooperative Company

CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - Cooperative company

CASSA RURALE ALTO GARDA - ROVERETO BANCA DI CREDITO COOPERATIVO - Cooperative company

CASSA RURALE DI LEDRO - BANCA DI CREDITO COOPERATIVO - Cooperative company

CASSA RURALE DOLOMITI - BANCA DI CREDITO COOPERATIVO - Cooperative company
CASSA RURALE ED ARTIGIANA DI BORGO SAN GIACOMO (BRESCIA) - CREDITO COOPERATIVO - Cooperative company
CASSA RURALE ED ARTIGIANA DI BOVES - BANCA DI CREDITO COOPERATIVO (BOVES-CUNEO) - Cooperative company
CASSA RURALE NOVELLA E ALTA ANAUNIA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE RENON - RAIFFEISENKASSE RITTEN - Cooperative Company
CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE VAL DI NON - ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE VAL DI SOLE - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASTAGNETO BANCA 1910 - CREDITO COOPERATIVO - Cooperative Company
CAVIT - Cantina Viticoltori Consorzio Cantine Sociali del Trentino - Cooperative company
CON.SOLIDA - Social Cooperative Company
CONSORZIO LAVORO AMBIENTE - Cooperative Company
CONSORZIO MELINDA - Agricultural Cooperative Company
CORTINABANCA – CREDITO COOPERATIVO - Cooperative Company
CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - Cooperative company
CREDITO COOPERATIVO CENTRO CALABRIA - Cooperative company
DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN
FEDERAZIONE DEL NORD EST CREDITO COOPERATIVO ITALIANO - Cooperative company
FEDERAZIONE DELLE BCC DEL FRIULI VENEZIA GIULIA - Cooperative company
FEDERAZIONE TRENTINA DELLA COOPERAZIONE - Cooperative Company
FONDO COMUNE DELLE CASSE RURALI TRENTINE - Cooperative company
FRIULOVEST BANCA - CREDITO COOPERATIVO - Cooperative Company
LA CASSA RURALE – CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - Cooperative Company
PRIMACASSA – CREDITO COOPERATIVO FVG - Cooperative Company
PROMOCOOP TRENTINA - Public Limited Company
ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - Cooperative company

SAIT CONSORZIO DELLE COOPERATIVE DI CONSUMO TRENTINE - Cooperative company

SICILBANCA CREDITO COOPERATIVO ITALIANO - Cooperative Company

TRENTINGRANA CONSORZIO DEI CASEIFICI SOCIALI E DEI PRODUTTORI LATTE TRENTINI - Agricultural cooperative company

ZKB ZADRUŽNA KRAŠKA BANKA TRST GORICA ZADRUGA ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - Cooperative company

Preference shareholders

BANCA IFIS - Public Limited Company

BANCA POPOLARE ETICA - Cooperative Limited Company

CHAMBER OF COMMERCE INDUSTRY AGRICULTURE AND CRAFTS - TRENTO

CASSA RAIFFEISEN BASSA VENOSTA - Cooperative Company

CASSA RAIFFEISEN DELLA VAL PASSIRIA - RAIFFEISENKASSEN ST. MARTIN IN PASSEIER - Cooperative Company

CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - Cooperative Company

COOPERATIVA PROVINCIALE GARANZIA FIDI - Cooperative Company

DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN

MEDIOCREDITO TRENTINO-ALTO ADIGE - Public Limited Company

PROMOCOOP TRENTINA - Public Limited Company

AUTONOMOUS PROVINCE OF TRENTO

Corporate officers and Independent auditors

Board of Directors

Giorgio Fracalossi	CHAIRPERSON
Sandro Bolognesi	CHIEF EXECUTIVE OFFICER
Carlo Antiga	ACTING DEPUTY CHAIRPERSON
Enrica Cavalli	DEPUTY CHAIRPERSON
Paola Brighi	DIRECTOR
Isabella Chiodi	DIRECTOR
Carmela Rita D'Aleo	DIRECTOR
Maria Luisa Di Battista	DIRECTOR
Emanuele di Palma	DIRECTOR
Amelio Lulli	DIRECTOR
Enrico Macrì	DIRECTOR
Giorgio Pasolini	DIRECTOR
Claudio Ramsperger	DIRECTOR
Livio Tomatis	DIRECTOR
Roberto Tonca	DIRECTOR

Board of Statutory Auditors

Pierpaolo Singer	CHAIRPERSON
Lara Castelli	STANDING AUDITOR
Mariella Rutigliano	STANDING AUDITOR
Clara Carbone	ALTERNATE AUDITOR
Maurizio Giuseppe Grosso	ALTERNATE AUDITOR

General Management

Sandro Bolognesi	GENERAL MANAGER
Enrico Salvetta	ACTING DEPUTY GENERAL MANAGER

Independent Auditors

DELOITTE & TOUCHE S.p.A.

Executive Committee

Sandro Bolognesi	CHAIRPERSON
Carmela Rita D'Aleo	MEMBER
Claudio Ramsperger	MEMBER
Livio Tomatis	MEMBER
Roberto Tonca	MEMBER

Risks and Sustainability Committee

Maria Luisa Di Battista	CHAIRPERSON
Paola Brighi	MEMBER
Isabella Chiodi	MEMBER
Emanuele di Palma	MEMBER
Giorgio Pasolini	MEMBER

Appointments Committee

Enrico Macrì	CHAIRPERSON
Maria Luisa Di Battista	MEMBER
Amelio Lulli	MEMBER

Remuneration Committee

Isabella Chiodi	CHAIRPERSON
Enrico Macrì	MEMBER
Amelio Lulli	MEMBER

Independent Directors Committee

Paola Brighi	CHAIRPERSON
Maria Luisa Di Battista	MEMBER
Enrico Macrì	MEMBER

Interim Report on Consolidated Operations and Condensed Consolidated Half-Yearly Financial Statements of the Cassa Centrale Group

Interim Report on Consolidated Operations of the Cassa Centrale Group

Composition of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group

The Cooperative Banking Group

On 2 August 2018, the Bank of Italy accepted the request of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. (hereinafter also "Cassa Centrale Banca", "CCB", the "Parent Company" or the "Bank") to establish the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group (hereinafter also referred to as "Cassa Centrale Group", the "Group", "Cooperative Banking Group" or "GBC"), and, by resolution of the Directorate of 18 December 2018, the Supervisory Authority ordered the registration of the Cooperative Banking Group in the Register of Banking Groups, with effect from 1 January 2019.

The reform of Cooperative Credit was born from the Italian legislator's desire to strengthen the cooperative credit sector without distorting the local role and mutualistic purpose of the individual BCC-CR-RAIKAs, safeguarding the paradigm that distinguishes them.

In fact, the active participation of the shareholding base, with its stock of cooperative values and knowledge of the regional needs, finds an implementation channel in the Regional Shareholders' Meetings. Each meeting is not only an opportunity to share strategic projects of relevance to the entire Group, but also the joint responsibility of the partner BCCs to define the development guidelines that the Banks themselves, under the direction and coordination of the Parent Company, will then be called upon to implement.

The activity of the Cooperative Banking Group was conducted while maintaining full focus on implementing the provisions of the Reform Law and subsequent amendments. The drive to combine the value and autonomy of a system of local Banks - expression of the various territories - with the profitability, efficiency, growth and stability of a large Banking Group was particularly important.

Therefore, it is an original development model where difference is a value and local identity a principle.

The basis for the establishment of the Cassa Centrale Group is a contractual relationship between the Parent Company and the individual Affiliated Banks, namely the Cohesion Contract.

By means of the Cohesion Contract (Art. 37-bis of the TUB), the Affiliated Banks and the Parent Company regulate their mutual duties, responsibilities, rights and joint and several guarantees deriving from membership and affiliation with the Cooperative Banking Group, in compliance with the mutualistic aims that characterise Cooperative Credit Banks and in application of the principle of proportionality exercised according to the health status of the Banks themselves (risk-based approach).

The Cohesion Contract provides, as a fundamental and constitutive element of the Group, for the joint and several guarantee of the obligations assumed by the Parent Company and the Affiliated Banks, in compliance with the prudential rules applicable to banking groups and individual member banks; this guarantee forms an integral part of the Cohesion Contract. Participation in the agreement is, in fact, an essential condition for adherence to the Cohesion Contract and therefore to the Cooperative Banking Group.

The guarantee between the Parent Company and the Affiliated Banks is reciprocal (cross-guarantee) and contractually regulated so as to have the effect of qualifying the liabilities of the Parent Company and the Affiliated Banks as joint and several obligations of all the parties to the agreement; in other words, all the Affiliated Banks and the Parent Company are obligated - both internally and externally - for all the obligations contracted by the Parent Company or any Affiliated Bank.

The Guarantee Agreement also provides for intercompany financial support mechanisms by which the members of the scheme provide each other with financial support to ensure solvency and liquidity, in particular to comply with the prudential requirements and requests of the Supervisory Authority, as well as to avoid, where necessary, being subject to the resolution procedures set out in Legislative Decree no. 180/2015 or the compulsory liquidation procedure referred to in Articles 80 et seq. of the Consolidated Law on Banking.

If there is a need for intra-group financial support, the Parent Company may decide to activate the guarantee. The support initiatives for the Affiliated Banks, both capital and liquidity, necessary to ensure the solvency and liquidity of the individual members of the scheme, are carried out only by the Parent Company, using the financial resources made available by the members in execution of the Guarantee Agreement.

For further details on the guarantee scheme, please refer to the “Report on the guarantee scheme” attached to the separate financial statements of Cassa Centrale Banca in the annual financial report 2022.

The organisation structure of the Group

The reform of Cooperative Credit allowed to further strengthen the role of local banks typical of Cooperative Credit Banks. The Parent Company’s coordination role made it possible to eliminate certain weaknesses in terms of capital or business model that arose well before the Group’s operational start-up. The new organisational structure has undoubtedly contributed to the immediate and positive response that the Affiliated Banks have provided to the economic fabric of reference in the particular context of the COVID-19 health crisis.

The corporate governance system of the Parent Company Cassa Centrale Banca is based on the central role played by the Board of Directors, which is responsible for defining the Group’s strategic guidelines, on the transparency and collegial nature of management decisions, the effectiveness of the internal control system and the strict governance of potential conflicts of interest.

With reference to the regulation of potential conflicts of interest, specific documents and processes (regulations, Group policies, line controls, second-level controls, etc.) were introduced in order to monitor the various types of risks related to the particular structure of the Cooperative Banking Group in which the Affiliated Banks, placed under the control of Cassa Centrale Banca by virtue of the Cohesion Contract, are at the same time shareholders of the Parent Company.

As at 30 June 2023, the Cassa Centrale Group consisted of:

- the Parent Company, Cassa Centrale Banca;
- the Affiliated Banks that have adhered to the Cohesion Contract and the companies controlled by them, directly or indirectly;
- the financial and instrumental Companies directly and/or indirectly controlled by the Parent Company.

The updated list of companies included in the scope of consolidation of the Cassa Centrale Group is provided in the Explanatory notes (Part A - Accounting policies, section 3).

Corporate governance

The Cassa Centrale Group, in line with legal and supervisory regulations and in order to ensure an appropriate balance of powers and a precise distinction between the functions of strategic supervision, management and control, has adopted a "traditional" system of governance, based on the distinction between the Board of Directors, which has a guidance and strategic supervision function, and the Board of Statutory Auditors, which has a control function.

Below is an overview of the main corporate bodies with guidance and governance functions. Details of the powers reserved for the control bodies are provided in the chapter called "Risk management and internal control system" in this Report.

Shareholders' Meeting

The Shareholders' Meeting is a deliberative and collective body designed to express the Bank's wishes and to resolve, in line with the dictates of Art. 2364 of the Italian Civil Code and Art. 13 of the Articles of Association, on the following matters:

- the appointment of the members of the Board of Directors and of the Board of Statutory Auditors and determination of their compensation and responsibilities;
- the approval of the financial statements and the allocation and distribution of profits;
- the appointment of the company responsible for externally auditing the accounts upon a reasoned but non-binding proposal by the Board of Statutory Auditors;
- the approval of Remuneration and Incentive Policies for the Bank's Directors, Board of Statutory Auditors and staff, approving any plans based on financial instruments and the criteria for determining the compensation of any Directors and relevant staff in the event of early termination of employment or office;
- the approval and amendment of any shareholders' meeting regulations;
- the other matters assigned to its competence by the regulations in force at the time or by the Articles of Association.

The Board of Directors

The Board of Directors is the body responsible for the strategic supervision and management of the company. For this purpose, the Board of Directors may carry out all the transactions that are necessary, useful or appropriate for implementation of the corporate purpose, whether they are ordinary or extraordinary in nature.

The Board of Directors of Cassa Centrale Banca consists of 15 members, including 4 Directors who meet the independence requirements, the Chairperson and one or two Deputy Chairpersons (one of whom is the Acting Deputy Chairperson). The Directors — no more than 10 — must be chosen from among individuals employed by the affiliate banks, and specifically individuals who hold or who have held positions in the administration or general management of the Affiliate Banks or the general management of Cassa Centrale Banca. Lastly, with the aim of guaranteeing gender balance within the Board of Directors, at least one third of the Directors must belong to the least represented gender.

The Articles of Association assign the strategic supervision function to the Board of Directors, delegating the management function to the Executive Committee and the Chief Executive Officer, which also carries out the functions of the General Manager. The Articles of Association also govern the powers, assignments and areas of competence of the Board of Directors in its collective form, which cannot be delegated, and, conversely, the functions and areas of competence of the delegated bodies appointed by it.

Chairperson of the Board of Directors

Pursuant to Circular 285, the Chairperson of the Board of Directors performs a decisive role in ensuring the smooth functioning of the Board of Directors, fostering internal dialectics and ensuring the balance of powers, in line with the tasks relating to the organisation of the Board's work and the circulation of information assigned to it by the Italian Civil code.

Specifically, the Chairperson of the Board of Directors promotes the effective functioning of the corporate governance system, guaranteeing a balance of powers and acting as liaison with the internal control bodies and internal committees.

To effectively perform the duties of the position, the Chairperson may not have an executive role nor perform management functions.

In the event of absence or incapacity of the Chairperson of the Board of Directors, their functions shall be performed by the Senior Deputy Chairperson or, in the event of their absence or incapacity, by the other Deputy Chairperson. Before third parties the signature of the person replacing the Chairperson of the Board of Directors shall stand as evidence of their absence or incapacity.

Executive Committee

The Executive Committee, appointed by the Board of Director in the meeting of 30 May 2022, consisted of the Chief Executive Officer, who chairs it, and four Directors. Within the framework of the powers that the law and the Articles of Association do not reserve to the Board of Directors or to the Chief Executive Officer, the following matters are delegated to the Executive Committee:

- granting, classification and assessment of loans;
- real-estate transactions;
- issuing of debt instruments and transactions in financial instruments;
- implementation of corporate governance and risk management policies;
- internal organisation of the Company and the Cooperative Banking Group.

The Executive Committee also has the power to take in urgent circumstances decisions within the competence of the Board of Directors that are not reserved by law, by the Articles of Association or by provisions of the Cohesion Contract to the non-delegable competence of the Board of Directors, informing it in the next meeting.

Chief Executive Officer

The Board of Directors may appoint a Chief Executive Officer from among its members, to whom it entrusts the day-to-day management of the Parent Company in compliance with the general planning and strategic guidelines established by the Board of Directors. The Chief Executive Officer assumes the position and carries out the functions of General Manager pursuant to the Articles of Association.

Without prejudice to the competences assigned by the Articles of Association, in exceptionally urgent circumstances, after consulting the Chairperson of the Board of Directors, the Chief Executive Officer may take decisions on any transaction within the competence of the Executive Committee, provided they are not assigned by the mandatory provisions of the law or by provisions of the Articles of Association to the authority of the Board of Directors and of the Executive Committee as a whole. Decisions taken in this way must be reported to the Board of Directors and to the Executive Committee at the next meeting.

The Chief Executive Officer reports to the Board of Directors and to the Executive Committee, at least once a quarter, on the general management performance and its foreseeable outlook, as well as on the most significant transactions carried out by the Parent Company and the Group Companies.

Board Committees

In line with the provisions of article 31 of the Articles of Association, and in compliance with the provisions of Circular 285, the Board of Directors establishes an Appointments Committee, a Remuneration Committee and a Risks Committee made up of its members.

Each Committee that is mandatory in terms of applicable regulations, consists of a minimum of three and a maximum of five non-executive Directors, the majority of whom are Independent.

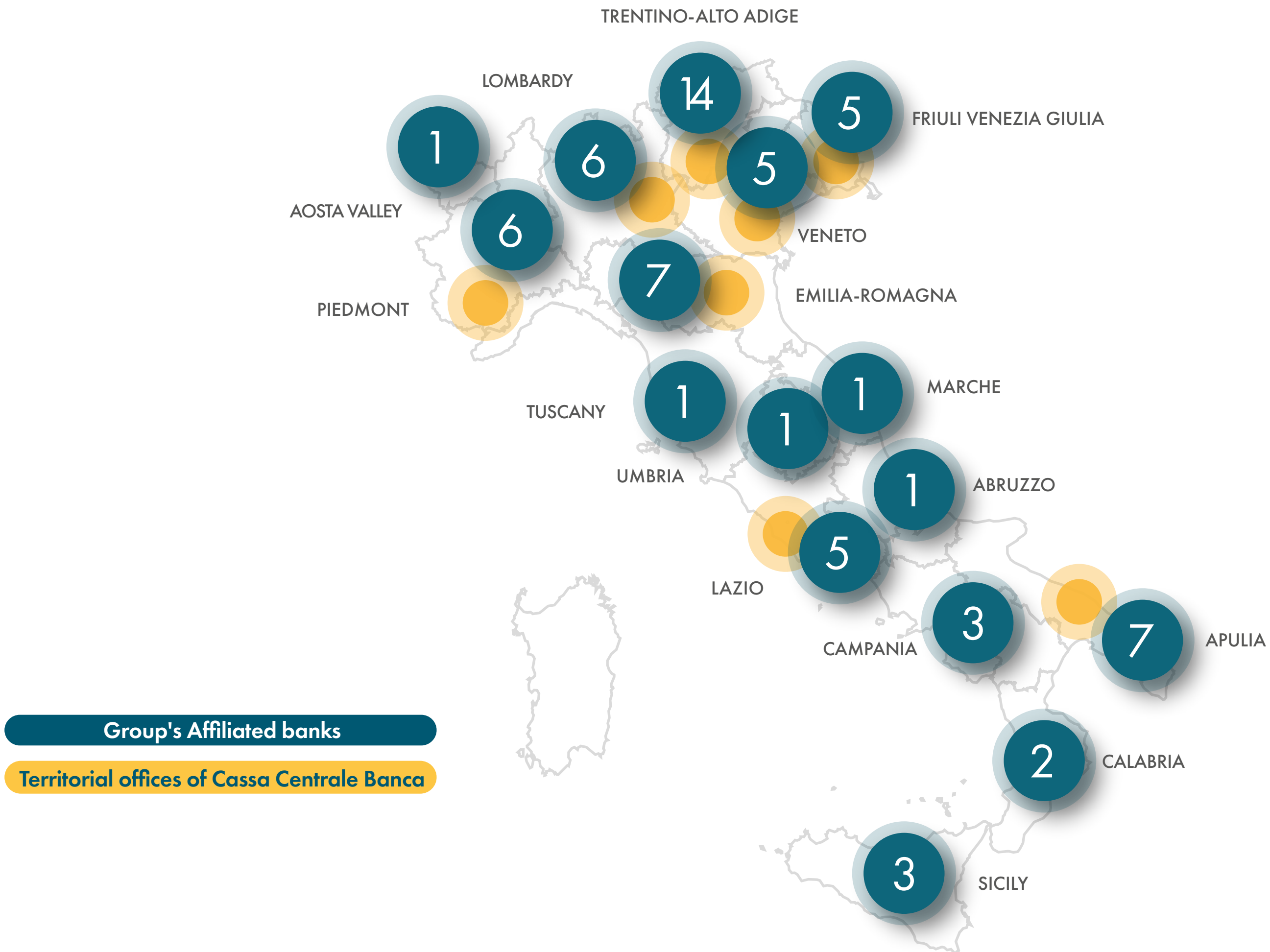
- The **Appointments Committee** conducts investigations and provides advice to the Board of Directors on appointment of the members and on the composition of the Board of Directors of the Parent Company and, where required, of the Affiliate Banks, when the responsibility rests with the Board, and carries out the other duties assigned to it by regulations in force and/or by the Board of Directors.
- The **Remuneration Committee** submits proposals and provides advice on the fees and on the remuneration and incentive systems to be adopted by the Parent Company and, where required, by the Affiliate Banks, and carries out the other duties assigned to it by regulations in force and by the Board of Directors.
- The **Risks and Sustainability Committee** is responsible for the tasks assigned to it by the regulations in force from time to time and by the Board of Directors, also with regard to the Affiliated Banks and, in particular, it performs support functions for the Parent Company's corporate bodies with regard to risks and the internal control system, paying particular attention to all activities that are instrumental and necessary for the Parent Company's Board of Directors to arrive at a correct and effective determination of the Risk Appetite Framework (RAF) and risk management policies; The Sustainability and Identity Committee was merged into the Risks Committee, giving the latter an investigative, propositional and advisory role with regard to evaluations and decisions on matters of sustainability and the cooperative identity.
- The **Independent Directors Committee** performs the tasks set forth in Circular 285 on the subject of decision-making procedures relating to related-party transactions, as well as on the subject of equity investments held by banks and banking groups. Lastly, it should be noted that, on the basis of the reference regulations, the Independent Directors meet separately from the other members of the Board of Directors periodically, at least once year, to discuss relevant issues. The **Independent Directors' Meetings (IDM)** are autonomous, separate, and different to board committee meetings.

For further information and a detailed description of the corporate governance system, please refer to the "Corporate Governance Project" available on the Cassa Centrale Banca website at www.cassacentrale.it, in the "Governance" section.

Presence on the territory

Even before taking on the role of Parent Company, since its establishment Cassa Centrale Banca has been a reference partner for Cooperative Credit and a number of small and medium-sized banks not belonging to banking groups, sharing their values, culture, strategies and reference model.

Acting as a second-level bank, it provided support and impetus to the activities of the BCC-CR-RAIKA members and customers, with an offer that they themselves recognised as innovative, competitive and of quality. The role of provider of high added value advisory services in sectors such as wealth management, structured finance, public treasury management, etc. was also significant.



The presence of the Cooperative Banking Group, with the consequent transition from a network integration to a group approach, allowed the Affiliated Banks to further strengthen their primary role as local banks at the service of the territory and communities. The Covid-19 health crisis and the related economic impacts represented a test for the strength of the new organisation. In fact, the Affiliates were able, precisely because they are part of a solid and organised Group, to demonstrate resilience and reactivity. The Group's business model envisages a widespread presence in the territory and a strong attention to the relationship with the customer (typically households and small economic operators), the territory and local institutions.

Local Shareholders' Meetings have the objective of allowing for maximum participation and collaboration on the part of all the Affiliated Banks, through constant dialogue with the Parent Company, leveraging the common purpose, the responsibility and effective and widespread communication, as well as the integrated development of the Group's culture and strategies. The relationship based on ongoing dialogue and the active involvement of its stakeholders is an expression of the responsibility that the Cooperative Banking Group feels towards the territory in which it operates.

As at 30 June 2023, the Group's geographical presence is characterised by 68 Affiliate Banks with 1,478 branches located across Italy and 14 regional offices of the Parent Company.

PRESENCE ON THE TERRITORY	30/06/2023					Total 30/06/2023	Total 31/12/2022	Change
	Trentino-Alto Adige	North East	North West	Central	South and the Islands			
OFFICES								
Parent Company	7	2	2	2	1	**14**	**14**	**0**
Affiliated Banks	14	10	13	16	15	**68**	**69**	**(1)**
BRANCHES*								
Parent Company	1	0	0	0	0	**1**	**1**	**0**
Affiliated Banks	293	325	357	320	183	**1,478**	**1,474**	**4**

*Data referring to branches with CAB code

The special legal regulations, in relation to the mutualistic aims pursued, and the business model that characterises the BCC-CR-RAIKAs, are at the basis of the high number of members in the corporate structure. Cooperative Shareholders play a key role as they are a crucial resource for preserving the value of Cooperative Credit Banks. They are in fact the first customers, suppliers of their own equity, witnesses of the vitality of the company, as well as the creators of projects within the social and economic fabric.

As can be seen from the table below, the number of Shareholders as at 30 June 2023 is approximately 470 thousand, mostly concentrated in the Central and North areas of the country and up by 5,979 compared to December 2022.

AREA	30/06/2023					Total 30/06/2023	Total 31/12/2022	Change
	Trentino-Alto Adige	North East	North West	Central	South and the Islands			
No. of Shareholders	132,447	94,635	111,158	100,778	31,212	**470,230**	**464,251**	**5,979**
% of total	28.17%	20.13%	23.64%	21.43%	6.64%	**100.00%**		

Mission, values and business model of the Affiliated Banks and the Group

The affiliated BCC-CR-RAIKAs are local banks which are an expression of the communities, established in the form of cooperative companies with prevalent mutuality. Consistent with the principles and values that inspired their birth in the late 19th century and accompanied their growth, they have always made a concrete contribution to the economic, social and cultural development of local communities. As stated in their Articles of Association, they have "*the purpose of favouring cooperative shareholders and members of local communities in banking operations and services, pursuing the improvement of their moral, cultural and economic conditions and promoting the development of cooperation and education in savings and pension planning as well as social cohesion and the responsible and sustainable growth of the territory in which they operate*". These concepts are also covered in the Articles of Association of the Parent Company Cassa Centrale Banca.

The sharing of the values that characterise the social function of cooperation underpins the modus operandi of the Affiliated Banks and at the same time represents a concrete wealth for the Communities in which they operate.

The commitment to the territory is implemented both in the active presence in the local economic system through reinvestment in the areas of competence of savings collected, and in the support of initiatives in favour of bodies and associations that make the non-profit sector their objective.

The social and service function of the Affiliated Banks is characterised by a qualified, updated and dedicated offer in which the services provided by the individual entities are flanked by the services and consulting provided by the Parent Company and the subsidiaries, which are designed to meet the organisational, business and compliance needs of the Affiliated Banks and to understand, anticipate even, the needs of Shareholders and customers.

The adoption by the Affiliated Banks of the Group Code of Ethics represents the formalisation of the commitment to translate the principles and values of all Group Companies into concrete and consistent conduct, also in the knowledge that taking social and environmental concerns into account helps to minimise exposure to banking and non-financial risks, and enhances reputation.

The activity of the Affiliated Banks is strongly oriented towards the provision of credit through traditional forms, such as mortgages and commercial loans, in order to better meet the financial needs of customers. Direct funding also consists of traditional offers such as deposit accounts, repos, current accounts, savings accounts and bonds, while indirect funding, and assets under management in particular, are characterised by the offer of products and services that combine profitability and risk containment.

Affiliated Banks are therefore the main interlocutors in the support and development of the real economy of the territories in which they operate, thanks to a specific offer of banking products and services that over the years has made it possible to maintain the stability of savings and a constant access to credit, also by enhancing the value of proximity information and relationships that is a unique characteristic that only local banks possess.

However, this has not prevented them from following the financial and technological evolution and innovation, through products, tools and advisory services consistent with the needs of a developed economy, expressed by most of the regions in which the Affiliated Banks are based, which found practical implementation in the offer of investment services as well as financial products.

Economic background

International scenario and Italian context

During the first half of 2023, the effects of Russia's invasion of Ukraine on the cost of energy diminished somewhat, returning to pre-conflict levels but not leading to an immediate return of overall inflation. Inflation remains high in all the main economies, with the exception of China, which is still affected by the ongoing economic slowdown. The estimates by the International Monetary Fund (hereinafter "IMF"), published in July 2023 show that the growth of global GDP in 2023 will come in at 3%, compared to 3.5% in 2022. With regard to the main world economies in 2023, according to the IMF, GDP growth in the United States will be 1.8%, while 0.9% growth is expected for the euro zone.

In the euro zone, consumer price growth is expected to cool. According to IMF estimates, inflation should fall from 8.4% in 2022 to 5.3% in 2023, before dropping again to 2.9% in 2024. According to these estimates, the drop in inflation will not lead to higher unemployment. The rate is expected to remain at 2022 levels, namely 6.8% for 2023 and 2024.

As for the Italian economy, the macroeconomic scenario is more favourable than other large economies in the euro zone, especially in terms of GDP growth, which has proved to be more resilient than in Germany and France. According to ISTAT, the expected drop in inflation, along with a gradual recovery in wages, could relaunch consumption by Italian households and businesses, while investments will continue to see accelerated growth. GDP Growth is expected to be 1.2% in 2023, driven by internal demand and exports. As regards the Italian labour market, ISTAT expects the gradual downward trend in unemployment of the last two years to continue, with 7.9% expected in 2023.

Early 2023 was characterised by a slowdown in Italian inflation thanks to the drop in the costs of energy and agricultural raw materials. The change trend in the consumer price index stood at 8.2% in April before slowing to 7.6% in May and to 6.4% in June. ISTAT estimates that, for 2023, the rate of growth in the household expenditure deflator will fall to 5.7%, lower compared to the 7.4% recorded in 2022.

Financial and currency markets

In response to ongoing inflationary pressures, in the first half of 2023, the world's main central banks accelerated the return to less accommodating monetary policies.

At its meeting on 2 February 2023, the European Central Bank continued with the monetary restriction intended to bring inflation back to lower levels by launching a new 50-bp rise in interest rates. With this additional step in the cycle of hikes, the main refinancing rate was brought to 3.00%, the overnight deposit rate to 2.50%, and the marginal lending rate to 3.25%. The Governing Council also confirmed its intention to fully reinvest the principal repaid on maturing securities as part of the financial asset purchase programme (FAPP) until the end of February 2023 before reducing it at an average rate of EUR 15 billion per month, only partly reinvesting the principal repaid on maturing securities, until the end of June 2023. At the monetary policy meeting on 16 March 2023, the Governing Council also decided to raise all three benchmark interest rates by an additional 50 basis points, bringing the main refinancing rate to 3.50%, the overnight deposit rate to 3.00%, and the marginal lending rate to 3.75%.

At the next two meetings, on 4 May 2023 and 15 June 2023, the European Central Bank acknowledged the first positive signs of a the slowdown in inflation in the euro zone, but its persistence at levels above the target of 2% in the medium term drove the Governing Council towards a decision to further raise rates by 25 basis points at each meeting. With these measures, the main refinancing rate was brought to 4.00%, the overnight deposit rate to 3.50%, and the marginal lending rate to 4.25%. The European Central Bank also communicated its intention to put an end to reinvestments as part of the FAPP starting from July 2023.

As for the US, the Federal Reserve increased the target range for Federal Funds interest rates by a total of 75 basis points to 5.00-5.25% in the first half of 2023. The central bank intervened with 25-bp increase at each of the meetings in February, March and May, save for a momentary pause in monetary restriction at the meeting in June.

The rise in yields for European government bonds continued in the first half of the year in the wake of the central banks' gradually increasing the benchmark rates. In a negative environment, peripheral government bonds posted lower spreads compared to German bonds with the same maturity. The BTP/Bund spread fell from around 200 basis points at the beginning of the year to 170 basis points at the end of June, with the 10-year Italian yield closing the six-month period at around 4.07%.

The spread decreased in recent months following a phase of volatility exacerbated by bank crises in Europe and the United States. The drop in yields was also supported by better macroeconomic data than expected for Italy and signs of a slowdown in inflation, which could suggest a less restrictive approach in the monetary policy for the future. The dynamics of returns were unaffected by the decline in purchases by the European Central Bank. Investors' fears around refinancing Italy's debt were met by increased recourse to placement with retail investors, where the new BTP Valore was placed for approximately 18 billion, in addition to the expectations of operators.

Despite the negative macroeconomic framework and increasingly more restrictive monetary policies, the main European indexes closed the first half of the year with positive performance. The broadest European index rose by around 10% in the first six months of the year, but the performance of certain national indexes was even more outstanding, with the main Italian index gaining nearly 20%.

The main reasons for this are found in the significant drop in commodity prices and the easing China's anti-COVID restrictions. At sector level, luxury was one of the best performing, whereas volatility plagued the financial sector in correspondence with the bankruptcy of certain American regional banks. The American markets also recorded positive performance, and technology stocks saw extremely positive dynamics, with the sector index up by over 30 percentage points.

Italian banking system

According to ABI data [1], the macroeconomic and monetary policy dynamics seen in the first half of the year were also reflected in the banking system, with a particular influence impressed by continuous restrictions in monetary policy taken by the European Central Bank.

Direct funding of Italian banks fell by 2.3% in June 2023 compared to the previous year, with an increase in the average rate of funding. In particular, the return on new deposits, including time deposits and fixed-term deposits, reached 3.27% in June 2023 (0.61% in June 2022).

The data related to loans to customers also reflect the macroeconomic and monetary policy dynamics of the first half of the year, with a 2.2% decline year-on-year as at June. The change is slightly mitigated by taking into consideration the exposure to households and non-financial corporations (1.5% decrease year-on-year). Additionally, there was a 4.27% rise as at June 2023 in the average rate on loans to purchase homes (compared to 2.05% as at June 2022). The average rate on new loans to non-financial corporations, on the other hand, rose to 4.86% (1.44% as at June 2022). With reference to credit quality, there was an increase in net bad loans by around EUR 1 billion compared to December 2022, with a ratio of net bad loans to total loans stable at 0.89%.

[1] ABI, "Monthly Outlook Economy and Financial-Credit Markets", July 2023.

Significant events during the first half of the year

The main events that occurred during the first half of 2023 are shown below.

Business combinations between Affiliated Banks

In the first half of 2023, two business combinations between Affiliated Banks were recorded, which brought the number of Affiliated Banks from 69 at the end of 2022 to 67 as at 1 July 2023.

Details of the business combinations carried out are shown below:

- Banca Sicana – Credito Cooperativo and Credito Etneo – Banca di Credito Cooperativo: new name Sicilbanca - Credito Cooperativo Italiano, effective from 1 January 2023, Sicily region;
- BancaTer Credito Cooperativo FVG and Friulovest Banca - Credito Cooperativo: new name Banca 360 Credito Cooperativo FVG, effective from 1 July 2023, Friuli Venezia Giulia region.

Business combinations between Affiliated Banks are part of the rationalisation of the regional control unit aimed at pursuing competitiveness and efficiency objectives. These transactions had no impact on the consolidated financial position as they are mergers between entities under common control.

2023-2026 Strategic Plan

On 29 June 2023, the Board of Directors of Cassa Centrale Banca approved the Group's Strategic Plan (hereinafter also referred to as "SP") with a 2023-2026 time period, which updates the 2022-25 SP approved last year.

The Plan was defined with the full involvement of the Affiliated Banks, as provided for in the Cohesion Contract, in a process whereby each legal entity of the Group defined its own individual SP, which then became part of the Group's consolidated SP.

The Strategic Plan identified four key areas of intervention:

- **business development based on the regional bank service model** by expanding the customer base, transforming the distribution model and enhancing services aimed at customers;
- **improved efficiency of the Group's business model** by enhancing tools and ICT processes, centralising administrative and back office activities, and digitalisation;

- **attention to capital and risk profiles** through proactively managing the loan portfolio, governing of financial risks, and evolving towards the Basel IV framework;
- **activation of enabling factors**, to be contextualised across the board, by developing and training human resources and integrating ESG models.

Each area of intervention consists of specific strategic objectives and targeted initiatives for their achievement.

The economic-financial and equity projections confirm the solid capital and liquidity position of the Group, define an evolution in profitability through a sustainable business model and full sustainability of the ICT investments required to guarantee adequate standards of service. Utmost attention is paid to actively managing credit risk and provisioning policies to face the many uncertainties characterising the current macroeconomic scenario.

The Group has adopted a so-called "rolling" logic in its strategic planning process, according to which the Plan is reviewed on an annual basis. This approach has been adopted taking into account that the Group has been operating since 2019 and is moving in a continuously and rapidly evolving market and regulatory environment.

Impaired asset management and Group NPE strategy

In 2023, in an environment characterised by an uncertain macroeconomic framework due to potential negative implications arising from inflationary pressures and the consequent rise in interest rates, the Cassa Centrale Group, through dedicated structures within the Parent Company and the Affiliated Banks, continued to carefully monitor the quality of the loan portfolio and manage and reduce impaired assets.

In this context, the Parent Company prepared the new NPE Strategy and the related Group Operating Plan, with a 2023-2025 time frame. The NPE Strategy and Operating Plan were presented for approval before the Board of Directors of the Parent Company on 30 March 2023 and subsequently sent to the ECB.

The NPE strategy was developed keeping a prudent approach, considering the volatility of the available macroeconomic forecasts. This prudential approach was applied through the adoption of a particularly high provisional default rate for the 2023-2025 period compared to the figures of the last few years. According to this approach, the Group's NPE Strategy, nevertheless, predicts an additional reduction in the gross NPL ratio, which, at the end of the plan, is expected to fall to 4.2%. With regard to coverage levels, on the strength of the coverage levels that the Cassa Centrale Group had reached by the end of 2022 (81.7%), NPE Strategy forecasts a slight decrease in the index, nevertheless retaining a provisional level for 2025 of 70.3%, which appears to be somewhat higher than the figures of the Italian and European banking system. The combined effect of the reduction in the gross NPL ratio and the retention of a high coverage level on impaired loans will enable the Group to maintain a net NPL ratio of 1.3% at the end of the plan, lower than the average for the main Italian banking groups.

The final figures as at 30 June 2023 showed better results than expected, especially in terms of default rates, which currently do not yet show significant impacts arising from the rise in prices and interest rates. At June 2023, the Cassa Centrale Group achieved a half-yearly default rate of around 0.6%, which, as an annual projection, appears much lower than the 2.0% estimate calculated during the preparation of the NPE Strategy. The recovery performance of impaired loans in the six-month period was also better than expected, with collections totalling EUR 242 million against an overall annual estimate of EUR 399 million. Total performing loans fell slightly compared to the figure at the end of 2022, similar to what the entire Italian banking system posted.

The combined effect of these dynamics on the entire loan portfolio led to the achievement as at 30 June 2023 of a gross NPL ratio of 4.7% [2] and a net NPL ratio of 0.9% against the targets for the end of 2023 of 4.6% and 1.1% respectively.

The positive performance, as regards the net NPL ratio, is also due to the maintenance of a prudent impaired exposures provision policy in view of the continuation of the macroeconomic uncertainty. This policy made it possible to maintain impaired exposure coverage of 81.8%, placing the Cassa Centrale Group among the top performers in Italy and Europe in terms of coverage ratio.

Placement of the first public issue by Cassa Centrale Banca

On 8 February 2023, Cassa Centrale Banca successfully completed the public placement of the inaugural senior preferred bond. Worth EUR 500 million, the bond has a fixed rate, 4-year duration and is repayable early after 3 years. The bond was reserved for domestic and international institutional investors.

Part of the process to meet the MREL requirements, the bond was issued as part of the Euro Medium-Term Notes (EMTN) Programme worth EUR 3 billion, listed on the Irish Stock Exchange.

The security was issued at par value, with a 5.885% coupon and a rating from DBRS and Fitch equal to BBB (low) and BBB- respectively.

The operation saw excellent participation from leading domestic and international investors, with extremely granular orders (applications for over EUR 1,700 million from more than 150 investors were collected).

The investors that participated in the operation were mainly fund managers (58%), banks (27%), insurance companies (7%), hedge funds (7%) and others (1%). In terms of geographic distribution, 33% was allocated to Italian investors, followed by the United Kingdom and Ireland (23%), France (16%), Germany and Austria (19%), Spain and Portugal (5%), Switzerland (2%) and others (2%).

2023 EBA EU-wide Stress Test

In the final quarter of 2022, the European Central Bank (ECB) informed the Group that id had been selected as one of the credit institutions to undergo stress testing conducted at European level by the European Banking Authority (EBA), launching at the end of January 2023.

The process involved the use of methodologies, scenarios and key assumptions developed in collaboration with the European Systemic Risk Board (ESRB), the ECB and the European Commission (EC), assuming a static balance sheet with reference date 31 December 2022.

The main objective of the test was to provide the Supervisory Authority, banks and other market operators with a common analytical framework that would allow for a comparative assessment of the resilience of the EU banking system in a hypothetical adverse macroeconomic scenario over a three-year period (2023-2025). In particular, the objectives of the stress test included:

- the assessment and comparison of the overall resilience of EU banks to serious economic shocks;
- the assessment of the capital levels of banks in relation to their ability to ensure support for the economy in periods of stress;

[2] The gross and net NPL ratios were calculated based on the EBA data model ("EBA methodological guidance on risk indicators", last updated in October 2021).

- the promotion of market discipline through the publication of consistent and granular data that can be compared at individual bank level;
- the contribution to the Supervisory Review and Evaluation Process (SREP).

The results communicated at the end of July confirmed the Cassa Centrale Group's capital strength and highlighted its significant resilience, including in the face of the particularly severe macroeconomic scenarios proposed in the stress test. The low of 18.52% achieved by the fully-loaded CET1 ratio in the adverse scenario at the end of 2023 against a starting value of 21.55% (thus falling by around 303 bps) would guarantee the maintenance of an extremely significant buffer in relation to the requirements assigned by the Supervisory Authority [3].

Complaints and disputes

On 16 January 2020, the financial holding company Malacalza Investimenti S.r.l. (hereinafter also "Malacalza Investimenti") brought a civil action against Carige, FITD (Italy's Interbank Deposit Protection Fund), SVI (Italy's Voluntary Intervention Scheme) and Cassa Centrale Banca, disputing the validity of the resolution to increase the share capital by EUR 700 million approved by the Shareholders of Banca Carige at the Shareholders' Meeting of 20 September 2019 and submitting a claim for damages of over EUR 480 million (subsequently increased to approximately EUR 539 million), on account of the alleged hyperdilutive nature of the resolution (reducing Malacalza Investimenti's shareholding from 27.555% to 2.016%).

The contested invalidity of the shareholders' meeting resolution (which can no longer be annulled as it has already been executed, with the subscription by Cassa Centrale Banca of the capital increase and the acquisition of an 8.34% shareholding) is based on the allegedly unlawful exclusion of the option right, failure to comply with the principle of accounting parity and the determination of the issue price of the new shares in breach of the criteria laid down by company law.

The same defendants, including Cassa Centrale Banca, were then sued in two further disputes by the shareholder Vittorio Malacalza and 42 other shareholders of Carige, with a claim for a further approximate total of EUR 11.4 million, plus revaluation and interest, based on assumptions and arguments coinciding with those put forward by Malacalza Investimenti.

The proceedings ended with a judgement of 15 November 2021 by which the Court of Genoa, in acceptance of the claims of the defendants, ascertained the validity of the capital increase resolution adopted by Carige on 20 September 2019 and rejected the claims for damages brought by the plaintiffs, ordering the latter to pay the legal costs.

In December 2021, Malacalza Investimenti S.r.l., Malacalza Vittorio and 5 small shareholders out of the initial 42 appealed against the first-level ruling before the Court of Appeal of Genoa, (with a reduction of the claims for damages, as regards the latter, from approximately EUR 8.4 million to EUR 84 thousand).

In March and April 2022, Cassa Centrale Banca appeared in the three lawsuits pending before the Court of Appeal.

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[3] Overall capital requirement (OCR) equal to 8.41% for the CET1 ratio and 13% for the Total Capital Ratio. In this regard, it should be noted that the capital of the Cassa Centrale Group is nearly entirely formed of CET1, i.e. high-quality instruments

At the hearing of 20 April 2022, the Court ordered the joinder of all the proceedings, reserving any decision until the continuation. Following various postponements, the court set the first hearing for 8 February 2023, subsequently postponed to 11 October 2023, to verify the integrity of the cross-examination and to proceed with the ruling.

As a result of the assessments carried out with the support of solicitors, Cassa Centrale Banca, considering the risk of losing the case, decided not to make provisions for risks and expenses in line with the provisions of the IAS/IFRS international accounting standards.

With judgement published on 30 May 2023, the Venice Court of Appeal declared the dispute brought against Cassa Centrale Banca by North East Services S.p.A. under extraordinary administration for an overall value of around EUR 20 million closed due to the settlement reached.

Rating updates

DBRS Morningstar

Following the periodic update conducted on 6 February 2023 on the creditworthiness of the Cassa Centrale Group, the ratings agency DBRS Morningstar confirmed the ratings assigned previously, which saw the Group return to the Investment Grade category.

Therefore, the BBB rating (low) in relation to the Long-Term Issuer Rating and Long-Term Senior Debt profiles remained the same.

The Group's strengths were confirmed, including high levels of liquidity, capitalisation and funding. Asset quality continues to improve, with significant coverage for impaired loans.

FITCH Ratings

On 26 July 2023, the agency FITCH Ratings published an update on the rating report for the Cassa Centrale Group.

All scores remained the same, including the Long-Term Issuer Rating of BBB- and the Viability Rating (bbb-). The Group, therefore, remained in the Investment Grade category.

As regards the loan portfolio, the Agency noted how the Group maintained a strong diversification of exposures and broad coverage of them. On the other hand, funding benefited from a stable customer base with a moderate ratio of loans to deposits.

Lastly, capitalisation remained one of the Group's main strengths thanks to a CET1 ratio higher than the market and a significant provisioning to reserve policy.

Moody's

On 5 June 2023, the Cassa Centrale Group ended business relations with the ratings agency Moody's. The Group will continue to be assessed by DBRS Morningstar and FITCH Ratings.

MREL Requirement

As part of the regulatory framework for the recovery and resolution of credit institutions and investment firms (the so-called BRRD), the Single Resolution Board (or SRB) communicated in April 2023 to Cassa Centrale Banca, as the Group's resolution entity, the Minimum Requirement of Eligible Liabilities (MREL [4]) to be met at a consolidated level for Cassa Centrale Banca and at an individual level for the Affiliated Banks identified as Relevant Entities by the relevant regulations in the 2022 resolution cycle. The MREL Requirement, formulated in accordance with Article 12 bis, paragraph 2), letters a) and b), of Regulation (EU) no. 806/2014, defined as a percentage of the total risk exposure amount (MREL-TREA) and as a percentage of the leverage ratio exposure [5] (MREL-LRE), was communicated by the Single Resolution Committee.

Given the general-hybrid approach adopted by the Single Resolution Committee, own funds on a consolidated basis shall be considered suitable to meet the consolidated MREL requirement, while the only eligible liabilities will be those issued directly by the Parent Company Cassa Centrale Banca (as the "central entity" of the Resolution Group) and that will comply with the eligibility conditions set out in Regulation no. 877/2019 ("SRMR2"). This consideration stems from the single-point-of-entry (SPE) Resolution Strategy defined by the Supervisory Authority for the Group, according to which resolution tools and powers would be applied exclusively to the Parent Company.

The minimum requirement for own funds and eligible liabilities on a consolidated basis with which the Parent Company must comply is 22.61% of TREA (to which the combined capital reserve requirement (CBR) of 2.5 per cent should be added) and 5.91% of LRE. The Parent Company is required to meet the above requirements by 1 January 2024. Effective 1 January 2022, the Group is required to meet the interim requirement set by the Resolution Authority of 18.20% of TREA (plus the combined capital reserve requirement (CBR) of 2.5%) and 5.91% of LRE. There are no subordination requirements to meet the above targets.

On 8 February 2023, Cassa Centrale Banca successfully completed the public placement of the inaugural senior preferred bond issue, as described in the related section in this Chapter of the Report.

At the reference date of 30 June 2023, Cassa Centrale Banca complies with the mandatory intermediate level of the MREL requirement, both as a percentage of the total risk exposure amount (MREL-TREA) and as a percentage of the leverage ratio exposure (MREL-LRE), on a consolidated basis.

European Central Bank credit and counterparty risk audit of the portfolio secured by commercial real estate

In January 2022, the ECB notified the start of an on-site inspection (or "OSI"), from March 2022, on credit and counterparty risk with the aim of assessing the compliance and implementation of IFRS 9. The audit focused on the segment of exposures to commercial real estate (exposures secured by commercial real estate), as part of a broader campaign of control and analyses conducted on the entire European banking system. The inspection team carried out a credit quality review on a sample group of positions and assessed the credit risk processes, including all ancillary aspects such as governance, credit processes, internal regulations, as well as the IFRS 9 models and rating systems adopted by the Group.

The final report was provided on 6 June 2023 and includes the results of the inspection, namely the findings that will be discussed with the Supervisory Authority to define the related guidance and plan of expected maturities to be shared.

4 Specifically, the MREL requirement allows each intermediary, in case of resolution, to have an adequate amount of capital resources and other liabilities to absorb losses and replenish capital. It aims to preserve financial stability by promoting an orderly and effective crisis management system. Failure to meet the MREL requirement can have a negative impact on the loss-absorbing capacity and recapitalisation of institutions, as well as on the overall effectiveness of the resolution.

5 "Exposure to the leverage ratio" is the measure of total exposure calculated pursuant to Articles 429 and 429 bis of EU Regulation no. 575/2014.

European Central Bank inspection on IT risk

In November 2022, the ECB's on-site IT risk audit was completed, intended to assess the management of IT operations and IT projects, including any ancillary aspects related to this purpose and scope.

The outcome of the audit, communicated in early 2023, confirmed the correctness of the path undertaken, highlighting a number of points of concern and areas for improvement for which the Cassa Centrale Group took prompt action to define and implement a remedial plan that met the expectations of the Supervisory Authority.

European Central Bank internal governance and risk management audit

In January 2023, the ECB announced the initiation of an on-site internal governance and risk management audit. The audit, conducted starting from 20 March 2023, was completed at the end of June 2023.

In addition to examining and assessing the adequacy and quality of internal governance and risk management, the Supervisory Authority explored the Parent Company's ability to direct the Affiliated Banks, the management of internal regulations, the efficacy of processes to define the strategy of the GBC as a whole, as well as the risk-based model.

The final report will be provided in the last quarter of 2023 and include the results of the inspection, namely the findings that will be discussed in a preliminary manner, presumably in autumn.

European Central Bank credit and counterparty risk audit (Retail SME OSI)

In the second quarter of 2023, with a letter dated 28 March 2023, the European Central Bank announced the start of an on-site audit, scheduled as part of a campaign involving the European banking system, regarding credit and counterparty risk with reference to small and medium enterprises (Retail SME OSI).

The on-site phase of the audit began in June 2023 and ended in August. Considering the segmentation adopted by the Group as part of the rating systems and IFRS 9 models, the scope of the investigation was the Corporate portfolio, with a reference date of 31 December 2022.

CONSOBaudit of the status of the MiFID II adjustment regarding product governance and assessing the appropriateness/adequacy of operations and related compliance audit

On 22 February, CONSOB began auditing the Group's model for the provision of investment services. The focus of the audit was the status of the processes to adjust to the MiFID2 Directive, in particular as regards obligations on product governance and adequacy assessment. The audit is still ongoing.

"Forbearance deep dive" by the European Central Bank

In line with its 2022-24 supervisory priorities, from October 2022 through January 2023, the European Central Bank conducted an in-depth examination of the processes to identify and manage forbearance ("forbearance deep dive").

As part of this, the Supervisory Authority prepared an assessment of the main risks and vulnerabilities in the broader framework of a campaign conducted within the European banking system. The audit concentrated on the adequacy of the forbearance policies and procedures and their implementation within the Group. The ECB highlighted areas of improvement for the Cassa Centrale Group intended to revise a number of credit risk management practices in this regard. The Group launched design and remediation activities for the purposes of meeting the expectations and deadlines shared with the Supervisory Authority.

Update to the Equity Investments of Cassa Centrale Banca

Exercise of the option to purchase the Prestipay S.p.A. share held by Deutsche Bank

In February 2023, Cassa Centrale Banca resolved to exercise the purchase option on the share package of the subsidiary company Prestipay S.p.A. held by Deutsche Bank and equal to 40% of its share capital. The purchase price of the share package was determined using a specific appraisal value prepared by an independent expert. The closing took place in June 2023.

Liquidation of the subsidiary Centrale Casa S.r.l.

In April 2023, the extraordinary shareholders' meeting of Centrale Casa S.r.l., wholly owned by Cassa Centrale Banca, resolved to put the company into voluntary liquidation, as part of a wider process of Group reorganisation.

Liquidation of Casse Rurali Raiffeisen Finanziaria S.p.A.

In April 2023, the Extraordinary Shareholders' Meeting of Casse Rurali Raiffeisen Finanziaria S.p.A. ("CCRFIN"), 50% owned by Cassa Centrale Banca and 50% by Raiffeisen Landesbank, resolved to put the Company into voluntary liquidation.

System operation to resolve the crisis situation of Eurovita S.p.A.

The Cassa Centrale Group joined the agreement between distributor banks, the 5 leading Italian insurance companies and a number of leading Italian banking institutions intended to find a solution to the crisis the insurance company Eurovita S.p.A. is experiencing. The agreement aims to guarantee the full protection of investors that have taken out Eurovita policies, preventing them from being exposed to any capital loss or waiver of accrued returns. In an intermediate phase, the distributor banks' insurance portfolio will be taken over by the 5 insurance groups by establishing a new company owned by those insurance companies.

The agreement will also be effective for Group customers took out Eurovita policies. These policies, according to the latest estimates, are in the portfolios of the Group's customers for an overall value of around EUR 402 million in funding (attributable to policies placed by a number of Group banks). The operation is expected to be finalised in the second half of 2023.

Classification and measurement of loans to customers in light of the Russia-Ukraine war and overcoming the COVID-19 emergency

To calculate expected loss at 30 June 2023, the Cassa Centrale Group has incorporated macroeconomic scenarios into its IFRS 9 impairment model, in line with the provisions of the standard, including the effects of the war in Ukraine and the uncertainty of the future economic context, aspects which have a major influence on growth forecasts, the main macroeconomic variables and the financial indicators for 2023-25, compared to the previous forecasts.

In order to determine the IFRS 9 value adjustments on the customer loan portfolio as at 30 June 2023, conservative criteria – in accordance with the IAS/IFRS accounting standards – were adopted, taking into account the uncertainty arising from the conflict between Russia and Ukraine and the still ongoing inflationary spiral. However, given the difficulty in estimating their duration and development, the Group incorporated the potential impacts of the aforementioned events — which suggest a possible increase in insolvency rates in the future — into its credit evaluations. The support measures introduced by the State, such as those relating to the granting of state guarantees, required, from an operational point of view, a high degree of attention to the management and monitoring mechanisms undertaken by the Group for the possible effects of deterioration of counterparties may not still be precisely and promptly intercepted.

These uncertainties resulted in the identification of some areas of intervention considered worthy of further incisive actions to increase coverage levels, in line with the strict requirements envisaged by the Group policies and with the recommendations of the Supervisory Authority.

For the purposes of calculating the expected loss as at 30 June 2023, the Cassa Centrale Group has used three scenarios — mild, baseline and adverse — appropriately averaging their contributions, in accordance with the assessment of macroeconomic projections that expect continued high variability in the future. The scenarios used were those provided by the info-provider Prometeia, in accordance with a scenario generation system that considers publications from leading forecasting bodies as well as publications issued by the Supervisory Authorities, with no corrections.

After over two years, the COVID-19 pandemic has become a more structured and ordinary healthcare scenario. Therefore, certain prudential measures previously introduced within the IFRS 9 model in 2021 have been revised, such as the provision of minimum allocation levels also maintained for the annual financial statements as at 31 December 2022 in an environment characterised by the residual effects of the COVID-19 pandemic, the sectoral diversification of the PD (probability of default), the probability of occurrence and the corrective measures for LGD (loss given default).

At the meeting of 25 May 2023, the Board of Directors of the Parent Company approved the removal of the minimum allocation levels on the existing "COVID-19 moratoria" portfolio for all Group entities, starting from the reporting date of 30 June 2023. This decision was supported by the analyses conducted during the first half of 2023 and the positive evaluation of the credit risk framework for the portfolio in question, compared to the current IFRS 9 model, in a deeply different context characterised by overcoming the COVID-19 emergency and which sees the recovery of ordinary amortisation conditions for the loans under previous moratorium.

Appointment of the new ESG Chief and Institutional Relations

Roberta Fama was appointed Chief of the ESG and Institutional Relations Department of Cassa Centrale Banca effective 1 May 2023.

Significant regulatory events during the first half of the year

The reference regulatory context in which the Group operates, also following its recognition as a significant supervised entity, is broad and articulated and has led, over time, to a process of organisational and procedural adjustment. In the first half of 2023, various regulations affecting the banking sector came into force.

The main measures implemented by the Group with reference to the most important regulatory changes are set out below.

Transparency

Bank of Italy note on unilateral amendments to contractual conditions justified by the performance of interest rates and inflation

On 15 February 2023, the Bank of Italy published a communication on its website regarding unilateral amendments to contractual conditions justified by the performance of interest rates and inflation. The communication followed up on a note on the same subject sent to banks by the respective regional Bank of Italy branches (hereinafter, the "Note") and summarised its contents.

In the Note, after citing the previous measures on unilateral amendment to contractual conditions 2, the Bank of Italy made reference to the recent change in the macroeconomic conditions - and in particular the gradual increase in inflation and consequent monetary policy measures by the ECB to raise the interest rates - which led numerous intermediaries to implement unilateral amendments on the economic conditions of current accounts, justified by the increase in the general price index.

In this regard, considering that the rise in official interest rates in recent months could have positive effects for the profitability of banks and potentially offset the higher operating costs generated by inflationary dynamics, the Bank of Italy asked all banks to carefully assess, the adoption of any unilateral operations, on the basis of a balanced and all-encompassing approach, with a justified reason based on the rise in inflation.

The Bank of Italy also reiterated that the current phase of restrictive monetary policy follows a long period of extremely low or even negative interest rates, which had led numerous banks to adopt unilateral amendments on their economic conditions, which translated — specifically — to a lower rate of remuneration for current account deposits and/or higher current account management fees. In this regard, the Bank of Italy invited banks, if they had made this kind of amendment to current accounts, to "assess whether to revise the conditions applied in light of the change in context", specifying that this revision was necessary in cases where similar operations had been accompanied by the commitment to customers to review the amended conditions once the causes that had justified the change no longer exist.

The Parent Company, in the face of recognition of this kind of operation carried out by the Banks, provided them with specific instructions to formalise the assessments required by the Note.

Bank of Italy Communications dated 30/06/2022 and 31/01/2023 on Central Credit Register

With communication of 19 June 2020, the Bank of Italy specified that (I) public guarantees granted on the basis of laws, decrees and regulatory measures, and (II) guarantees given automatically once certain prerequisites are met, "should not be reported to the CCR". For example, guarantees granted by the SME Guarantee Fund pursuant to Decree Law 23/2020 should not be reported among the guarantees received. The exemption, pursuant to Art. 1 under Annex 1 of the Decree in question, concerned in particular public guarantees to be granted to businesses affected by the COVID-19 epidemic until 30 June 2022.

The Parent Company, when adjusting to the aforesaid indications, communicated to the Banks the exemption from reporting to the Central Credit Register of the guarantees given by the SME Guarantee Fund on the accounts entrusted; in order to ensure alignment with uniform operating rules, a new taxonomy of guarantees was established, setting out the codes reserved for sureties granted by the Fund so as to eliminate the report from the Central Credit Register.

In the second half of 2022, the Bank of Italy specified that "consistently with the interim regime, the guarantees approved between 1 July and 31 December 2022 should not be reported to the Central Credit Register among the guarantees received, in continuity with the regime envisaged until 30 June 2022." This approach was again confirmed, until 31 December 2023, with Bank of Italy Notice of 31 January 2023.

The Parent Company, in accordance with these indications, ensures that guarantees given in the meantime are also subject to the exemption.

Investment services

ESMA guidelines on certain aspects of the MiFID II suitability requirements

On 3 April 2023, ESMA published the official Italian translation of the final report "Guidelines on certain aspects of the MiFID II suitability requirements", which updates the previous Guidelines on several aspects of the suitability assessment issued in 2018. The main updates concern the methods of acquiring and assessing the customer's sustainability preferences, which the intermediaries must consider, in the context of the suitability assessment of a financial investment, pursuant to Commission Delegated Regulation (EU) 2021/1253, which came into force on 2 August 2022.

The Parent Company took account of the ESMA indications reported in the documents mentioned in the previous paragraphs as part of the project to review the MiFID questionnaire and the Group's suitability assessment model launched in 2022 and continued in the first half of 2023.

ESMA guidelines on product governance

On 27 March 2023, ESMA published new Guidelines on product governance in implementation of the framework of Directive 2014/65/EU (MiFID II).

In particular, Article 16, paragraph 3 and Article 24, paragraph 2 of the MiFID II establish that companies that create or distribute financial products must adopt adequate governance mechanisms to ensure that the companies guarantee the best interest of customers throughout all phases of the product life cycle.

These governance mechanisms must include the identification and periodic review of the target market of the end customer for each product and a distribution strategy consistent with the identified target market.

The guidelines on product governance have been updated to adapt to the latest regulatory and supervisory developments. The main changes concern sustainability objectives, the cluster approach for defining the target market, the distribution strategy and the periodic review.

The Parent Company has scheduled activities to adjust the Group's product governance model to the changes required by the ESMA Guidelines.

Updates to the MiFID II Directive (so-called Quick Fix)

Italian Legislative Decree no. 31 of 10 March 2023 was published in Official Gazette no. 71 dated 24 March 2023, in implementation of Directive (EU) 2021/338 (the Quick Fix Directive), amending the MiFID II Directive as regards customer information requirements (hereinafter, the "Decree").

The Decree, introducing the new paragraph 1-*quater* to Art. 21 of the Consolidated Law on Finance (the CLF), approved the obligation of financial intermediaries to provide customers an electronic copy of all the information required by the regulation on investment services starting from 7 August 2023. In line with the provisions of European regulations, only retail investors may still choose to continue to receive a paper copy of the required information free of charge (opt-in). This option is not available to professional clients and qualified counterparties, which, starting from the aforesaid date, must receive this documentation in electronic format only.

The Parent Company has provided the Banks with specific instructions to comply with the regulatory changes, with reference to new customers as well as existing ones as at 7 August 2023.

Remuneration policies

On 3 April 2023, ESMA published the official Italian translation of the "Guidelines on certain aspects of the MiFID II remuneration requirements". This document constitutes an overall review of the "Guidelines on remuneration policies and practices", issued in June 2013 pursuant to Directive 2004/39/EC ("MiFID"), following the reform of remuneration and conflict of interest requirements associated with the introduction of the MiFID II Directive. The Guidelines became effective on 3 October 2023 and replaced the previous ones. For intermediaries that are also recipients of the prudential provisions on remuneration and incentives issued by the Bank of Italy pursuant to Art. 53, letter a of the Consolidated Law on Banking or Art. 6, paragraph 1, letter c-*bis* of the Consolidated Law on Finance, the change to the ESMA Guidelines is carried out as part of the requirements of such provisions. The Parent Company, therefore, carried out analyses to evaluate the adjustment, where necessary, of the document on the Group's remuneration and incentive policies to be adopted in 2024.

Anti-Money Laundering

The regulatory framework on anti-money laundering and countering the financing of terrorism has been supplemented as follows:

On 31 March 2023, the EBA issued the final report regarding the change to the *"EBA Guidelines relating to risk factors of money laundering and terrorist financing (AML/CFT)"* dated July 2021, as well as the *"Guidelines on processes and controls for an effective management of AML/CFT risks in the provision of financial services".* The former provide indications relating to the actions that financial institutions should take when tackling the aforesaid risks in the event that the customer is a not-for-profit organisation (NPO). The latter concern the effective management of AML/CFT risks by entities that provide access to financial services and clarify the interaction between access to financial services and AML obligations.

The EBA also published the Italian translation of the *"Guidelines on the use of remote customer onboarding solutions"* on its website. These guidelines establish the measures that the required parties must adopt when choosing tools for remote customer identification and the common standards for developing and implementing remote customer identification processes.

In implementation of the aforesaid EBA guidelines, Bank of Italy Provision dated 13 June 2023 was published, in Official Gazette no. 150 of 29 June 2023, containing amendments to the Provision dated 30 July 2019, containing provisions on adequate customer verification. In particular, the third paragraph of Section VIII, Second Part of the Provision of 2019 was repealed, in addition to the related Annex 3. The amendment becomes effective on 2 October 2023.

On 6 April 2023, Bank of Italy launched the restricted meeting on the proposals to amend the *"Provisions on organisation, procedures and internal controls for anti-money laundering purposes*". The meeting was limited to the trade associations representing intermediaries. The amendments were intended to introduce the provisions of the EBA Guidelines not included within the current text. In particular, the changes impact the Second Part, relating to corporate bodies, the regulation of outsourcing the Function and that applicable to groups.

The Bank of Italy Provision dated 12 May 2023 was published in Official Gazette no. 121 of 25 May 2023 containing the adoption of the UIF measure relating to new anomaly indicators. The measure will take effect on 1 January 2024 and summarises the indicators related to all recipients of the active collaboration obligations in a single text, with the aim of providing a useful tool to elevate the quality of collaboration.

On 29 May 2023, the Bank of Italy and UIF issued a notice on *"Reports and communications of suspicious transactions associated with implementation of the NRRP"*. The notice reiterated the request to monitor transactions attributable to the measures of the Plan and to report suspicious transactions promptly to the UIF.

On 14 June 2023, IVASS published a reference document with a proposal to amend IVASS regulation no. 44/2019 intended to implement the *"EBA Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer"*. The Guidelines are intended to harmonise the corporate governance structure and provide detailed instructions on the role and tasks of the corporate bodies and AML officers.

In the first half of 2023, the European Union published numerous Implementing Regulations concerning restrictive measures to counter the money laundering and the financing of terrorism, including measures to freeze the funds and economic resources of designated parties that have been added to dedicated sanction lists.

Privacy

On 11 January 2023, the Italian Data Protection Authority expressed a positive opinion of the layout of the legislative decree implementing the whistleblowing directive. The Parent Company analysed the considerations expressed by the Data Protection Authority within the opinion and assessed that all elements indicated had been taken into consideration in the Group's internal procedures.

On 9 March 2023, the Data Protection Authority approved the code of conduct for telemarketing and teleselling activities. The code of conduct, required and governed by Art. 40 of Regulation (EU) no. 679/2016 (hereinafter, the "GDPR"), guarantees an effective and uniform application of and compliance with national and European regulations on personal data protection. To apply to a given party, be it the Data Controller or the Data Processor, they must follow the code and comply with the indications therein. In this specific case, the Parent Company assessed that it was not necessary to follow this specific code of conduct, albeit recognising the value of its contents.

Legislative Decree no. 24 of 10 March 2023 took effect on 30 March 2023. In terms of personal data protection, Art. 14 of the decree led to a change for the Parent Company in the storage periods of personal data, now five years starting from the date of communication of the final outcome of the whistleblowing procedure.

Decree Law no. 48 of 4 May 2023, the Employment Decree, took effect on 5 May 2023. Among other things, the legislator supplemented the regulatory provision in the Transparency Decree with reference to automated decision-making systems that could affect employees. In particular, the decision-making or monitoring systems responsible for providing relevant indications for taking on or assigning the mandate, managing or terminating employment, assigning duties or tasks as well as indications affecting supervision, assessment, performance or compliance of the contractual obligations of employees must be "fully" automated.

In the first half of 2023, the European Data Protection Board ("EDPB") adopted two guidelines on personal data breach notification (Guidelines 9/2022) and data subject rights - Right of access (Guidelines 1/2022). The two documents, albeit not legally binding, provide important clarifications on topics relating to personal data protection. In particular, the Parent Company has analysed the published documents and compared them with its own internal policies and procedures and found there were no updates needed. Nevertheless, guidelines 1/2022 on data subject rights - Right of access were useful for providing feedback to a number of requests received from natural data subjects.

Administrative liability of entities

During the reporting period, Legislative Decree no. 231/2001 was subject to the following legislative amendments:

- Decree Law no. 2 of 5 January 2023 (converted with amendments by Law no. 17 of 3 March 2023), which introduced urgent measures for plants of national strategic interest with the aim of safeguarding certain industrial contexts that, due to high energy prices, among other things, are faced with a liquidity shortage. In particular, Art. 5 of the decree made the following changes to Legislative Decree no. 231/2001:
    - Art. 15 of Legislative Decree no. 231/2001 (Judicial Commissioner: added letter b-*bis*) to paragraph 1);
    - Art. 17 of Legislative Decree no. 231/2001 (Reparation for consequences of the crime: added paragraph 1-*bis*);
    - Art. 45 of Legislative Decree no. 231/2001 (application of precautionary measures: added a new sentence to paragraph 3);
    - Art. 53 of Legislative Decree no. 231/2001 (preventive seizure: added new paragraph 1-*ter*).
- However, considering that the provisions contained in the Decree Law involve industrial facilities that have been declared of strategic national interest pursuant to Art. 1 of Decree Law no. 207 of 3 December 2012, namely identified with specific Prime Ministerial decree (see Art. 1 of Decree Law no. 207/2012), it was considered that the provisions set out by Decree Law no. 2 of 5 January 2023 were not applicable to the Group.
- Legislative Decree no. 19 of 2 March 2023, implementing Directive (EU) 2019/2121 of the European Parliament and of the Council of 27 November 2019 amending Directive (EU) 2017/1132 as regards cross-border conversions, mergers and divisions, which imposes penalties in the event of inaccurate or misleading statements about the existence of the conditions required to issue the certificate envisaged by Art. 29 of the Decree. The same crime has been added to the catalogue of predicate offences, by amending Art. 25-*ter*, paragraph 1 of Legislative Decree no. 231/2001, which establishes a financial penalty of between 150 and 300 shares for the company.
- The regulatory change, which nevertheless specifically concerns the scenarios in which the company implements cross-border conversion, merger and division operations, is potentially applicable to Cassa Centrale Banca. Therefore, the new Article 25-*ter* has been considered by the Parent Company in the context of the activity (still ongoing) relating to updating the Protocol of the Special Section of the Organisation, Management and Control Model on corporate crimes.

Whistleblowing

On 15 March 2023, Legislative Decree no. 24 of 10 March 2023 was published in the Official Gazette in implementation of Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of EU law, and containing provisions regarding the protection of persons who report breaches of national regulatory provisions.

The provisions set out by the aforesaid decree took effect on 15 July 2023, with the exception of parties in the private sector that employed an average of up to 249 subordinate workers with open-ended or fixed-term contracts in the last year, for which the effective date of the Decree has been postponed until 17 December 2023. The Decree expressly states that the provisions contained therein do not apply to reports of breaches where already governed on a compulsory basis by European Union or national acts. It follows that, similar to the provisions of the Decree, the regulations on reports of breaches currently envisaged by Art. 52-*bis* of the Consolidated Law on Banking and Bank of Italy Circular 285, in addition to regulations on anti-money laundering, also continue to be considered applicable.

The Decree also states that reports of breaches as per the Models adopted by the individual Companies or any of the provisions set out by Legislative Decree no. 231/2001 must be carried out through the channels envisaged by said Decree. In this regard, the Decree also specifies that the organisation and management models (where adopted by the Companies) must provide for internal reporting channels.

The main changes introduced by the decree on reporting breaches involve the following aspects:

- expanding the objective scope of breaches that can be reported;
- expansion from the perspective of the types of individuals who can make a report, including self-employed professionals and consultants who provide their services to parties in the private sector and shareholders and individuals with functions of administration, management, control, supervision or representation, including merely de facto. For all aforesaid individuals, the protection also applies during the probationary period and before or after establishment of the employment or other legal relationship;
- expanding the scope of individuals to which protection from retaliatory acts is granted, also extended, in addition to the aforementioned individuals who make a report, complaint or public disclosure, to those who could, however, receive such acts, including indirectly;
- in addition to the internal whistleblowing channel, providing:
  - the ability to use an external channel to make a report, entrusted to ANAC;
  - public disclosure (through the press, or electronic means or through means of distribution capable of reaching a large number of people);
- in relation to the internal whistleblowing channel, the whistleblower, in addition to the written report, must be given the ability to make an oral report (via telephone or voice messaging systems) or through a direct meeting with the party identified by the whistleblowing management body;
- assigning ANAC the responsibility for the enforceability of administrative financial penalties (up to EUR 50,000) in all situations of a breach of the regulations contained in the Decree.

With regard to the Group's need to adapt to the provisions of Decree 24/2023, impact analyses by the competent structures of Cassa Centrale Banca are ongoing, starting from the adaptation of the Group Regulations and selection of the IT solution supporting the whistleblowing process, to be addressed to all Group Banks/Companies involved.

Climate and environmental risks

On 19 December 2022, Regulation (EU) no. 2453/2022 of 30 November 2022 was published, in the Official Journal of the European Union, which introduced the implementing technical standards (EBA/ITS/2022/01) as regards the disclosure of environmental, social and governance (ESG) risks to be presented in the Public Disclosure document. Effective 31 December 2022, this Regulation introduced comparable disclosures that represent institutions' exposure to climate risks, as well as key performance indicators (KPIs) aimed at representing the funding granted towards activities classified as environmentally sustainable under the EU taxonomy.

ICT Compliance

40th update to Bank of Italy Circular 285/2013

On 3 November 2022, Bank of Italy published the 40th update to Circular 285/2013 concerning the amendment to Chapter 4 "The Information System" and Chapter 5 "Business Continuity" of Part One, Title IV of the Circular, in order to implement the "Guidelines on ICT and security risk management" (EBA/GL/2019/04).

The EBA Guidelines define a harmonised framework of ICT and security risk management measures that banks must adopt.

Chapter 4 no longer mentions ICT Compliance, but a second-level control function responsible for the management and supervision of ICT and security risks.

Its tasks include:

- helping to define the information security policy and being informed about any activity or event that could affect the Group's risk profile in a relevant way, significant operational or security incidents, as well as any substantial changes to the ICT systems and processes;
- be actively involved in the projects creating substantial changes to the information system and, in particular, in the risk control processes related to such projects.

The Banks may establish a specific function or may assign these tasks to the risk control and compliance corporate functions, in relation to the roles, responsibilities and tasks specific to each of the two functions, provided that the correct performance of the tasks, the efficacy of the controls and the necessary technical expertise are ensured.

Impacts have been analysed in terms of organisation and operations arising from the new regulatory requirements and consequent adjustments and, in terms of macro-responsibilities, are already focused and overseen by the second-level corporate control functions. Therefore, for the purpose of implementing the new organisational model, Cassa Centrale Banca opted to assign the tasks of the new ICT and security risk control function to the existing second-level corporate control functions, as far as their competence is concerned.

Considering the measures implemented on the Parent Company's organisational structure, a precise review of the tasks and responsibilities currently borne by the line and control functions involved in the ICT and security risk management processes became necessary, with the dual objective of obtaining a clear allocation of the pertinent areas and assessing whether the existing information flows guarantee the effective monitoring and coverage of all relevant areas of operation.

To this end, vertical and cross-functional roundtables were initiated between the Risk Management and Compliance Departments and the first-level functions, which confirmed and, in some cases, redefined the scopes of action of the various Departments and supplemented, or rather better explained, the information flows expected from the first to the second levels of control. This activity was carried out within the deadline to adopt the 40th update, i.e. by 30 June 2023, with consequent preparation of the report that describes the measures carried out to ensure compliance with the provisions. The report will be sent to the Bank of Italy by 1 September 2023.

REGULATION (EU) 2022/2554 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on digital operational resilience for the financial sector - DORA

The DORA Regulation was published on 14 December 2022. It aims to promote digital operational resilience, by regulating the operational risks arising from the growing interdependence among the financial sector and third-party service providers and to grant the Supervisory Authorities with suitable powers to monitor such risks. The DORA framework, which is part of the Digital Finance Package, is the first legislative act at European level that addresses the topic of digital operational resilience for financial services with a holistic approach. The DORA Regulation is based on the following pillars:

- creation of a common framework for harmonised management of ICT risks;
- harmonisation of the classification and reporting of ICT incidents with swift notification times (the same day as the event);
- to establish standards at EU level for digital operational resilience tests;
- to cover the minimum contractual elements to allow for complete monitoring of ICT third parties;
- to promote awareness and knowledge of ICT threats by sharing information at system level.

Cassa Centrale Banca has conducted an analysis to assess compliance with the provisions of the Regulation, involving the affected functions of Cassa Centrale and Allitude, with the end goal of defining the strategic roadmap of measures for DORA adjustment. In light of the results of the analysis and in relation to the new challenges identified for the Group, a plan of adjustments has been prepared, which also takes account of the requirements, for those same areas, of the 40th update of Circular 285.

Operating performance of the Cassa Centrale Group

Performance indicators of the Group

The main performance indicators for the six-month period ended 30 June 2023 are shown below:

RATIOS	30/06/2023	31/12/2022	% change
STRUCTURAL RATIOS			
Loans to customers * / Total assets	52.5%	51.6%	1.8%
Direct funding / Total assets	73.2%	72.4%	1.1%
Net equity / Total assets	8.5%	7.8%	10.1%
Net loans / Direct funding from customers	71.7%	71.4%	0.5%
PROFITABILITY INDICES			
Net profit / Net equity (ROE)	15.1%	7.8%	93.6%
Net profit / Total assets (ROA)	1.3%	0.6%	114.8%
Cost / Income **	58.0%	62.6%	(7.2%)
Interest margin / Net interest and other banking interest	80.5%	73.4%	9.8%
Net commissions / Net interest and other banking interest	26.4%	30.0%	(12.0%)
Net interest and other banking interest / Total assets	3.2%	2.7%	18.1%
OPERATING EFFECTIVENESS INDICES			
Operating costs / Traded volumes ***	1.0%	1.1%	(4.8%)
Traded volumes per employee (million) ****	12.8	12.8	0.2%

* Loans to customers include loans and advances to customers at amortised cost and fair value; thus differing from the exposures to customers shown in the financial statements;

** Indicator calculated as the ratio of operating costs to net interest and other banking income;

*** The traded volumes are calculated considering gross performing loans to customers, an total funding excluding the repos component with Cassa di Compensazione e Garanzia;

**** The number of employees of the Group is taken from the figure on the reference date.

The indicators shown represent the main operating trends of the Cassa Centrale Group as at 30 June 2023.

With regard to structural ratios, loans to customers represent 52.5% of the total consolidated assets of the Cassa Centrale Group, confirming the predominant activity of the Affiliated Banks aimed at financing the reference territory, households and small economic operators in the context of their business activities. The index is higher than the findings at December 2022.

Direct funding from customers remained the Group's main source of funding, accounting for 73.2% of total assets.

In light of the change the lending activities, the ratio of net loans to direct funding from customers at 30 June 2023 confirms the Cassa Centrale Group's high degree of liquidity, at 71.7%, a slight increase on the figure at the end of 2022.

With reference to profitability ratios, the ROE, calculated as the ratio of annualised profit for the period to equity, is 15.1%, while the ROA, calculated as the ratio of annualised net profit to the financial statements total, is 1.3%.

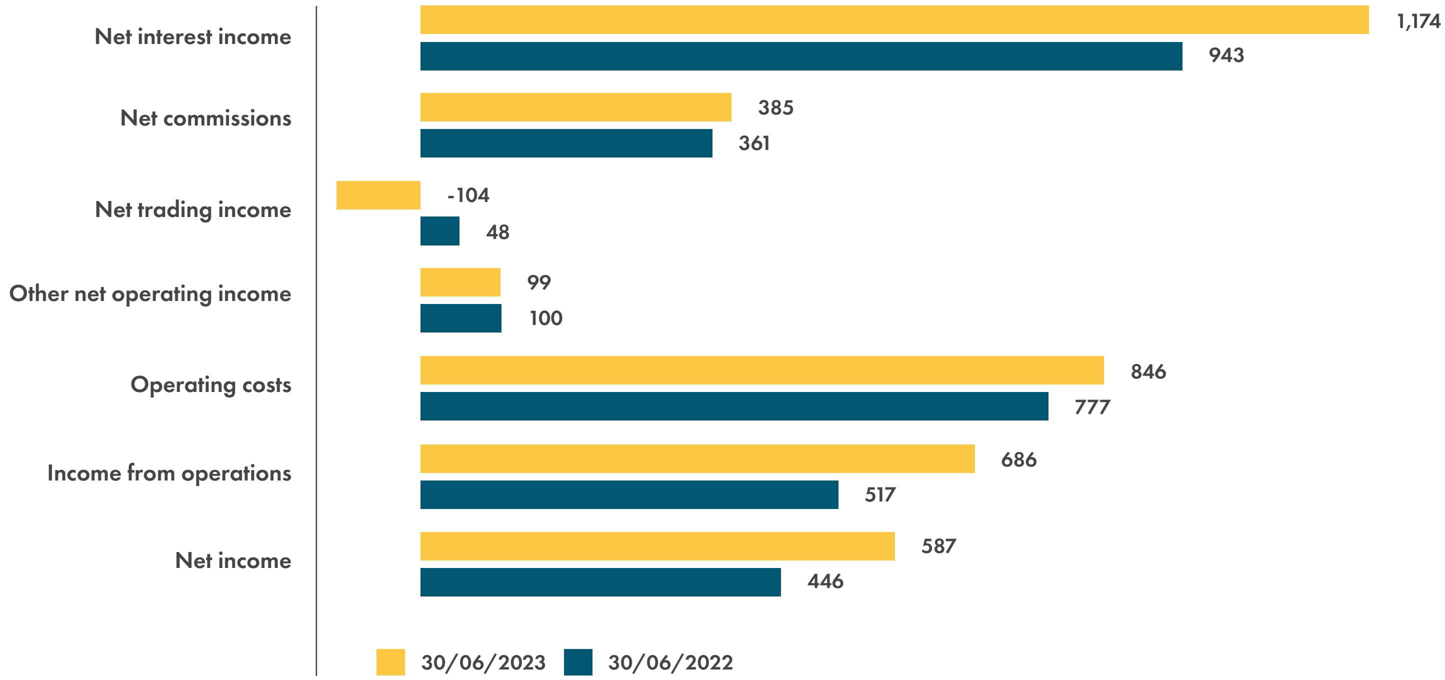
Productivity, measured through the index of traded volumes per employee, was unchanged at EUR 12.8 million, confirming the path undertaken by the Cooperative Banking Group aimed at progressively increasing industrial efficiency. The impact of operating costs on volumes traded was also confirmed to be in line with the figure at the end of 2022.

The following paragraphs provide a brief description of the Group's main income statement and balance sheet aggregates, together with further management evidence commenting on the indicators previously reported.

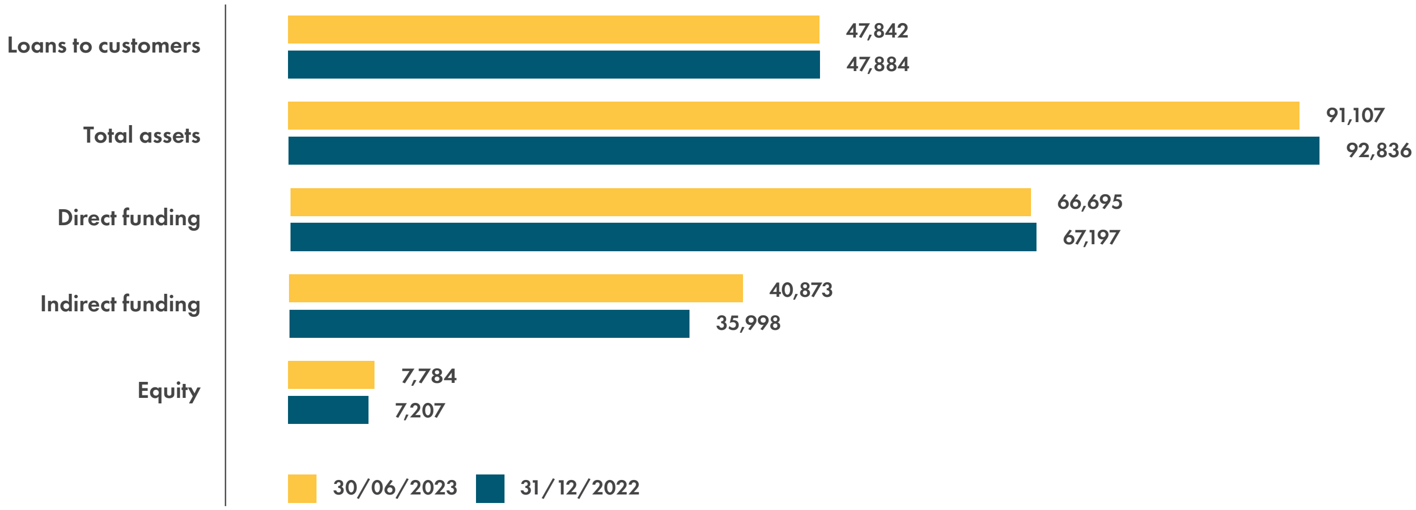
Summary of results

A graphic representation of the results of the main items in the income statement and balance sheet is provided below. Please refer to the specific sections for details of individual items.

Consolidated income statement figures (millions of euro)



Consolidated balance sheet figures (millions of euro)



Financial results

Reclassified income statement[6]

(Figures in millions of euro)	30/06/2023	30/06/2022	Change	% change
Net interest income	**1,174**	**943**	**231**	**24.5%**
Net commissions	**385**	361	24	6.7%
Dividends	**3**	3	-	0.0%
Net trading income	**(104)**	48	(152)	n.s.
Net interest and other banking income	**1,458**	**1,355**	**103**	**7.6%**
Net value adjustments/write-backs	**73**	(62)	135	n.s.
Income from financial activities	**1,531**	**1,293**	**238**	**18.4%**
Operating expenses*	**(942)**	(867)	(75)	8.7%
Net allocations to provisions for risks and expenses	**-**	(7)	7	(100.0%)
Other income (expenses)	**96**	97	(1)	(1.0%)
Profit (loss) from disposal of investments and equity investments	**1**	1	-	0.0%
Gross current result	**686**	517	169	32.7%
Income tax	**(99)**	(71)	(28)	39.4%
Profit (loss) for the period for minority interests	**-**	(1)	1	(100.0%)
Net income of the Parent Company	**587**	**445**	**142**	**31.9%**

* This item includes staff expenses, other administrative expenses and operating amortisation/depreciation.

As at 30 June 2023, net interest and other banking income of the Cassa Centrale Group stood at 1.5 billion, up by 103 million compared to the first half of 2022. The Group's growing margins are mainly attributable to the dynamics of the interest margin, which benefited from the widening of the credit spread and the increasing profitability of the own securities portfolio. This dynamic more than offsets the negative impact on the ECB refinancing operations arising from the rise in the market rates.

Net commissions rose to EUR 385 million (26% of the net interest and other banking income), confirming the growing focus of the Cassa Centrale Group on the development of the service margin.

In the first half of 2023, net trading revenue was negative at -104 million as a result of a portfolio repositioning intended to benefit from current market returns.

[6] In order to provide a better management representation of the results, the reclassified consolidated income statement figures differ from the layouts of the financial statements envisaged by Bank of Italy Circular no. 262 of 2005, 7th Update.

In the first half of 2023, write-backs totalled 73 million. Total allocation for impaired loans stood at 82%, in line with the figure in late 2022, confirming the high level of credit risk monitoring.

The change in operating expenses, up on the same period in 2022 (+8.7%), mainly reflects the dynamic in staff expenses and other administrative expenses, as shown in the following paragraphs.

Profit before tax amounted to EUR 686 million, up sharply compared to the first half of 2022 (+32.7%), with the net profit pertaining to the Parent Company standing at EUR 587 million.

Net interest income

(Figures in millions of euro)	30/06/2023	30/06/2022	Change	% change
Financial instruments	516	385	131	34.0%
- Financial assets measured at amortised cost not comprising loans	*386*	*308*	*78*	*25.3%*
- Other financial assets and liabilities measured at FVTPL	*1*	*2*	*(1)*	*(50.0%)*
- Other financial assets measured at FVOCI	*129*	*75*	*54*	*72.0%*
Customer relations	794	481	313	65.1%
- Net interest to customers (loans)	*839*	*497*	*342*	*68.8%*
- Debt securities in issue	*(45)*	*(16)*	*(29)*	*n.s.*
Net interest to banks	(177)	6	(183)	n.s.
Differentials on hedging derivatives	6	(4)	10	n.s.
Other net interest	35	75	(40)	(53.3%)
Total net interest income	**1,174**	**943**	**231**	**24.5%**

The interest margin in the first half of 2023 stood at nearly 1.2 billion, posting an increase of +24.5% (+231 million) compared to the first half of 2022.

This dynamic is mainly linked to the growing contribution of lending, totalling 794 million (+313 million compared to the comparable six-month period), which, benefiting from the rise in market rates, led to a widening of the commercial spread. Financial instruments also made a significant contribution of 516 million (+131 million compared to the first half of 2022) thanks to the average profitability of the securities portfolio. In the interbank sector, unlike the first half of 2022, negative interest was recorded totalling -177 million as a result of the higher market rates and related impact on ECB refinancing operations.

Net commissions

(Figures in millions of euro)	30/06/2023	30/06/2022	Change	% change
Fees and commissions income	**447**	**418**	**29**	**6.9%**
Financial instruments	70	63	7	11.1%
Management of collective portfolios	36	32	4	12.5%
Custody and administration	3	2	1	50.0%
Payment services	199	185	14	7.6%
Breakdown of third party services	49	46	3	6.5%
Financial guarantees given	8	8	-	0.0%
Financing transactions	59	59	-	0.0%
Foreign currency trading	1	1	-	0.0%
Other fees and commissions income	22	22	-	0.0%
Fees and commissions expenses	**(62)**	**(57)**	**(5)**	**8.8%**
Financial instruments	(6)	(6)	-	0.0%
Custody and administration	(9)	(8)	(1)	12.5%
Collection and payment services	(39)	(29)	(10)	34.5%
Servicing activities for securitisation operations	-	(1)	1	(100.0%)
Out-of-branch offer of financial instruments, products and services	(4)	(4)	-	0.0%
Other fees and commissions expenses	(4)	(9)	5	(55.6%)
Total net commissions	**385**	**361**	**24**	**6.7%**

Net commissions in the first half of 2023 stood at 385 million, up +6.6% compared to the first half of 2022.

The comparison between the first six months of 2023 and the same period of the previous year shows the growing contribution of the finance segment, driven by growth in assets under administration, the loans segment and the current account management segment.

Net result from financial operations

(Figures in millions of euro)	30/06/2023	30/06/2022	Change	% change
Financial assets and liabilities held for trading	(1)	9	(10)	n.s.
- Derivative instruments	*(3)*	*9*	*(12)*	*n.s.*
- Other	*2*	*-*	*2*	*100.0%*
Net income from the sale of financial assets and liabilities	(107)	71	(178)	n.s.
Net result from hedging activities	2	4	(2)	(50.0%)
Dividends and similar income	3	3	-	0.0%
Net change in value of other financial assets and liabilities	2	(36)	38	n.s.
Total net result from financial operations	**(101)**	**51**	**(152)**	**n.s.**

The net result from financial operations in the first half of 2023 amounted to -101 million, down heavily from the previous year. This change is mainly attributable to the latent capital losses realised on the proprietary portfolio intended to benefit from current market returns.

Operating costs

(Figures in millions of euro)	30/06/2023	30/06/2022	Change	% change
Administrative expenses	(883)	(806)	(77)	9.6%
- staff expenses	*(479)*	*(436)*	*(43)*	*9.9%*
- other administrative expenses	*(404)*	*(370)*	*(34)*	*9.2%*
Operating amortisation/depreciation	(59)	(61)	2	(3.3%)
Other provisions (excluding credit risk adjustments)	-	(7)	7	(100.0%)
of which on commitments and guarantees	2	(1)	3	n.s.
Other operating expenses/income	96	97	(1)	(1.0%)
Total operating costs	**(846)**	**(777)**	**(69)**	**8.9%**

Operating costs amounted to 846 million, up by 69 million (+8.9%) compared to the first half of 2022.

Staff expenses for 479 million are 43 million higher than the comparative period, reflecting the strengthening of the Group central structures and the impact arising from the renewal of the CCNL.

The Group posted an increase in other administrative expenses of 34 million compared to the comparative period, mainly attributable to higher ICT expenses and expenses for professional services, required to guarantee a high standard of service. The increase in other administrative expenses is concentrated in the Industrial Group and, in particular, the Group's central structures.

Depreciation/amortisation, amounting to 59 million, was slightly lower than the figure from the first half of 2022 (-3.3%), while other operating income/expenses amounted to 96 million, substantially in line with the comparison period (-1.0%).

At 30 June 2023, the Group's cost income, calculated as the ratio of operating costs to net interest and other banking income, stood at 58%, at the levels from the first half of 2022.

Net value adjustments/write-backs to financial assets

(Figures in millions of euro)	30/06/2023	30/06/2022	Change	% change
Loans to customers	71	(69)	140	n.s.
of which write-offs	*(2)*	*(2)*	-	*0.0%*
Loans to banks	2	8	(6)	(75.0%)
OCI debt securities	-	(1)	1	(100.0%)
(Net value adjustments)/write-backs	**73**	**(62)**	**135**	**n.s.**

In the first half of 2023, net write-backs were recorded for 73 million. The Group's average coverage on impaired loans stood at around 82%, as proof of the Group's close attention to monitoring credit risk.

Financial position aggregates

Reclassified Consolidated balance sheet[7]

(Figures in millions of euro)	30/06/2023	31/12/2022	Change	% change
ASSETS				
Cash and cash equivalents	550	558	(8)	(1.4%)
Exposures to banks	962	913	49	5.4%
Exposures to customers	47,842	47,884	(42)	(0.1%)
of which at fair value	*141*	*233*	*(92)*	*(39.5%)*
Financial assets	37,291	39,130	(1,839)	(4.7%)
Equity investments	57	58	(1)	(1.7%)
Tangible and intangible assets	1,325	1,314	11	0.8%
Tax assets	690	783	(93)	(11.9%)
Other asset items	2,390	2,196	194	8.8%
Total assets	**91,107**	**92,836**	**(1,729)**	**(1.9%)**
LIABILITIES				
Due to banks	12,865	16,391	(3,526)	(21.5%)
Direct funding	66,695	67,197	(502)	(0.8%)
- Due to customers	*62,050*	*64,114*	*(2,064)*	*(3.2%)*
- Debt securities in issue	*4,645*	*3,083*	*1,562*	*50.7%*
Other financial liabilities	7	9	(2)	(22.2%)
Provisions (Risks, expenses and personnel)	482	467	15	3.2%
Tax liabilities	44	36	8	22.2%
Other liability items	3,230	1,529	1,701	111.3%
Total liabilities	**83,323**	**85,629**	**(2,306)**	**(2.7%)**
Group's equity	7,784	7,207	577	8.0%
Consolidated equity	**7,784**	**7,207**	**577**	**8.0%**
Total liabilities and equity	**91,107**	**92,836**	**(1,729)**	**(1.9%)**

[7] In order to provide a better management representation of the results, the reclassified statement of financial position figures differ from the layouts of the Financial statements envisaged by Bank of Italy Circular no. 262 of 2005, 7th update.

As at 30 June 2023, the Cassa Centrale Group's assets amounted to approximately EUR 91.1 billion (-1.9% compared to EUR 92.8 billion at December 2022) and consisted mainly of exposures to customers, which included loans measured at amortised cost and at fair value totalling EUR 47.8 billion, equal to 52.5% of total assets. Financial assets were down compared to the end of 2022, with loans to banks at 1 billion, stable compared to the end of the previous financial year, and the securities portfolio was affected by the gradual repayment of the ECB refinancing operations.

Liabilities are mainly made up of direct funding from customers which, at June 2023, stood at EUR 66.7 billion (-0.7% compared to EUR 67.2 billion in December 2022) and whose details are shown in the following table. Amounts due to banks, equal to 12.9 billion in the first half of 2023, were down compared to the figure at the end of the previous year (-3.5 billion), and mainly refer to refinancing operations through the Eurosystem. Group equity was 7.8 billion, including the profits made in the previous period.

Total customer funding

(Figures in millions of euro)	30/06/2023	% impact	31/12/2022	Change	% change
Current accounts and deposits on demand	56,478	84.7%	60,310	(3,832)	(6.4%)
Fixed-term deposits	2,543	3.8%	1,575	968	61.5%
Repos and securities lending	2,275	3.4%	1,480	795	53.7%
Bonds	1,072	1.6%	764	308	40.3%
Other funding	4,327	6.5%	3,068	1,259	41.0%
Direct funding	**66,695**	**100.0%**	**67,197**	**(502)**	**(0.7%)**

The overall amount of direct funding from customers of the Cassa Centrale Group was 66.7 billion, showing a decrease of -0.7% (-502 million) compared to the previous year. This dynamic is mainly attributable to the shift towards assets under administration to benefit from current returns on government bonds. The analysis of direct funding shows a prevalence of short-term funding from customers, represented by current accounts and demand deposits, equal to 56.5 billion. The figure is down compared to December 2022 (-3.8 billion) as a result of the gradual conversion of the funding towards fixed-term products.

Fixed-term funding, in the form of deposits, repos and bonds, amounted to EUR 5.9 billion, equal to 8.8% of total direct funding volumes, up compared to the previous year (EUR +2.1 billion). At June 2023, repos include refinancing transactions on the market with the counterparty Cassa di Compensazione e Garanzia for a total of 2 billion (compared to 1.3 million in December 2022). The bonds product includes the Group's eligible MREL issue, currently equal to 700 million.

(Figures in millions of euro)	30/06/2023	% impact	31/12/2022	Change	% change
Assets under management	**24,513**	**60.0%**	**23,314**	**1,200**	**5.2%**
- Mutual funds and SICAVs	7,613	18.6%	7,087	526	7.4%
- Asset management	8,877	21.7%	8,424	453	5.4%
- Banking-insurance products	8,023	19.6%	7,803	220	2.8%
Assets under administration	**16,360**	**40.0%**	**12,684**	**3,676**	**29.0%**
- Bonds	13,894	34.0%	10,449	3,444	33.0%
- Shares	2,466	6.0%	2,235	231	10.3%
Indirect funding*	**40,873**	**100.0%**	**35,998**	**4,875**	**13.5%**

*Indirect funding is expressed at market values.

Indirect funding of the Cassa Centrale Group, valued on the market, amounted to 40.9 billion in June 2023 (+13.5% compared to the end of December 2022), benefiting from the gradual conversion of direct funding to capture the current returns on government bonds.

Assets under management, valued on the market, stood at 24.5 billion, an increase on the comparative period (+5.1%). The incidence of the AUM segment on total indirect funding is 60%. The Bancassurance segment, life, investments and pensions continued the growth trend of traded volumes (+2.8% compared to the end of 2022).

Assets under administration amounted to EUR 16.4 billion at June 2023, up by 29% compared to December 2022, driven by the bond sector.

From the point of view of composition, although the largest volume is represented by assets under management, indirect funding reflects a balance between the individual forms of assets under administration and management, the result of policies of adequate and prudent diversification of investments implemented with customers.

Percentage composition of funding

PERCENTAGE COMPOSITION OF FUNDING	30/06/2023	31/12/2022
Direct funding	62.0%	65.1%
Indirect funding	38.0%	34.9%

The Group's total funding, consisting of total assets under administration on behalf of customers, amounted to EUR 107.6 billion as at 30 June 2023 and consisted of 62% of direct funding with the remaining 38% represented by indirect funding. The managed assets component accounts for 23% of total volumes.

Net loans to customers

(Figures in millions of euro)	30/06/2023	% impact	31/12/2022	Change	% change
Loans at amortised cost	**47,701**	**99.7%**	**47,651**	**50**	**0.1%**
- Mortgage loans	37,902	79.2%	37,931	(29)	(0.1%)
of which adjustment for macro-hedging	*(108)*	*n.s.*	*(118)*	*10*	*(8.5%)*
- Current accounts	3,742	7.8%	3,646	96	2.6%
- Other loans	3,698	7.7%	3,762	(64)	(1.7%)
- Finance leases	788	1.7%	763	25	3.3%
- Credit cards, personal loans and salary-backed loans	1,137	2.4%	1,094	43	3.9%
- Impaired assets	434	0.9%	455	(21)	(4.6%)
Loans at fair value	**141**	**0.3%**	**233**	**(92)**	**(39.5%)**
Total net loans to customers	**47,842**	**100.0%**	**47,884**	**(42)**	**(0.1%)**

In June 2023 the Group's net loans to customers amounted to EUR 47.8 billion. Almost all of these are loans at amortised cost, amounting to EUR 47.7 billion, substantially in line (+0.1%) with December 2022. The aggregate consisted mainly of mortgages, which amounted to EUR 37.9 billion and accounted for 79.2% of total loans to customers, current accounts amounting to EUR 3.7 billion and other loans amounting to EUR 3.7 billion. The changing dynamic reflects the cooling of demand for loans in the current market rate environment, with limited changes in the different forms of demand and term loans. Net impaired assets were down 4.6% compared to December 2022, thanks to the active management of impaired loans conducted by the Group.

Credit quality

The Group adopts an extremely rigorous policy in the valuation of impaired loans. Part E of the Explanatory Notes, to which explicit reference is made, provides details of all quantitative and qualitative information on risks and the related hedging policies. Loans granted to customers are the main sources of credit risk for the Group and require precise control and monitoring. A summary by degree of risk relating to loans to customers is provided below.

Customer loans

(Figures in millions of euro)	30/06/2023			
	Gross exposure	**Writedowns**	**Net exposure**	*Coverage*
Impaired exposures at amortised cost	**2,391**	**(1,956)**	**435**	**81.8%**
of which forborne	*1,031*	*(877)*	*154*	*85.1%*
- Non-performing	738	(682)	56	92.5%
- Unlikely to pay	1,553	(1,237)	316	79.6%
- Overdue/past due	100	(38)	63	37.5%
Performing exposures at amortised cost	**47,927**	**(553)**	**47,374**	**1.2%**
of which forborne	*845*	*(78)*	*767*	*9.2%*
Total customer loans at amortised cost	**50,318**	**(2,509)**	**47,809**	**5.0%**
Adjustment of the assets subject to macro-hedging	**(108)**	**-**	**(108)**	**0.0%**
Impaired exposures at fair value	**1**	**-**	**1**	**0.0%**
Performing exposures at fair value	**140**	**-**	**140**	**0.0%**
Total customer loans	**50,351**	**(2,509)**	**47,842**	**5.0%**

(Figures in millions of euro)	30/06/2022			
	Gross exposure	**Writedowns**	**Net exposure**	*Coverage*
Impaired exposures at amortised cost	**2,494**	**(2,039)**	**455**	**81.8%**
of which forborne	*1,131*	*(940)*	*191*	*83.1%*
Non-performing	806	(740)	66	91.9%
Unlikely to pay	1,625	(1,274)	351	78.4%
Overdue/past due	64	(25)	38	40.0%
Performing exposures at amortised cost	**47,967**	**(653)**	**47,314**	**1.4%**
of which forborne	*967*	*(107)*	*860*	*11.1%*
Total customer loans at amortised cost	**50,461**	**(2,692)**	**47,769**	**5.3%**
Adjustment of the assets subject to macro-hedging	**(118)**	**-**	**(118)**	**0.0%**
Impaired exposures at fair value	**-**	**-**	**-**	**-**
Performing exposures at fair value	**233**	**-**	**233**	**0.0%**
Total customer loans	**50,576**	**(2,692)**	**47,884**	**5.3%**

At June 2023, the Group had net loans to customers of 47.8 billion, compared to a gross exposure of 50.4 billion, and adjustment provisions totalling 2.5 billion, allowing for an average portfolio coverage of 5.0%.

Net performing loans at June 2023 amounted to 47.5 billion and accounted for 99.3% of total loans, while net impaired loans, amounting to 436 million, accounted for 0.7%. These ratios confirm the attention of the Cassa Centrale Group to the management of impaired loans despite an economic context of great uncertainty.

The impaired loan portfolio, in terms of net exposure, had in June 2023 non-performing positions amounting to EUR 56 million written down by a total of EUR 682 million, and unlikely to pay amounting to EUR 316 million with value adjustments of EUR 1.2 billion. Within impaired exposures, which are transversal to the degree of risk, there are forborne exposures of EUR 154 million, equal to 0.3% of total loans, a decrease of EUR 37 million compared to December 2022.

Performing loans, as at June 2023, show value adjustments of 553 million, representing coverage of performing loans of 1.2%, reaffirmed by the high systemic level. The item includes forborne positions of which the net value of EUR 767 million (1.6% of net loans), with a coverage ratio of 9.2% (11.1% as at December 2022).

The provisions for performing loans, together with the significant coverage of non-performing and unlikely to pay positions, which stood at 92.5% and 79.6% respectively (compared to 91.9% and 78.4% in December 2022), allow the Group to provide significant protection against credit risk in a highly uncertain economic context.

The table below shows the main credit risk management indicators [8].

RISK MANAGEMENT RATIOS	30/06/2023	31/12/2022	Change
NPL ratio	**4.7%**	4.8%	(0.1%)
NPL coverage	**81.8%**	81.8%	0.0%
Texas ratio	**24.6%**	27.0%	(2.4%)

The NPL ratio as at 30 June 2023 is slightly lower than the December 2022 figure, at 4.7% (4.8% at the end of 2022). This decrease confirms the improvement in asset quality that the Cassa Centrale Group has pursued in recent years, with a progressive and constant decrease in the stock of impaired loans, in line with the guidelines issued by the Supervisory Authority.

The constant attention paid to the valuation of NPLs is also reflected in the level of coverage of bad loans, where the Group shows NPL coverage of 81.8%, a constant value compared to the end of December 2022.

The active management of impaired loans and their progressive reduction is reflected positively in the Group's Texas ratio, which in June 2023 stood at 24.6% (27.0% at the end of 2022). Net write-backs were recorded at the level of the cost of risk [9] of the loan portfolio.

[8] The indices - NPL ratio, NPL Coverage and Texas ratio (which, as its numerator, considers gross impaired loans) - were calculated based on the EBA data model (EBA methodological guidance on risk indicators, last updated in October 2021).

[9] The Cost of risk index is determined as the ratio between net adjustments and write-backs for credit risk and net customer loans.

Figures in millions of euro

ECONOMIC SECTOR	30/06/2023		
	Gross exposure	Value adjustments	Gross exposure
Public Authorities	290	(1)	290
Financial and insurance companies	639	(18)	621
Non-financial corporations	24,049	(1,618)	22,432
Consumer households and other non-classifiable businesses	25,372	(873)	24,499
TOTAL	**50,351**	**(2,509)**	**47,842**

Figures in millions of euro

ECONOMIC SECTOR	31/12/2022		
	Gross exposure	Value adjustments	Net exposure
Public Authorities	286	(1)	285
Financial and insurance companies	815	(19)	795
Non-financial corporations	23,990	(1,752)	22,238
Consumer households and other non-classifiable businesses	25,485	(920)	24,565
TOTAL	**50,576**	**(2,692)**	**47,884**

In representing the loan portfolio by sector of economic activity, it is clear that the Cassa Centrale Group, reflecting the nature of the Affiliated Banks, has a prevalent allocation of loans to customers with counterparties represented by consumer households and non-financial corporations, which account for 51.2% and 46.9% of net exposures to customers, respectively.

Composition of financial instruments

(Figures in millions of euro)	30/06/2023	31/12/2022	Change	% change
SECURITIES PORTFOLIO				
Trading book assets (FVTPL)	214	233	(19)	(8.2%)
Financial liabilities	(1)	(1)	-	0.0%
Banking book assets (FVOCI)	10,306	10,919	(613)	(5.6%)
Financial fixed assets excluding loans (AC)	26,651	27,846	(1,195)	(4.3%)
Total securities portfolio	**37,170**	**38,997**	**(1,827)**	**(4.7%)**
DERIVATIVES PORTFOLIO				
Trading assets (FVTPL)	8	7	1	14.3%
Trading liabilities (FVTPL)	(5)	(7)	2	(28.6%)
Total derivatives portfolio	**3**	**-**	**3**	**100.0%**
TOTAL FINANCIAL INSTRUMENTS	**37,173**	**38,997**	**(1,824)**	**(4.7%)**

As at 30 June 2023, the portfolio owned by the Group amounted to 37.2 billion, down compared to December 2022 (-1.8 billion), reflecting the gradual repayment of ECB refinancing operations.

There was a decrease across all segments. Specifically, financial assets measured at amortised cost (26.7 billion at June 2023) dropped 1.2 billion, whereas the banking book assets (FVOCI) fell 0.6 billion.

OTC derivative activities are mainly related to hedging the interest rate risk of the Group's banking book and, residually, to brokerage carried out by the Parent Company on these types of instruments in favour of customer Banks.

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Financial assets

(Figures in millions of euro)	30/06/2023	31/12/2022	Change	% change
Debt securities	**36,836**	**38,655**	**(1,819)**	**(4.7%)**
- Obligatorily measured at fair value (FVTPL)	7	9	(2)	(22.2%)
- Measured at fair value through other comprehensive income (FVOCI)	10,178	10,800	(622)	(5.8%)
- Measured at amortised cost (AC)	26,651	27,846	(1,195)	(4.3%)
Equities	**144**	**133**	**11**	**8.3%**
- Obligatorily measured at fair value (FVTPL)	16	14	2	14.3%
- Measured at fair value through other comprehensive income (FVOCI)	128	119	9	7.6%
UCITS units	**191**	**210**	**(19)**	**(9.1%)**
- Obligatorily measured at fair value (FVTPL)	191	210	(19)	(9.1%)
Total financial assets	**37,171**	**38,998**	**(1,827)**	**(4.7%)**

At 30 June 2023, the Group's financial assets were nearly entirely formed of debt securities (99.1%). The latter are mainly government securities of euro area countries or supranational issuers.

Exposure to the banking system: net financial position

(Figures in millions of euro)	30/06/2023	31/12/2022	Change	% change
Loans to central banks	610	532	78	14.7%
Loans to other banks	352	381	(29)	(7.6%)
- Current accounts and deposits on demand	*116*	*147*	*(31)*	*(21.1%)*
- Fixed-term deposits	*12*	*2*	*10*	*n.s.*
- Other loans	*224*	*232*	*(8)*	*(3.5%)*
Total loans (A)	**962**	**913**	**49**	**5.4%**
Due to central banks	(12,075)	(15,350)	3,275	(21.3%)
Due to other banks	(790)	(1,041)	251	(24.1%)
- Current accounts and deposits on demand	*(395)*	*(412)*	*17*	*(4.1%)*
- Fixed-term deposits	*(50)*	*(49)*	*(1)*	*2.0%*
- Repos	*(330)*	*(476)*	*146*	*(30.7%)*
- Other loans	*(15)*	*(104)*	*89*	*(85.6%)*
Total payables (B)	**(12,865)**	**(16,391)**	**3,526**	**(21.5%)**
NET FINANCIAL POSITION (A-B)	**(11,903)**	**(15,478)**	**3,575**	**(23.1%)**

In June 2023, total loans to banks amounted to EUR 962 million (+49 million compared to 31 December 2022), and mainly reflects the liquidity held on the ECB target account, amounting to EUR 610 million. Interbank funding of EUR 12.9 billion was down by 3.5 billion compared to the previous period, as a result of the repayment of the ECB refinancing operations.

Eurosystem refinancing operations as at June 2023 amounted to a total of 11.8 billion, down on the 15.2 in 2022.

Fixed assets

(Figures in millions of euro)	30/06/2023	31/12/2022	Change	% change
Equity investments	57	58	(1)	(1.7%)
Goodwill	27	27	-	0.0%
Tangible	1,239	1,234	5	0.4%
Intangible	59	53	6	11.3%
Total fixed assets	**1,382**	**1,372**	**10**	**0.7%**

Fixed assets as at 30 June 2023 amounted to EUR 1.4 billion (+0.7% compared to December 2022) and mainly consist of real estate for functional use. Other intangible assets are mainly represented by user licenses and software, while goodwill refers to assets with an indefinite useful life included in intangible assets, as detailed in part B of the Explanatory notes to the consolidated financial statements.

Consolidated equity

(Figures in millions of euro)	30/06/2023	31/12/2022	Change	% change
Capital	1,276	1,271	5	0.4%
Own shares (-)	(867)	(867)	-	0.0%
Share premium	75	74	1	1.4%
Reserves	6,889	6,399	490	7.7%
Valuation reserves	(177)	(231)	54	(23.4%)
Equity instruments	1	1	-	0.0%
Profit (loss) for the period	587	560	27	4.8%
Group equity	**7,784**	**7,207**	**577**	**8.0%**
Minority interests	-	0%		
Consolidated equity	**7,784**	**7,207**	**577**	**8.0%**

Reconciliation between the Parent Company's equity and profit for the period and the consolidated equity and profit for the period

(Figures in millions of euro)	Equity	Result for the period
Accounting balances of the Parent Company	1,172	24
Effect of the consolidation of subsidiaries	6,511	608
Effect of the measurement of associates using the equity method	66	(1)
Reversal of write-downs of equity investments and recognition of goodwill impairment	(28)	2
Elimination of dividends received from subsidiaries and associates		(43)
Other consolidation adjustments	63	(3)
Balances as per the consolidated financial statements	**7,784**	**587**

Own funds and capital adequacy

Own funds and capital ratios

OWN FUNDS AND CAPITAL RATIOS	30/06/2023	31/12/2022
Common Equity Tier 1 capital - CET1	7,661	7,429
Tier 1 capital - TIER 1	7,662	7,430
Total own funds - Total Capital	7,663	7,432
Total risk-weighted assets	32,182	32,598
CET1 Capital ratio (Common equity Tier 1 capital/Total risk-weighted assets)	23.81%	22.79%
Tier 1 Capital ratio (Tier 1 capital/Total risk-weighted assets)	23.81%	22.79%
Total Capital Ratio (Total own funds / Total risk-weighted assets)	23.81%	22.80%

Risk Weighted Assets

(Figures in millions of euro)	30/06/2023	31/12/2022	Change	% change
Credit and counterparty risk	27,587	27,953	(366)	(1.3%)
Credit valuation adjustment risk	29	43	(14)	(32.6%)
Market risk	6	42	(36)	(85.7%)
Operational risk	4,560	4,560	-	0.0%
Other prudential requirements	-	-	-	
Total RWA	**32,182**	**32,598**	**(416)**	**(1.3%)**

Own funds, risk-weighted assets and solvency ratios at 30 June 2023 were determined on the basis of the prudential regulations applied to investment banks and companies and contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, as amended by Directive 2019/878/EU (CRD V) and by Regulation (EU) 2019/876 (CRR II), respectively.

Total own funds of the Cassa Centrale Cooperative Banking Group consist of Tier 1 (T1) capital and Tier 2 (T2) capital. Specifically, Tier 1 capital consists of the sum of Common Equity Tier 1 (CET1) capital and Additional Tier 1 (AT1) capital.

The aforesaid aggregates include the effects of the IFRS 9 transitional regime, which, as at 30 June 2023, exclusively consists of the component arising from the dynamic approach, as introduced by Regulation (EU) 2017/2395 and amended by Regulation (EU) 873/2020 (so-called Quick Fix).

At the end of June 2023, the CET1, determined in accordance with the aforementioned standards and references, stood at EUR 7,661 million. Tier 1 amounted to EUR 7,662 million. Tier 2 amounted to EUR 1 million.

Own funds therefore amounted to EUR 7,663 million. Of the latter, CET1, which nearly accounts for the total (99.97 % of the total), has increased compared to the end of 2022 by a total of EUR 232 million (+3.12%) due to the algebraic sum of the performance of several of its constituent main items. In particular:

(i) the increase in reserves (EUR +536 million), mainly attributable to the interim profit as at 30/06/23 included in CET1 (EUR +544 million), following the authorisation granted by the ECB on 9 August 2023, net of the OCI Reserve (EUR -42 million); (ii) the decrease in the IFRS 9 transitional regime component(EUR -265 million) arising from the lower contribution of the dynamic component (from 75% to 50%) and from the completion of the phase-out of the static component from January 2023. An additional decline recorded in the period is represented by the end of the transitional regime relating to unrealised profits and losses on government securities classified in the FVOCI portfolio (-87 million). Changes in other items of CET1 were marginal.

As regards the Additional Tier 1 and Tier 2 components, however, no significant changes were posted for the period compared to 31 December 2022.

Risk-weighted assets at 30 June 2023 amounted to EUR 32,182 million, down 1.3% compared to the figure as at 31 December 2022 (EUR 32,598 million).

Additionally, from Q4 of 2022, for the purposes of calculating the capital requirements in relation to credit risk, the use of the external ratings issued by a recognised ECAI has not only been extended to the Central Governments or Central Banks portfolio and Exposures to Securitisation, but also to the regulatory portfolios Exposures to Entities and Exposures to Companies.

Following this change, the adopted rating agencies are as follows, grouped by relevant segment:

- central governments or central banks: Moody's;
- exposures to securitisation: Moody's;
- exposures to Entities: Moody's;
- exposures to companies: CRIF ratings.

This choice is based on the more general framework of a progressive optimisation of risk-weighted assets, launched by the Group during 2022, also in consideration of the expected benefits associated with application of the new Basel IV provisions.

As for the solvency ratios, the CET1 capital ratio stood at 23.81% (22.79% in December 2022), the Tier 1 capital ratio was 23.81 % (22.79% in December 2021) and the total capital ratio was 23.81% (22.80% in December 2021). Excluding the effects of transitional regimes, with a view to full application of prudential provisions at the same reference date, fully loaded CET1 capital amounted to EUR 7,558 million and the related fully loaded CET1 capital ratio is 23.56%; fully loaded Tier 1 capital amounted to EUR 7,559 million and the related fully loaded Tier 1 capital ratio is 23.56%; and finally, Total capital fully loaded amounted to EUR 7,560 million and the related fully loaded Total Capital ratio was 23.56%.

Main strategic business areas of the Cassa Centrale Group

The Cassa Centrale Group has developed its business and service model through an organisational structure divided into two main areas:

- the Affiliated Banks, which represent the Group's core business through the management of banking activities in the territory;
- the Industrial Group, including the Parent Company and the Companies that offer services to Affiliated Banks in finance, credit, insurance, ICT, NPLs and asset management.

*The Industrial Group refers to a management representation of the main strategic areas of the Group that contribute to the economic and financial results summarised below.

The definition of strategic business areas is consistent with the methods adopted by the governance function for making operational and strategic decisions and is based on internal management reporting.

Affiliated Banks

The Affiliated Banks represent the most important part of the Cooperative Banking Group's consolidated assets and the strength of the Group's current and future development. The Affiliated Banks traditionally operate with the aim of fostering the development of communities and the local economy. The principles of mutuality, which characterise Cooperative Credit, allow the Banks to play a fundamental role in the national banking industry and be an important reference point for households and small and medium-sized enterprises (hereinafter also "SMEs").

The Group's Strategic Plan aims to develop relationships with households and SMEs by making the most of the territorial network and exploiting synergies, the expansion of the commercial offer and economies of scale resulting from belonging to a Group of national importance.

In general, the structure of Cooperative Credit Banks reflects the nature of territorial banks, characterised by high customer funding deriving from historical ties with the territory to which they belong, a prevalence of loans to counterparties represented by households and small companies and a low loan-to-deposit ratio which, from a liquidity perspective, reflects the structural soundness of the Group and the investment of excess liquidity mainly in government bonds.

Below is a summary representation of the main income statement and balance sheet aggregates of the Affiliated Banks, with a focus on the individual territorial areas in which the Group operates.

Figures in millions of euro

LOANS TO CUSTOMERS	30/06/2023					Total 30/06/2023	Total 31/12/2022	Change	% change
	Trentino-Alto Adige	North East	North West	Central	South and the Islands				
Gross customer loans	10,457	10,699	10,671	11,067	5,030	**47,923**	48,345	-421	(0.9%)
of which performing	*9,868*	*10,264*	*10,262*	*10,522*	*4,686*	***45,602***	*45,924*	*-322*	*(0.7%)*
of which non-performing	*589*	*435*	*410*	*544*	*344*	***2,321***	*2,421*	*-99*	*(4.1%)*
Value adjustments	656	504	443	514	293	**2,409**	2,582	-172	(6.7%)
Net customer loans	9,801	10,195	10,228	10,553	4,737	**45,514**	45,763	-249	(0.5%)

Gross customer loans of the Affiliated Banks totalled 47.9 billion as at 30 June 2023, down by -0.9% compared to the end of financial year 2022 as a result of weak demand for credit at systemic level resulting from the recent monetary policy decisions with related rise in market rates.

The regional analysis of the credit disbursed confirms that the operations of the Affiliated Banks are mainly concentrated in the northern part of Italy, in line with the territorial structure of the branches of the Cassa Centrale Group. Looking in detail at the various geographical areas into which the Group is divided, the allocation is homogeneous in four of the five areas, with the exception of the South and Islands areas which, has a lower incidence on total loans due to the smaller average size of each Affiliated Bank operating in that area.

During the first half of 2023, the decline in performing loans of the Affiliated Banks totalled 322 million (-0.7%), with mixed dynamics across the various territorial areas. In particular, Trentino-Alto Adige (-2.6%) and the North-east (-1.0%) decreased, the Centre (-0.2%) and North-west (+0.1%) remained essentially stable, while performing loans in the South and the Islands increased (+1.2%).

At the counterparty level, the significant exposure of the overall credit disbursed to households and local small and medium-sized enterprises was confirmed, demonstrating the central role of the Affiliated Banks in supporting the growth of the territory.

In the first half of 2023, the active management of impaired loans continued in line with the Cassa Centrale Group's strategy, making it possible to further reduce total non-performing volumes (-4.1% compared to the figure at the end of December 2022). In general, the ratio of impaired loans to gross loans to customers stood at 4.8%, with a regional trend that varied from 3.8% in the North West area to 6.8% in the South and Islands.

Confirming a strategy of the Cassa Centrale Group that is particularly focused on credit risk management and in the presence of a decrease in the total stock of impaired loans, provisions on bad loans of the Affiliated Banks stood at 82%, in line with the figure at the end of 2022 and an increase compared to 73% at the end of 2021. The average coverage levels of the Affiliated Banks remain among the highest in the national banking system.

Figures in millions of euro

FUNDING	30/06/2023					Total 30/06/2023	Total 31/12/2022	Change	% change
	Trentino-Alto Adige	North East	North West	Central	South and the Islands				
Overall funding	23,332	21,116	23,370	19,942	8,415	**96,175**	93,753	2,422	2.6%
Direct funding	14,675	13,692	14,446	13,138	6,963	**62,915**	64,665	-1,750	(2.7%)
Indirect funding*	8,657	7,423	8,925	6,804	1,452	**33,260**	29,088	4,172	14.3%
of which administrated	*2,607*	*2,333*	*3,684*	*2,369*	*954*	***11,947***	*8,728*	*3,219*	*36.9%*
of which managed	*6,050*	*5,090*	*5,241*	*4,435*	*497*	***21,313***	*20,360*	*953*	*4.7%*

* Indirect funding is expressed at market values.

Overall funding of the Affiliated Banks stood at 96.2 billion as at 30 June 2023, +2.6% compared to the end of 2022, showing the ability to attract new funding even in a unique economic phase such as the current phase.

Direct funding was 62.9 billion, down on a half-yearly basis by -1.7 million (-2.7%), in an environment complicated by competition from government bond yields. The decline mainly occurred at the start of the year before posting a general stabilisation.

Breaking down the change in direct funding at territorial level, there was a decrease on a half-yearly basis in all areas, with variations ranging from -4.0% in Trentino-Alto Adige to -1.8% in the Centre.

The breakdown of direct funding among regional areas continued the trend described above for credit volumes.

The different regional areas show a structural surplus of resources in the ratio of lending to funding, which results in a high degree of liquidity for the Affiliated Banks and for the Cassa Centrale Group. The prudent approach to the investment of resources raised by depositors historically characterises the operations of the BCC-CR-RAIKAs.

Total indirect funding of the Affiliated Banks increased to 33.3 billion [10] (+14.3% on a half-yearly basis), despite a particularly challenging market environment.

The impact of indirect funding on total funding was 35%, up compared to the end of 2022 (31%). The regional analysis shows that indirect funding as a percentage of total funding ranges from 38% in the North-west to 34% in the Centre, except for the South and Islands, where the ratio is 17%.

Looking specifically at the breakdown of indirect funding, the managed assets and insurance segment accounts for 64% of total indirect funding as at 30 June 2023 (down on the 70% at the end of 2022).

This trend is explained by the strong growth in indirect funding under administration (+36.9% compared to the end of 2022), driven by increasing returns on the bond market, which became particularly attractive for customers.

The asset management, funds and SICAVs segment also grew again on a half-yearly basis (+4.7%) after a particularly difficult 2022, driven by the growth in net funding and a positive market effect.

The Bancassurance segment continued the trend of constant growth (+2.8% on a half-yearly basis), also favoured by the new commercial partnership signed during 2022.

Although the particularly challenging economic context slowed down the rate of growth in indirect funding from the managed segment in this historical phase, this area remains a central objective for the Cassa Centrale Group, given the significant growth margins available to the Affiliated Banks compared to the rest of the banking industry, having historically favoured the placement of direct funding products in the past. The growth in this segment has been driven and accompanied by important investments in the specialist training of staff of the Affiliated Banks in order to increase their ability to offer Shareholders and customers a high level of advisory support. These investments, supported by the careful research of the Industrial Group's companies for products suitable for BCC-CR-RAIKAs' shareholders and customers, is gradually closing the gap with the system, while maintaining a high level of attention to the quality of the overall service offered to the savings customer.

Figures in millions of euro

MARGINS AND COMMISSIONS	30/06/2023					Total 30/06/2023	Total 30/06/2022	Change	% change
	Trentino-Alto Adige	North East	North West	Central	South and the Islands				
Interest margin	268	248	225	241	133	**1,115**	885	229	25.9%
Net commissions	63	73	82	73	34	**325**	304	21	6.9%
Net interest and other banking income	277	295	308	313	171	**1,364**	1,257	107	8.5%

[10] Indirect funding is expressed at market values.

The interest margin of the Affiliated Banks at the end of the first half of 2023 totalled 1.1 billion, recording +25.9% growth compared to the first half of 2022, mainly due to the growing contribution of lending, which, benefiting from the rise in market rates, saw a widening of the commercial spread. The contribution of the proprietary portfolio was relevant also thanks to the reinvestment of volumes due at current market rates. In the interbank sector, unlike the first half of 2022, negative interest was recorded as a result of the ECB rate hikes and related impact on refinancing operations (TLTRO III).

Overall, as a result of the above, the contribution of the interest margin to the overall profitability of the Affiliated Banks grew to 82% of net interest and other banking income (against 70% in the first half of 2022).

The net commissions of the Affiliated Banks totalled 325 million in the first half of 2023, up +6.9% compared to the same period in 2022.

The commission margin of the Affiliated Banks contributes 24% on average to net interest and other banking income, with a regional incidence ranging from 27% in the North-West to 20% in the South and Islands areas.

The trend of the net interest and other banking income of the Affiliated Banks (+8.5% compared to the first half of 2022) is completed by the contribution from dividend and similar income, while the item relating to trading in the Affiliated Banks' own securities portfolio was negative, following the changes in the securities portfolio intended to benefit from the upward trend in market returns.

This development is carried out with a strong focus on the protection of shareholders and customers in compliance with the cooperative principles that are the basis of the operations of the Affiliated Banks. This development is carried out with a strong focus on the protection of shareholders and customers in compliance with the cooperative principles that are the basis of the operations of the Affiliated Banks.

Industrial Group

The Industrial Group is represented by the Parent Company and the subsidiaries and associates that operate in different areas of activity, namely:

- ICT and back office services, with the subsidiary Allitude S.p.A. (hereinafter also "Allitude");
- leasing services, with the subsidiary Claris Leasing S.p.A. (hereinafter also "Claris Leasing" or "Claris");
- insurance services, with the subsidiaries Assicura Agenzia S.r.l. and Assicura Broker S.r.l. (hereinafter also "Assicura Agenzia" and "Assicura Broker");
- collective asset management services, with the subsidiary Nord Est Asset Management S.A. (hereinafter also "NEAM");
- consumer credit services, with the subsidiary Prestipay S.p.A. (hereinafter also "Prestipay");
- other ancillary services, with the subsidiaries Centrale Soluzioni Immobiliari S.r.l., Centrale Casa S.r.l. (in liquidation), Claris Rent S.p.A. and Centrale Trading S.r.l.

The main income statement and balance sheet aggregates of the Industrial Group as at 30 June 2023 are shown below.

Figures in millions of euro

LOANS TO CUSTOMERS*	30/06/2023	31/12/2022	Change	% change
Gross customer loans	**2,428**	2,231	*197*	*8.8%*
of which performing	***2,358***	*2,157*	*201*	*9.3%*
of which non-performing	***70***	*74*	*-4*	*(5.8%)*
Value adjustments	**100**	110	*-10*	*(9.3%)*
Net customer loans	**2,328**	2,121	*207*	*9.8%*

*Management data including all intra-group eliminations.

With reference to loans to customers, the Industrial Group's contribution mainly refers to the brokerage activities of the Parent Company and its subsidiaries Claris Leasing and Prestipay.

Gross loans to customers totalled EUR 2.4 billion, up EUR 197 million on the end of the previous year (+8.8%). In particular, there was growth in the portfolio of the Parent Company and of Prestipay, which continues to expand its consumer credit service, as well as the portfolio of Claris Leasing. Performing loans to customers include exposures in margins and default funds to Cassa di Compensazione e Garanzia related to repos, which fell compared to the previous year.

Total gross allocations came to approximately EUR 100 million, down compared to the EUR 110 million at the end of 2022, reflecting, at least in part, the reduction in bad loans compared to 31 December 2022 (-5.8%).

As a whole, net loans to customers of the Industrial Group grew by EUR 207 million compared to the end of 2022 (+9.8%), reaching approximately EUR 2.3 billion.

Figures in millions of euro

FUNDING*	30/06/2023	31/12/2022	Change	% change
Overall funding	**11,393**	9,441	*1,951*	*20.7%*
Direct funding	**3,780**	2,532	*1,248*	*49.3%*
Indirect funding**	**7,613**	6,909	*703*	*10.2%*
of which administrated	***4,412***	*3,956*	*457*	*11.5%*
of which managed	***3,200***	*2,954*	*247*	*8.4%*

* Management data including all intra-group eliminations.

** Indirect funding are expressed at market values; ETF financial products are included in the segment.

Total funding of the Industrial Group stands at EUR 11.4 billion and is almost entirely attributed to the Parent Company.

Direct funding (3.8 billion) grew by around 1.2 billion. This increase is effectively due to the increase in Repos exposures to Cassa di Compensazione e Garanzia and by the increase in bond funding associated with the Group's MREL issue plan. Indirect funding [11] was EUR 7.6 billion, with around EUR 3.2 billion (42%) represented by the assets under management segment (with transactions mainly related to asset management products), while assets under administration amounted to EUR 4.4 billion and represents around 58% of total indirect funding, with transactions mainly on the bond market. Assets under administration and assets under management both increased compared to the figure at the end of the previous year, due above all to a positive market effect.

Figures in millions of euro

MARGINS AND COMMISSIONS*	30/06/2023	30/06/2022	Change	% change
Interest margin	**59**	58	*1*	*2.4%*
Net commissions	**60**	57	*3*	*5.7%*
Net interest and other banking income	**94**	98	*-4*	*(3.8%)*

* Management data including all intra-group eliminations and the residual economic results of fully consolidated entities other than the cohesion agreement.

Net interest and other banking income as at 30 June 2023 was down slightly on the previous financial year, at 94 million (-3.8%). The breakdown is nearly unchanged compared to the same period in 2022. The interest margin contributed 63%, with the commission margin contributing 64% (against 59% and 58% in the previous year, respectively). On the other hand, the contribution from other revenue was down compared to 2022. Specifically, significant profits from trading were realised in the first half of 2022.

In particular, the interest margin amounted to 59 million and was slightly up on the 58 million of the previous year. Net commissions totalled EUR 60 million, an increase of EUR 3 million compared to the same month in the previous year.

Below is a brief review of the Industrial Group, with particular focus on the activities carried out by the Parent Company and the service companies supporting the Affiliated Banks.

[11] The indirect funding represented refers to the component placed by Cassa Centrale Banca directly with customers and does not include the component placed through Banks.

1. Parent Company

The range of services offered by Cassa Centrale Banca is divided into the following areas:

- Finance;
- Credit;
- Consumer credit services;
- Payment systems;
- Governance and support.

Finance

In the Finance sector, Cassa Centrale Banca offers its Affiliated Banks and client Banks a complete range of services and products for access to financial markets and for offering depositing customers multiple investment solutions.

Cassa Centrale Banca offers services to access the main bond, equity and derivatives markets for retail customers and for management of the owned portfolio. In the first half of 2023, it carried out transactions on bond markets for approximately EUR 17 billion (down by approximately 21.5% compared to the second half of 2022) and stock markets for approximately EUR 1.23 billion (-32% compared to the second half of 2022).

With regard to operations in the interbank sector, intermediation of refinancing operations with the ECB and securitised financing operations of Affiliated Banks and customers as part of the "Collateral Account" service decreased to EUR 12.3 billion at the end of June 2023, compared to EUR 15.5 billion at the end of 2022. At the Cassa Centrale Group level, recourse to refinancing via the Eurosystem amounted to EUR 12 billion at the end of June 2023.

OTC derivative activities are mainly aimed at hedging the interest rate risk of the Group's banking book and, residually, at brokerage in relation to these types of instruments in favour of customer Banks. During the first half of 2023, OTC rate derivatives were traded for a total original notional amount of EUR 36 million. The types of OTC derivatives in the portfolio are configured into interest rate swaps (IRS) and interest rate options.

A further activity that is carried out within the Treasury support services of Affiliated Banks and customers is foreign currency trading. During the first half of 2023, the volume of spot and forward foreign currency trading (amounting to EUR 1.6 billion) decreased compared with the first half of 2022 (-28%).

As regards the commercial offer aimed at customers, Cassa Centrale Banca provides the Affiliated Banks with financial products and services used in the context of advisory activities. This quality catalogue is updated over time with developments and implementations intended to remain competitive on the market.

The main products and services offered are:

- **Asset Management**: Cassa Centrale Banca's Asset Management closed the first half of 2023 with EUR 11.7 billion [12] in assets under management and 108 active accounts. Funding has been affected by the sudden change in the economic/financial framework, the ongoing geopolitical tensions and the strong inflationary pressures, followed by highly restrictive measures by the Central Banks, with a consequent hike in rates of return. The six-month period closed with positive funding for EUR 100 million. This was joined by a positive market effect that further contributed to the overall growth in assets. The trend on the main financial markets, in this first part of the year, led to a consistent improvement in the performance of the management lines. Yields for European government bonds are offering attractive investment opportunities. On the equity side, the portfolios are mainly invested on the developed markets, especially in US equities, while exposure remains marginal in emerging areas. As part of its decisions on investments referring to the portfolio management lines offered to customers, Cassa Centrale Banca adopts a series of measures in order to integrate and assess the risks and main negative effects on sustainability factors. These measures have made it possible to classify the management lines as financial products that promote, among other things, environmental or social characteristics or a combination of the two ("light green" financial products) and take into consideration the main negative effects on sustainability factors through the detection and monitoring of specific indicators linked to environmental and social issues.
- **Funds Partner**: the fund placement platform called Funds Partner is available to Affiliated Banks and client banks and includes the NEF Fund as well as third-party funds. This is a useful tool for advisors who can access a universe of around 3 thousand funds available through a platform on which Cassa Centrale Banca has activated a process of definition and maintenance of the list of funds that can be placed (funds with capitalisation of less than EUR 100 million and a track record of less than 3 years are excluded). The platform offers numerous tools provided by Morningstar, the reporting provided by the 14 investment houses and the "example portfolios" compliant with the MiFID risk profile. For these houses, Cassa Centrale Banca also carries out the service of entity appointed to perform payments. Assets placed up to the end of the first half of 2023 amounted to around EUR 6.4 billion with regard to NEF and EUR 2.6 billion for third parties.
- **Advanced Advisory services**: the advanced advisory service is provided to customers of 15 Banks. Cassa Centrale Banca supports these Banks as advisor in identifying the best investment strategies.

Participation in the "CCB#LIVE" webinar hosted on the digital platform Teams continued. The show discusses market trends, strategies on management lines, market views by Cassa Centrale Banca managers and NEF partner managers, and the analysis of funds and bancassurance products/services. The event is held fortnightly with an average participation of over 700 consultants from the Placement Banks.

Project to change the model for the provision of advice and adequacy assessment services - new MiFID questionnaire

In the first half of 2023, the project launched last year to update the Group model for the provision of investment services was finalised - alongside a structured training plan dedicated to all authorised collaborators of the Group - with the aim of preparing a new customer profiling questionnaire model in line with the most recent regulatory developments and ESMA and CONSOB indications and redefining the approach for providing advice and adequacy assessment services, carried out for each operation, including in a portfolio approach, supplemented by a periodic adequacy assessment of the recommendations provided.

[12] The amount refers to Asset Management opened directly with Cassa Centrale Banca for approximately EUR 3 billion, Asset Management placed through Affiliated Banks and Customer Banks for approximately EUR 6.8 billion, Institutional Asset Management for approximately EUR 910 million and pension funds, for which Cassa Centrale Banca has delegated management powers for approximately EUR 990 million.

Credit

Cassa Centrale Banca's Credit Department, which provides support to its Affiliated Banks and Group companies in their lending activities and guides the credit direction and coordination of the Cooperative Banking Group, has redefined the credit policy guidelines in a general and sector macroeconomic framework that remains affected by significant uncertainty. This uncertainty is mainly caused by (i) high inflation, triggered by the sharp rise in energy costs that then spread to nearly all sectors of activity, (ii) the sudden rise in market interest rates, (iii) the ongoing Russia/Ukraine conflict with the consequent international sanctions that are slowing down the recovery of international trade, and (iv) the international awareness of climate risk and related countermeasures.

In particular, following the gradual and consistent rise of interest rates and related rise in the cost of loans and more restrictive supply conditions, there was a decline in loans to businesses and households, especially in loans to purchase homes.

In this environment of great uncertainty, the main objectives of the Parent Company Credit Department's activities can be summarised as follows: (i) optimising the asset allocation of the portfolio in qualitative and quantitative terms; (ii) strengthening the sales network and repositioning its lending operations; (iii) maximising the use of public guarantees under the Temporary Crisis Framework; (iv) preventing the deterioration of credit quality, in the medium term, particularly on the largest risk groups, forcing maximum segmentation of the portfolio; (v) adopting a forward-looking approach with the objective of incorporating the sectoral and micro-sectoral forecasts into assessment of business resilience, through prospective estimates of companies' financial statements; (vi) introducing scoring for the assessment of the ESG risk profile of businesses.

The consequence of the revision of the main objectives of the Parent Company Credit Department's activity was the amendment to the Group's loan portfolio management guidelines; this amendment was intended to assess the prospective sustainability of debt by companies, taking into account:

- scenario analyses and assessment of deterioration and impairment rates in the various sectors;
- assessments of the impacts associated with the increase in energy costs and interest rates;
- the application of the 2023-24 sector estimates on the 2022 financial statements and the 2023 half-yearly reports of individual companies with the aim of making a projection of the expected cash flows and therefore of assessing the sustainability of the debt in the medium term.

In providing the newly originated loans the utmost attention is still paid to credit quality, product, geographical and above all dimensional diversification. In fact, the dimensional aspect is considered of fundamental importance and represents the cornerstone of the Group's credit product strategy. The logic of spreading the risk over a multitude of small recipients, which has always been the main component of the credit approach of the Affiliated Banks, has been strengthened with the introduction of risk thresholds and through an operational practice pursued in the day-to-day relationships between the Group's corporate structures and the Credit Departments of the individual Affiliated Banks. More space was also given to distributed products (leasing, factoring, personal loans and salary-backed loans) due to their lower risk profile compared to similar banking transactions. With regard to the specific lending activities supported by the public guarantees system (Guarantee Fund and SACE), it should be noted that the Temporary Crisis Framework, launched in the first half of 2022 following the emergency triggered by the Russian-Ukrainian war and the consequent hike in energy costs, was extended until the end of 2023.

During the first half of 2023, the Cassa Centrale Group continued to play a leading role in the territories served by its Affiliated Banks in supporting households and small businesses engaged in the energy upgrading of buildings. Thanks to a proprietary management system that integrates all stages of the process, from the reservation of the right to sell to the purchase of the credit and its subsequent offsetting in the Bank's payments and contributions, the Group has been able to respond effectively to a pressing and widespread demand from both established current account holders and many new customers. The Group's operations included all types of originating beneficiaries (households, businesses and condominiums) and all types of facilities, whether grouped together under the generic names of Ecobonus (credits with deductibility in 10 years) or Superbonus (credits deductible in 5 years). The widespread commercial success achieved in the main markets obliged some banks to supplement their ordinary tax capacity with re-transfer agreements with parties outside the Group, including those not belonging to the financial intermediaries sector, where possible. The relationship with large companies or general contractors was limited to a few cases, confirming the specific role of cooperative credit banks, focused on serving retail and small business customers in their territories. A predominant portion of the energy upgrade interventions supported by the Affiliated Banks did not give rise to requests for credit support during the phase that separates the start of the works from the collection of the price for the sale of the tax credit, confirming that these are mainly small unit cuts and that the customers served are concentrated among households with good availability of savings.

As regards subsidised credit, in 2022 Cassa Centrale Banca signed:

- an Agreement with the Friuli Venezia Giulia Autonomous Region on behalf of the Group's Banks operating in that region in order to facilitate:
    - the disbursement of loans at a subsidised rate for the construction, reinstatement, transformation, modernisation and expansion of industrial and artisan facilities, for ship building, tourism and hospitality activities, and for other necessary initiatives for industrial development, in compliance with the current regulations on Revolving Funds for economic initiatives set out by Law no. 908 of 18 October 1955
    - the disbursement of subsidised loans for investment and business development initiatives, for the capitalisation of undertakings in the form of companies for the consolidation of short-term debt into medium and long-term debt and to support short and medium-term credit needs;
- a Memorandum of Understanding between *Agenzia Veneta per i Pagamenti in Agricoltura* (Veneto Agency for Payments in Agriculture - AVEPA), Cassa Centrale and the main Group banks operating in the regional territory of Veneto for the prepayment, through a concessional loan, of the contributions intended for agricultural companies with the right to payment entitlements;
- an Agreement with Finlombarda (Financial Agency of the Lombardy Region) to allow Cassa Centrale Banca to assist the Group's banks that support businesses operating in the Lombardy Region through the use of subsidised credit instruments provided by the Region;
- the new Finpiemonte Agreement that enables Cassa Centrale Banca and the Affiliated Banks in Piedmont to support businesses operating in that Region through the use of subsidised credit instruments provided by the Piedmont Region;
- a Framework Agreement between Cassa Centrale, representing the Emilian Banks of the Group and Confidi - Fider, in relation to the ability to offer businesses in Emilia-Romagna's tourism sector the "incentives envisaged for the development and qualification of regional tourism".

Consumer credit services

On 21 June 2023, in line with the provisions of the initial joint venture agreements, Cassa Centrale Banca concluded the exercise of the purchase from Deutsche Bank of the 40% stake in the capital of Prestipay S.p.A. As a result of the operation, Cassa Centrale Banca acquired the entire share capital of the Group's consumer credit company, over which it already had control, with 60% of the shares.

This operation marks another important milestone in the development process that began in 2018 as part of the commercial partnership with Deutsche Bank for the distribution of Prestipay white-label products and continued with the establishment and subsequent operational start-up of Prestipay S.p.A. in January 2021.

The Company is now the reference point for the production of consumer credit services distributed to customers of Cassa Centrale Group Banks and its customers across Italy, confirming its consistent growth trend.

In the first half of 2023, Prestipay S.p.A. recorded volumes disbursed equal to around EUR 155 million, with a 21% increase on the same period in the previous year and a consistent increase in the number of operations managed. In the context of contractual documentation, the use of the certified digital signature service continued, which reached overall penetration of 90% of total contracts, allowing for a significant reduction in paper consumption and related CO_2 equivalent emissions.

The results achieved confirm Prestipay's commitment to the partner banks to support the credit access needs of customer households in a national market affected by geopolitical uncertainty, ongoing inflationary phenomena and interest rates hikes imposed by the Central Banks.

This economic situation has affected the products of the main market operators, producing a marked increase in the rates offered to customers, more stringent disbursement policies and a lower average amount disbursed for loan types with a higher value.

Consumer credit flows in the personal loans of the members of Assofin - the association of the main banking and financial operators in the consumer and real estate loan sector - showed a gradual slowdown over the first half of the year, closing the first half of 2023 with a decline in disbursements by over -4% compared to the same period in the previous year [13].

In the situation described, the agility and sustainability of the business model and the highly industrialised processes implemented by Prestipay S.p.A. allowed the Company to proactively adapt to the reference context, firmly continuing along its process of growth and posting higher results than expected in the business plan and performing better than the reference market.

At the same time, the Company was able to guarantee the partner banks a moderate impact on the terms offered to customers and timely monitoring of credit risk as default rates are expected to worsen.

The main internal activities undertaken by Prestipay in the first half of 2023 are as follows:

- the creation of a specialised and personalised Credit Assessment Platform (PVC) for the assessment, deliberation and payment of loan applications received through the Company's direct online channel;
- the release of the new Customer Reserved Area dedicated to all Prestipay loan holders, through which users can manage their positions and view the main information about existing personal loans;
- the implementation, within the new customer reserved area, of a new chatbot service supported by artificial intelligence that can assist in real time with the main after-sales requests. This AI chatbot joins what was already implemented in the prestipay.it portal dedicated to pre-sales assistance and support, with the aim of improving customer care processes and inbound customer service;
- continuation of the partnership between Prestipay and Udinese Calcio with the finalisation of the club's sponsorship agreement, as co-sponsor, for the 2023/24 season. The Prestipay brand will feature on the first team's shirts, on the LED stadium advertising boards and in many other communication initiatives intended to grow and consolidate brand awareness among current and potential customers.

Lastly, the Company's process of strengthening the internal organisational structure continued with the hiring of specialised resources to support the development of important project activities intended to expand the range of new products and services and strengthen the commercial structure in support of the partner banks.

[13] Assofin data as at 30 June 2023

Payment systems

The payment systems market continues to be affected by strong renewal and high competitiveness. There has been growing use of digital payments on channels provided by banks or innovative solutions offered by new operators joining the markets. In this highly dynamic environment, Payment Systems for the Cassa Centrale Group are a service and support structure for the Group's Banks and operate on five different areas of activity: (i) regulations, (ii) foreign relations, (iii) centralised services, (iv) treasury, and (v) e-money to develop new services to be provided by the Affiliated Banks to allow them to be competitive and retain their customers.

Settlements

The Service took part in the Eurosystem project Target2/T2 Securities Consolidation required for all direct participants of the Target2 platform. One of the main objectives of the project is the improvement of Target regulation services and management of operational liquidity available to the European banking system in addition to the increase in security and data protection standards.

The release with an impact on critical processes such as operational liquidity management of the Treasury Service and the Regulations and Foreign Relations Services successfully took place in May 2023 using a "big bang" format for all the European banks.

From a technical perspective, the new European platform called the Eurosystem Single Market Infrastructure Gateway (ESMIG) was activated, allowing access to central liquidity management (CLM), real-time gross settlement (RTGS), Target2-Securities (T2S) and target instant payment settlement (TIPS) services.

The project introduced a new operating standard (ISO 20022 - XML format) for exchanging messages and new channels of connection to European infrastructure, which had an impact on all of the Bank's systems.

Work began on numerous transversal projects, including CESOP reporting, regarding new and specific information flows in the European environment sent to the Italian Revenue Agency for recurring cross-border transactions.

Activities associated with the data hub and data quality project for the archives of individual procedures connected to the processes of the service and in preparation for the creation of reporting payment functions to provide the Group Banks were launched with specific data analysis tools for the main payment systems used by the banks.

Digital euro analyses continued, in particular regarding the proposed regulations during the review by the individual industry working groups in Italy and Europe.

The service is part of the ABI Working Group for the standardisation and review of service levels and operations of the valuable transportation sector. Following the pandemic and the consequences arising from international tensions, the sector is heavily monitored by the Supervisory Authority, which has promoted, alongside the trade associations and main Italian banks, a structural table to coordinate and share solutions intended to intercept and proactively prevent the issues manifested by valuable transportation operators, by introducing national standards and reviewing the underlying economic agreements.

The monitoring of outsourced services (FEI) associated with cash management requires a growing commitment to the territorial coverage of the distribution network, the extent of the network of suppliers and the high number of Group vaults now present in every Italian region.

The service also actively participated in the national working group set up within the ABI for the adjustment of the CIT, CAI and Bills procedures following the numerous moratoria introduced by the various regulatory measures resulting from the flooding in the Emilia-Romagna region.

Participation in numerous open banking projects, the review of European regulations for instant payments, the Request-to-Pay scheme and the PSD3 review are important elements for innovation, with consequent commitment in terms of effort and dedicated resources.

Numerous activities have required the Service to prepare reporting, specific feedback and data collection in response to the diversified requests from the Supervisory Authority, the Italian Banking Association, Committees and internal functions of the Parent Company.

Foreign relations

After the turbulence of the previous two-year period, economic performance in the first six months of 2023, meant that volumes of payments and trade finance operations saw no particular changes compared to those from the first half of 2022, with widespread recovery in the levels prior to the pandemic.

The beginning of 2023 was characterised by the activities linked to the start of the two aforementioned projects, which profoundly changed the world of foreign payments (Target2 Consolidation and ESMIG). This change had a large impact for the Foreign Relations Service was the adoption of ISO 20022 (XML format) for all messages, obviously including payments, exchanged via the new infrastructure.

At the same time as the T2/T2Securities Consolidation project, the Swift project called Cross Border Payments and Reporting (CBPR+) was carried out, which will lead all banks to use ISO 20022 XML format also for messages referring to cross-border international payments (non-target euro and currency) in the period between March 2023 and the end of 2025. Cassa Centrale Banca and Allitude considered it best to avoid the 2023-25 period of duality (MT FIN format of ISO15022 vs XML format of ISO 20022), opting for the adoption of the new XML format as early as March 2023, in line with the go live of the T2 T2S Consolidation project. On the basis of the data provided by SWIFT, only 15% of global banks were able to migrate to the new format as early as March 2023.

At the start of the year, in preparation for this important change for foreign payments, the Parent Company, in collaboration with Allitude, organised three training courses dedicated to the Group's Banks, which saw excellent turnout.

Centralised Services

During the first two months of the year, data was communicated to the Register of Financial Reports according to the new regulations (measure of the Director of the Italian Revenue Agency in late May 2022).

The first half of 2023 was characterised by the creation of the Database Office within the service to better meet organisational and operational needs. The certification and standardisation of data points continued, with consequent overwriting on the local environments of the Affiliated Banks. This continuously evolving area will remain one of the main activities on which the newly founded Office will focus, given the relevant impacts of data on quality across the board. Analyses also continued to complete the Group's Database project - Standardisation - which aims to define a unique data table structure at Group level as well as draft standardised data recording processes.

During the six-month period, the service was also involved in the working group dedicated to updates to the IT procedure used in the centralised checklist process, which allows participant Banks to delegate to Cassa Centrale the reconciliation of transactions on correspondent accounts and the majority of the activity to close any suspended ones.

General Governments treasury

The Payment Systems Department also includes treasury activities carried out for several General Governments in Italy. As at 30 June, the total number of bodies managed was 1,029, while 724 bodies had an IT mandate, confirming the ongoing commitment to introducing more modern ways of delivering the service.

E-money

The activities related to E-money are mainly directed at supporting the Banks that subscribed to the ABI Unico 3599 service (debit and credit) and that place the prepaid products of Cassa Centrale Banca.

The first half of the year was characterised by the Sunset Maestro project, which involved the disposal of the Maestro scheme and the consequent impossibility to issue or renew debit cards on that circuit starting from 1 July 2023. Newly issued and expiring cards will therefore be issued on the Visa, Mastercard or Bancomat schemes.

As at 30 June 2023, debit cards stood at around 1.61 million (compared to around 1.59 million at December 2022), prepaid cards at 445 thousand, credit cards at 470 thousand, POSs at 87 thousand and ATMs at 2,245.

Governance and support

The Parent Company's governance and support functions are working to strengthen the organisational structures and develop the activities of the Cassa Centrale Group.

The **Planning Department** manages activities aimed at an orderly business development of the Group, with a dedicated structure that has constantly transferred the Parent Company's operational and strategic guidelines to the Affiliated Banks, ensuring their effective understanding and implementation. The tools and metrics in support of the Group's management control process are being updated. These elements will allow for a more complete monitoring of profitability and costs.

Activities also continued aimed at:

- management of activities aimed at defining the Group's 2023-26 Strategic Plan;
- supporting activities relating to merger projects among Affiliated Banks started and/or concluded during the financial year;
- development of methodology integrated with Group internal transfer rates;
- management of the start of the strategic initiative in relation to the Group target distribution model.

In the first half of 2023, activities continued to strengthen the **Administration and Tax Reporting Department**, in order to further strengthen the controls aimed at ensuring the correct and timely representation of the Parent Company's individual and consolidated economic and financial results, and the fulfilment of the related accounting, supervisory and tax obligations. In this sense, the Parent Company has provided important support to the Affiliated Banks in the management of accounting, tax and reporting processes, as well as in the activities to improve efficiency and correct management of the Group's income statement and balance sheet consolidation processes.

The **Information Technology and Security Department** provided continuous support to the Cassa Centrale Group in a variety of projects and activities aimed at the evolution and innovation of products and services for affiliated banks and customers, as well as compliance with external regulations and the expectations of the Supervisory Authority.

The action of the ICT Governance Service has moved along two main lines: regulatory and strategic. In the regulatory sphere, work continued on issuing and accompanying the adoption of the internal regulatory framework, with the aim of achieving regulatory compliance and enabling the effective management of controls and ICT risks. In this context, the activities supporting the ECB on-site IT risk audit and the definition and monitoring of the consequent remediation plan, in addition to the activities carried out in reference to the adaptation to the 40th update to Bank of Italy Circular no. 285/2013. In terms of strategy, the 2023-26 ICT Strategic Plan was updated, drafted in line with the previous ICT Strategic Plan and, in light of the new Group Strategic Plan, continuing the implementation and monitoring of the related initiatives intended to support the digitalisation processes and the development of the information system with the aim of guaranteeing high and innovative standards of service to shareholders and customers.

The ICT Governance Service also contributed, within its remit, to the activities in the context of the Single Resolution Board (SRB) programme and CIPA (Italy's interbank agreement on automation) surveys.

With the intention to gather ideas for defining and implementing strategic initiatives, strengthening synergies with international research institutes, Cassa Centrale Banca actively participates in the works coordinated by the BIAN international consortia and the AbiLab IT Architecture and Information Governance Monitoring Units.

The Information Security Service, in collaboration with Allitude's Cyber Security Operations Service, prepared the 2023-26 Multi-Year Strategy Security Plan, which updated the 2022-25 Multi-Year Strategy Security Plan, taking into consideration the development of the external and internal situation of the Cassa Centrale Group, the Group's Strategic Plan, and synergy with the ICT Strategic Plan. Specifically considering the cyber panorama and in line with regulatory changes, two additional security roadmaps were defined relating to the areas of business resilience and physical security, thus expanding the Group's scope of security monitoring.

The Information Security Service has continued and launched a series of projects on governance and guidance of the security architecture and secure development of ICT solutions (known as "security by design"). These initiatives aim to increase the maturity of the security processes and measures and to promote the reduction of cyber risks at Group level, including through an increasingly more active involvement of the Affiliated Banks through the respective IT Security representatives. The security of third parties was also subject to specific evolution activities intended to strengthen control over supplies and ICT service providers, as part of the Group's wider framework for third-party risk management.

Technical projects continued in synergy with Allitude's Cyber Security Operations Service aimed at developing cyber security controls in relation to threat intelligence, endpoint detection and response, identity governance, incident management, anti-fraud and data classification and protection processes.

With specific regard to regulations, the Information Security Service participated, within its remit, in the gap analysis and planning of the activities pertaining to the adjustment to the 40th update to Bank of Italy Circular no. 285/2013, carrying out an overall review of the Group Information Security Policy on at the same time. The Information Security Service also continued its coordination of the initiatives to adapt to Regulation (EU) no. 2022/2554 (the DORA Regulation), according to a strategic roadmap of measures defined with the involvement of the Cassa Centrale Banca and Allitude structures most impacted.

For the Services Governance Service, in the first half of 2023, initiatives were implemented intended to strengthen monitoring of coordination and support for the administrative and banking back-office services of Allitude. In particular, the service equipped itself with processes and tools intended to define measurable performance objectives of the back-office services from an efficiency/efficacy perspective as well as development of the Group's products to direct the overall benefit generated towards continuous improvement. The Services Governance Service also continued to contribute methods and expertise for the identification and guidance of the initiatives of greatest operational and strategic priority for the Allitude back-office services, ensuring full alignment and integration with the objectives of the Group's strategic plan. In this regard, it should be noted that, during the year, numerous synergistic and collaborative roundtables were initiated with other departments of the Parent Company and with the Banks, such as the initiatives on process optimisation, pooling the experience already acquired.

The **Organisation Department** continued to support company projects in multiple areas pertaining to the business, governance and support, risks and controls segment. Regarding the digital transformation programme, the defined project activities continued, including support for the adoption and distribution of electronic signature tools by the banks (mainly the graphometric signature). The Department also launched a programme dedicated to the evolution of the mobile banking channel (Inbank app) dedicated to private customers, and began a project initiative in collaboration with several Affiliated Banks for the definition of the contact centre model, for the selection of the partner and the associated technological solution to manage inbound and outbound traffic with customers. In the context of updates to the Group's Strategic Plan, the digital transformation programme was also developed. To improve the efficiency of the project demand management monitoring and harmonisation process, the relevant internal regulations were updated, and the periodic monitoring of relevant initiatives was activated, with the relative periodic reporting to the departments and corporate bodies concerned. Adjustments to external regulations also continued in order to transpose the new regulations (e.g. 40th Update, Law 285).

The Cost Management and Procurement Service continued the support and coordination activities aimed at using the Ivalua technology platform by all Affiliated Banks and Allitude, dedicated to managing the purchasing cycle, with the aim of ensuring oversight of the expenditure management process and the Group-level supplier register, as well as for managing the contracts repository. During the first half of 2023, the support and platform consolidation activities continued, confirming the central role of the Service in managing development and process issues. From this perspective, roundtables continued with banks to share best practices and needs, which triggered two progressive releases relating to operating improvements on the platform. Consolidation continued for the new processes relating to the Cassa Centrale Banca expenditure management cycle as part of a process intended to define Group-level individual and coordinated expenditure management processes. A roundtable was also initiated to identify process operating refinements and simplifications arising from the experience gained during the period. As for negotiations, the service oversaw the renewal of expiring Group agreements, also launching the planned initiatives to optimise costs and procure products and services. The plan takes into consideration the opportunities and requirements identified at Group level, including through periodic roundtables for discussion with the Banks.

The **Corporate Affairs and Shareholdings Department** guaranteed operational and administrative support for the activities of the Board of Directors and the Board Committees. In particular, it should be noted that, during the first half of 2023, the Board of Directors met 13 times, the Risks and Sustainability Committee 10 times, the Appointments Committee 11 times, the Remuneration Committee 8 times, and the Independent Directors' Committee 2 times.

The advisory service provided to the Affiliated Banks in organising the meetings, managing the meetings of the corporate bodies, with the aim of bringing the entire process into further compliance with the best practices within the Group, was also important.

Considering the critical issues and the complexities related to changes in the corporate structures at the Affiliated Banks, advisory support for the Shareholder offices continued. In this regard, the handbook for operational management of shareholder relations was released and a repository created, which will be continuously updated, with the most frequently asked questions and answers provided by the Corporate Affairs Service.

With reference to the corporate officers and the heads of the main corporate functions of the Parent Company, the first half of 2023 was characterised by the annual self-assessment of the Corporate Bodies and the suitability assessment pursuant to Art. 26 of the Consolidated Law on Banking of the heads of the main corporate functions in office at the date of entry into force of Ministerial Decree no. 169 of 23 November 2020, conducted pursuant to the provisions of Art. 26, paragraph 2 of the Decree. The Corporate Affairs and Shareholdings Department constantly provided support in these processes, ensuring compliance with internal regulations and the applicable sector regulations concerning the self-assessments of the Bodies and suitability assessments of the heads of the main corporate functions.

The support provided to the Affiliated Banks in the assessment process pursuant to Art. 26 of the Consolidated Law on Banking on the suitability requirements and criteria of the more than 400 corporate officers elected mostly during the shareholders' meetings to approve the financial statements at 31 December 2022, was intense. In particular, the activities concerned three key steps: (i) advising the Affiliated Banks during the application, appointment and suitability verification of their corporate officers; (ii) preparing the documentation necessary for the verifications conducted by the Appointments Committee and the Parent Company's Board of Directors; (iii) notifying the Supervisory Authorities of the documentation necessary for the assessment of the requirements and criteria of suitability of the corporate officers of the Affiliated Banks and consequent response to any requests for additional information or criteria made by the Authorities themselves.

This also included handling some particularly sensitive cases in terms of banking governance and preparing material that was then analysed by the Appointments Committees, in some cases in joint session with the Risks Committee.

The Corporate Affairs and Shareholdings Department also supported the Affiliated Banks in the half-yearly monitoring activity with reference to the officers who received observations from the Parent Company and/or from the Supervisory Authority as part of the procedures to assess the requirements and criteria of suitability.

In the first half of 2023, the support provided to the Affiliated Banks and the Group Companies on related parties and conflict of interest was consolidated. Most notable is the pursuit of the following main areas of operation: (i) technical, regulatory and training advisory activities for the Affiliated Banks and Group Companies; (ii) strengthening IT controls; (iii) analysis of multiple transactions with related parties and preparation of the appropriate preliminary notices shared with the Independent Directors' Committee.

The **Legal Department** supported the Group Companies and the Affiliated Banks in all aspects related to contracts and the management of claims and ongoing lawsuits with consulting activities. It also coordinated the entry into force of the new Group Regulations for the handling of complaints, applied at Group level from 1 June 2021. Two updates to this regulation were adopted by the Board of Directors of the Parent Company on 16 December 2021 and on 14 April 2022; in June 2022 the latter was sent to the Affiliated Banks and Companies falling within the scope of the Group's consolidated supervision for its adoption and entry into force on 1 July 2022.

The entry into force of the new Group Complaints Procedure, approved on 16 December 2021, was also coordinated. On 28 April 2022, an update of the aforementioned procedure was approved and forwarded to the Affiliated Banks and Companies within the scope of the Group's consolidated supervision for its adoption and entry into force on 1 July 2022.

Lastly, the Legal Department was responsible for coordinating the entry into force of the new Group Regulations for the management of disputes, approved by the Board of Directors of the Parent Company on 28 April 2022, and applied at Group level as of 30 June 2022. The Legal Department, as of 1 July 2022, provided the Affiliated Banks and Group Companies, with access to a computer software that allows the recording, management and monitoring of disputes as well as alternative dispute resolution procedures (in particular ABF and ACF) and, where provided for by the Regulation, the intervention of the Parent Company through the relative support and involvement in the management of disputes.

The entirely original characteristics of the Cooperative Banking Group on the national framework require the consolidation of investments in communication and media relations and, when necessary, coordination of the activities related to the Institutional Relations of the Affiliated Banks and the Subsidiaries.

In these respects, in the first half of 2023, under the coordination of the **ESG and Institutional Relations Department**, the activities carried out by the Affiliated Banks and the Parent Company were further structured.

The activities were aimed in particular at:

- following the main dossiers on the revision of banking, financial and insurance legislation and regulations, also in coordination with the credit and cooperation trade associations, to represent the unique characteristics and needs of the cooperative banking system;
- assisting the Risks and Sustainability Committee for issues within its remit;
- examining and interpreting the production of laws and regulations on sustainability/ESG, which is affecting the strategic and operational approach of banks across the board, maintaining constructive relations with the supervisory and control bodies in charge;
- acknowledging the Group as an entity with distinctive characteristics within the banking world, enhancing the objectives of sustainable development and the principles and values of the Mutual Credit Cooperation;
- further increasing, according to a constant and gradual approach, the Group's visibility to the outside world also through social networks, coordinating the activity to enhance the various initiatives activated by the Group and the communication of the Affiliated Banks on these channels. In particular, the Parent Company continued to see a constant increase in visibility on its LinkedIn profile, with a number of followers exceeding 30,000;
- continuing the collaboration with Euricse, a research institute specialised in cooperation and social enterprise issues. In particular, the survey on the Affiliated Banks was re-proposed, essential for circulating good practice on environmental and social issues.

2. ICT and back office services

Within the ICT Department at Allitude the process to consolidate the operational integration and organisational transformation activities continued. In terms of projects, initiatives were carried out in the first half of 2023 on the basis of the requirements formulated by the competent structures of Cassa Centrale Banca. These requirements were formalised in the document of the 2023 ICT Operational Plan and approved by the competent decision-making bodies.

At the same time as the in-house development of new content in relation to the Group's information system, several innovative market solutions were selected and purchased to meet some of the new specialist needs that have emerged, for example in relation to credit and AML.

The projects included in the 2023 ICT Operational Plan are consistent with the development lines envisioned in the Cassa Centrale Group's strategy and can be summarised in the following areas:

- **omnichannel**: development of authentication systems and tools; development of digital services dedicated to end customers (for the mobile and internet banking channels, in particular); execution of processes to modernise the platforms in favour of internal and external users, with new functions in the current Inbank app and the creation of the new modernised App; digitalisation of onboarding processes for prospective customers; launch of activities for the definition of a Group Design System; set-up of dedicated centres for automation (DPA/RPA) and design systems;
- **banking information system**: standardisation of information system processes and configurations (register, transparency, guarantees and credit lines); evolution of the various application modules on the basis of business priorities (dematerialisation of sales processes to make in- and out-of-branch offers more efficient) and the need for regulatory compliance in the areas of finance, credit, anti-money laundering and payment systems; completion of the feasibility study and start of the analysis and implementation phase for the Group's new FEP; for the Core Banking Modernisation

programme, following the release of the first pilot application, the project activities called for in the plan were launched in relation to the following areas: transversal modules, referential systems and finance;

- **data management and analytics**: architectural development of the Data Warehouse area with progressive population of the new architecture based on the Data Hub layer; preparation of the infrastructure to make a business intelligence product with self BI functions available to users to make them autonomous in consulting the various databases; expansion of the information database available to cover banking processes; development of the data governance framework with the introduction of a business glossary and the expansion of the enterprise data catalogue, which will be progressively enriched with the contents of various databases; upgrading the data quality dashboard with the implementation of a new set of controls and development of a data observability dashboard to monitor the supply chain of the data;
- **synthesis systems**: guidance on adjustments to the rating calculation engine and the EWI/EWS (early warning indicator/early warning system) to the Group's new credit regulations; continuation of activities to take over third-party synthesis applications (AML T&M, ERMAS, Regtech, Rating, IFRS 9, ICT and Reputation Risk, etc.); conclusion of the migration to the new application platform dedicated to individual supervisory reporting;
- **technology/infrastructure**: consolidation of the data centres to increase efficiency and lower risk; technology refresh of hardware components that find more modern and performing solutions on the market; introduction of the technology hosting service for user banks; conclusion of project activities aiming to release the first version of the management service for jobs of the user banks; start of the design phase for the introduction of another management service for distributed computing; start of the cloud journey for defining the policy, the architectural framework and the governance operating models to adopt the public cloud; start of the definition of ESG guidelines for ICT;
- **governance and processes:** following the ECB on-site ICT risk audit, which involved the Cassa Centrale Group in 2022, the initiatives to strengthen the ICT management processes continued in line with the defined remedial plan, intended to meet the expectations of the Supervisory Authority.

In the first half of 2023, the Allitude Services Department continued its development programme aimed at strengthening its role as outsourcer to the Group, in particular by increasing the volumes managed and developing new administrative and back-office services, in line with the needs of the Cassa Centrale Group. In this context, vertical discussion tables with the Affiliated Banks continued to analyse and understand their existing operational and organisational models for managing back offices to design, implement and promote new services while also defining a Group-level efficiency strategy, in particular through a centralisation process aimed at Allitude or other suppliers.

In relation to the expansion of the offer of services, various initiatives were launched, including feasibility studies for implementing new administrative and back-office services/activities, comparative benchmarks of the current product offer against the main market comparables and definition of the initial outsourcing actions for a number of activities to third-party providers using a business-case-driven approach, with the aim of lowering cost-to-service by taking advantage of the skills already available within the Group.

The programme to increase productivity and operational efficiency in delivering back-office services also continues with the introduction of new technology tools (process automation) and organisational levers. Following a feasibility study on robotisation technologies and orchestration of processes carried out in 2022 in close collaboration with the Services Department and the ICT Department, the first releases of automated processes in the collections, payments and e-money, administrative management of personnel and centralised finance areas of the Allitude back-office services were carried out, achieving initial benefits in terms of better performance. The initiative will continue throughout 2023 and will be a driving force to launch the technology scale-up in other functional areas of the Group, by leveraging the experience of the Allitude processes.

Operations Tracker, the tactical tool for monitoring the operational performance of the back-office processes of the Allitude Services Department, is also constantly updated, with the aim of introducing continuous improvement strategies for the efficiency and quality of services by analysing collected data (economic, volume and productivity data, etc.).

The development activities linked to the implementation requirements of the regulations and controls of the Parent Company were also important, which saw Allitude working on a dual front: as a provider of IT solutions in support of the operations of the Group Companies, and as a Company that must adapt its own internal practices to the new regulatory requirements by combining them with the efficacy of the internal processes and its own organisational structure.

3. Leasing services

The offer of leasing services, through specific agreements for the distribution of the product with Group banks, represents an important aspect of the commercial strengthening of the Cassa Centrale Group, which, with reference to credit risk, has reserved for its Subsidiary Claris Leasing S.p.A. an increase in direct lending thanks to operations in this specific loan formula. Through its services, Claris Leasing S.p.A. strives to guide the investments of small and medium-sized enterprises, customers of the Affiliated Banks of the Group, offering support to the territories.

The market environment in the first half of 2023, while showing positive dynamics in the macroeconomic variables, on the one hand, also reflects the continued tensions on the geopolitical front with the ongoing significant critical issues on the markets, especially the energy market, and tensions on raw materials supply chains, triggering inflationary trends.

In this scenario, the leasing sector in Italy recorded a positive growth trend in the first half of the year, with increasing volumes of new contracts driven by long-term lease operations in the motor vehicles segment. After isolating this component, the market instead shows a slight downward trend compared to the same period in the previous year.

The performance of the market is also reflected in the final figures recorded by the Company, which, albeit better than expected, show a slowdown compared to the previous year, also caused by the critical economic issues. Through placements made by the distribution network of the Affiliated Banks of the Cooperative Banking Group, Claris Leasing concluded 762 new leasing contracts in the first half of the year for a total of EUR 152 million in new investments. Compared to the figures as at 30 June 2022, there was a decrease of around 13% in the number of contracts signed. In line with sector trends, the decrease posted in the first half of 2023 affected the capital goods sector and real estate leases in particular. From a commercial perspective, the Company is extremely aware of the most environmentally friendly projects, in accordance with EU and national policies aimed at enhancing investments in the green economy and the Group's ESG policies. These guidelines also characterise the development programme set out in the strategic plan updated by the Company.

With regard to asset quality, in line with the Cassa Centrale Group's objective, the gradual reduction of non-performing exposures continued through a strategy of disposals managed directly by the Company. The gross NPL ratio stood at 3.5% in June 2023, a marked improvement from 4.6% in December 2022 and 7.2% at the end of 2021. Supported by a prudent provisioning policy, the ratio of net impaired exposures to total leasing receivables was 1.2%, down from 1.6% as at 31 December 2022, and 2.2% in 2021. In line with the Parent Company's directives, the coverage of bad loans exceeded 90%.

In the first half of the year, Claris Leasing S.p.A. posted a net profit of EUR 9.6 million

The services offered by the Cassa Centrale Group were further enhanced by the products offered by the company Claris Rent S.p.A. (with the sole shareholder being the parent company Claris Leasing S.p.A.).

Claris Rent S.p.A. has a business project involving the marketing of services in the field of long-term rentals, initially through the intermediation of third-party products, and operating leases. The commercial strengthening of the Cassa Centrale Group thus embraces new services, expanding and supplementing the range of products offered to customers of the Cassa Centrale Group through the distribution channels of the Affiliated Banks.

The Company was launched during a rather complicated economic context, first due to the COVID-19 pandemic and then the pronounced geopolitical instability. The combination of various destabilising factors had a significant effect on the Company's business. For example, the shortage of microchips affected the production of vehicles, while the shortage of raw materials and the difficulties in the logistics sector also affected the availability of rentable assets and generated significant critical issues for the range of products offered by Claris Rent S.p.A. To limit the effects related to the critical delivery of new cars, targeted commercial actions were proposed to support the service for new subscribers of NLT contracts. The current situation related to the production and delivery of new vehicles has improved, though it remains critical in terms of production and logistics.

With regard to the range of rental products available, in the recent past, a campaign of agreements had already been launched with the BCCs of the Cassa Centrale Group that were willing to promote rental products to customers in its portfolio with the aim of identifying and anticipating their needs. As at 30 June 2023, 31 Affiliated Banks of the Group have signed the agreement.

The promotional and communication campaigns shared with the Affiliated Banks continue to increase customer loyalty. These activities are supported by the slogan "*La tua auto la scegli in Banca*" [Choose your car at the bank] and the use of online showrooms displaying the options offered by Claris Rent.

In the first half of 2023, the Company brokered 81 long-term rental deals with fees determined by commissions, including future payments (this result was nonetheless affected by the shortage of vehicles available to register) and has active lease contracts in place for a counter-value of 1.8 million, while the result for the period remains negative for EUR 264 thousand, also negatively affected by the consequences of the complex post-pandemic economic situation and tensions on the geopolitical front.

The offer of services in the leasing sector is supplemented by the collaboration agreement between the Parent Company and Fraer Leasing S.p.A. belonging to the French Group Société Générale. During the first half of 2023, this agreement allowed the distribution network of the Cooperative Banking Group to sign 516 contracts for a total amount of approximately EUR 75.6 million.

4. Insurance services

In the first half of 2023, the development of the participant banks' insurance products in collaboration with Assicura Agenzia S.r.l. and with subsidiary Assicura Broker S.r.l. was further consolidated, expressing more favourable trends than those posted by the national market, influenced by the change in the macroeconomic scenarios.

In particular, as an additional result of a growing perception of exposure to risks, the proactive approach in the protection segment was strengthened by 57,804 new contracts (+14% compared to the same period in the previous year) as a result of the +17% growth in premiums relating to policies in the primary lines of business for asset and individual protection and motor TPL (+58%), while there was a slight slowdown in the placement of CPI policies (-3%). The latter figure, combined with the estimated 18% drop in mortgage loan disbursements, demonstrates an increase in the combination of such coverage with financing.

The life segment, strongly affected by the sudden hike in rates and by higher returns on competitor financial products of the policies and the crisis of saver confidence stemming from the receivership of Eurovita S.p.A., reflects the dynamics of the market with a -8% drop in premiums from new business against a +73% growth in separate holdings (class I), in contrast with a -25% decrease in multi-class policies.

New business at the end of the first half of the year recorded a total of 130,881 new contracts (+12%) against nearly EUR 500 billion in premiums (-6%).

To support the banks in developing their ability to intercept the needs of customers, as well as providing training processes aimed at increasing the professionalism and expertise of the network, the activation of the insurance advisory IT tool will be decisive in countering low awareness of risks, calculating the possible negative consequences of inadequately monitoring the protection area and preparing personalised cover proposals.

At the same time, the update to the Sìcuro product catalogue continued, implementing the improved conditions negotiated with the Assimoco Group when signing the partnership agreement. This made it possible to include, among other things, catastrophic event coverage in the Assihome policy and promote reviews of investment products, as well as the integration of the insurance solutions available for companies with corporate welfare instruments.

To strengthen customer loyalty through efficient and innovative services, particular value was placed on the assistance provided in claims management (up by +20%) also thanks to the introduction of prompt settlement, in addition to the streamlining of operations through the growing use of advanced electronic signature via OTP for signing contracts and the implementation of the functions available in the MyAssicura and Inbank reserved area.

The action taken in terms of new business and in terms of maintaining the existing portfolio, net of increased investment product redemptions, led to nearly EUR 7.9 billion in premiums under management as at 30 June 2023, with over EUR 6.7 billion related to investment instruments, EUR 821 million in supplementary pension plans and more than EUR 326 million in insurance coverage in the protection sector.

The total of commissions earned generated overall revenue for over EUR 33.9 million, up — despite the aforementioned change in the scenarios — +9.3% compared to the first half of 2022, with a prevalence of remuneration originating from the placement and management of protection products that accounted for 53% of the total, bestowing greater stability upon the profitability offered by the insurance sector.

Net fees and commissions income for Assicura Agenzia closed in on EUR 4.9 million, an increase of +9.3%, contributing to a net profit of EUR 2.4 million, in line with the result posted in the first half of the previous year.

After agreeing with customers and companies on renewals of the insurance plans expiring 31 December, in early 2023, Assicura Broker was involved in managing and reporting to customers the activity carried out during renewal, as well as completion of the Group Cyber Policy project. This project led to the subscription of cyber coverage to protect against the potential expenses borne by the Group as a result of a cyber event that then affects Cassa Centrale Banca, Allitude and all the Affiliated Banks. These activities made it possible to improve the level of security for the Group thanks to the continuous alignment of the insurance cover for the Affiliated Banks and the Group's companies and the subscription of the cyber policy, which will cover a particularly delicate area of risk.

In the first half of the year, negotiations for the renewal of the D&O policies of the Group companies and the participant banks were activated, streamlining the portfolio with a gradual alignment of maturities as at 30 June 2023 and cover concentrating on a few of the Group's partner insurers. This made it possible to increase bargaining power and standardise the cover for the banks with the same insurance premiums, offsetting the increases required by the market.

The company/SME area saw a 20% increase in commissions collected thanks to commercial activity carried out in 2022.

Particular interest was shown to policies to hedge trade receivables.

Overall, there was an increase in brokered premiums and commissions collected during the first half of 2023. The latter amounted to 3.6 million, equal to a 15% increase compared to the first half of the previous year, bringing the half-yearly net profit to around EUR 1.65 million compared EUR 1.37 million in the first half of 2022.

5. Collective asset management services

NEAM is the Luxembourg-based asset management company wholly owned by Cassa Centrale Banca which manages the NEF Mutual Investment Fund composed of 18 different sub-funds.

The NEF Fund is placed by all Affiliated Banks and by numerous customer Banks that mainly use Cassa Centrale Banca as the entity appointed to perform payments, i.e. as intermediary called upon to carry out activities to support customers in the administrative, accounting settlement and tax phases.

Thanks to the good results of the BCC-CR-RAIKA commercial network and despite investors preferring investments in BTP rather than assets under management products as a result of the current rates on the market, volumes reached 6.378 billion with a 9.5% increase since the start of 2023.

Increased assets under management were the result of positive net funding of 275 million and a positive market contribution of over EUR 278 million. During the period, capital accumulation plans (CAPs) made a positive contribution of around 400 million to funding, driven by the *Il risparmio ti premia* (Saving is rewarding) competition which took place over the first 5 months of 2023. The growth could have been higher had we not experienced significant divestments at the same time. With regard to the CAPs, there was net growth of 18,860 new openings during the year, for a total of 537,403 units, which are equal to monthly deposits of over EUR 66 million.

Specifically, the data show a significant growth since the start of the year in a number of sub-funds for retail investors: NEF Ethical Balanced Dynamic 52 million, NEF Global Equity 35 million, NEF Ethical Global Trends SDG 45 million, NEF Target 2028 EUR 52 million. Two significant transfers occurred in February on the institutional class in NEF Euro Bond for 80 million and NEF Corporate Bond for 25 million.

In the NEF range, three sub-funds exceed EUR 500 million in size (Ethical Balanced Dynamic 774, Ethical Global Trends SDG 614 and Euro Equity 675), while several other sub-funds have now passed the EUR 300 million mark. There was also significant growth since the start of the year in the percentages of the NEF Euro Bond and NEF Target 2028 segments (+68% and +37% respectively).

In confirmation of the high quality of its operations, in 2023, NEAM once again received very important awards. For the fourth consecutive year, it was recognised at the Sole 24 Ore High Performance Award according to the analysis carried out by the independent company CFS Rating, which confirmed NEAM S.A. as Best Management Company - Italian Small Funds for 2022 (third place). Moreover, Lipper awarded NEF with the title of Best Fund Mixed Asset EUR Cons - EuroZone over 5 Years for its NEF Risparmio Italia R sub-fund at the Refinitiv Lipper Fund Awards. The title was awarded as part of the Germany 2023 Awards and also saw the NEF sub-fund in first place in the Over 3 Years segment in the same category. Three NEF sub-funds were also included in the 300 Best Funds 2023 by CFS Rating: NEF Global Equity, NEF Euro Equity and NEF Risparmio Italia.

6. Other services

Centrale Soluzioni Immobiliari S.r.l. (hereinafter also "CSI") was set up to allow for the purchase, sale and exchange of real estate assets, including the development or completion of the same with a view to their re-placement on the market. This activity is carried out mainly as an ancillary activity to the activities of Cassa Centrale Banca, with the aim of safeguarding the creditworthiness of impaired loans secured by real guarantees.

During the first half of the year, CSI regularly continued — through specialised companies — to create, complete and maintain the construction sites relating to real estate acquired through bankruptcy proceedings.

Originally established to provide support and assistance to banks that use the online trading service offered by Directa SIM, over the years, Centrale Trading S.r.l. (hereinafter also "Centrale Trading" or "CT") has entered into agreements with several companies, including Italpreziosi S.p.A. for trading gold in its physical form, Six Financial Information, Infoprovider for finance offices, WebSim for financial reporting, MasterChart, which, in addition to providing traditional financial information solutions, has added customer appointment management, counter queue management and digital signage services.

There were 144 affiliated institutions at 30 June 2023.

Risk management and internal control system

The risk governance model, i.e. the set of corporate governance mechanisms and management and control mechanisms aimed at facing the risks to which the Group is exposed, is part of the broader framework of the internal control system (so-called "ICS"), defined in accordance with the regulatory provisions of Circular no. 285/2013 of the Bank of Italy.

The Group attaches great importance to risk management and control in order to ensure the constant development of its organisational/procedural safeguards and methodological solutions, working towards prudent and sound management of its banking activity in compliance with cooperative principles and its mission. In particular, the Parent Company, in the exercise of management and coordination of the individual Group Companies, establishes and defines the duties and responsibilities of the control bodies and functions within the Group, the coordination procedures, the reports, information flows and related connections, in compliance with the provisions of current legislation, the Cohesion Contract and the Articles of Association of Cassa Centrale Banca. In addition, it issues provisions for the execution of the instructions provided by the Supervisory Authority in the interest and for the stability of the Group.

In this context, the Group attributes strategic importance to integrated risk and control management, as this constitutes:

- an element to ensure that all activities are carried out in accordance with the principles of sound and prudent management and defined strategic guidelines;
- a clear and complete representation for the Corporate bodies of the internal control system to monitor risks, the critical elements to which the Group is exposed and the interventions in progress;
- an important element for monitoring compliance with the relevant provisions by the competent authorities, as well as spreading the use of integration parameters.

As required by the regulations on reforming Cooperative Credit, the outsourcing of the Company Control Functions of the Affiliated Banks at the Parent Company has been made operational, and it is therefore the latter's task to define the guidelines on risk measurement and management.

Cassa Centrale Banca, as the Parent Company, carries out management, coordination and control activities in order to guide the Group towards business objectives consistent with the distinctive features of each Group Company and in line with balanced risk management.

The methodological framework used is based on the precise management of the different types of risks to which the Group is exposed and is characterised by a unitary vision of the company risks, considering the macroeconomic scenario as well as the individual risk profile of the Affiliated Banks. In addition, it aims to stimulate the growth of a culture of risk control, reinforcing a transparent and accurate representation of risks to the benefit of immediate "governability" by top management.

The general principles guiding the Group's risk-taking strategy take into account the company's business model, strategic objectives and a number of key elements on which the group's entire operations are based, including its limited risk appetite as well as its capital adequacy, income stability, solid liquidity position, attention to maintaining a positive corporate reputation and strong control of the main specific risks to which the company is exposed.

The risk-taking strategies are summarised in the Risk Appetite Framework (known as RAF), which represents the reference framework that defines - in line with the maximum risk that can be assumed, the business model and the strategic plan - the risk appetite, the tolerance thresholds, the risk limits, the risk management policies, and the reference processes necessary to define and implement them.

The Group's RAF represents the framework within which company risk management is developed and it is broken down into:

- general principles of risk propensity;
- monitoring the Group's overall risk profile;
- monitoring of the main risks specific to the Group.

In other words, the RAF provides the framework for determining the Group's risk appetite that:

- acts as a tool for strategic control, relating risks to the business strategy and translating the mission and strategic plan into qualitative and quantitative variables;
- operates as a tool for risk management and control, linking risk objectives to business operations and translating them into constraints and incentives for the structure.

In addition to the Group's Risk Appetite Framework Regulation, which contains the general principles for the definition of the framework, roles and responsibilities of the RAF process, it includes the Risk Appetite Statement (RAS – individual and Group), the RAF Guidelines intended to ensure the link to the strategic planning process and the Risk Limits aimed at setting operational limits in line with the Group's risk objectives and defined within the various regulations on the management of individual risk.

As a fundamental tool to ensure that the Group's strategy is in line with the Risk Profile, the RAF is not only addressed by top-down leadership of the Bodies and Management of the Parent Company, but is also implemented with the active bottom-up involvement of the individual Banking Group Companies. The RAF is therefore founded on a management model that is consistent with the operational functionality and complexity of the Group itself, and has been developed considering the materiality of the risks to which the Group is exposed. It establishes ex-ante the risk/return objectives that the Group intends to achieve and the resulting operating limits. Conceptually, the RAF could be defined as the variability of the risk-adjusted results that the Group is willing to accept for a given operating strategy.

It therefore represents the global approach, comprising an integrated set of governance policies, processes, flows, controls and systems through which the risk appetite of the Group and each Company is established, communicated and monitored, with its specific operations and associated risk profiles, thereby facilitating the integration and understanding of this concept within the corporate culture. It is also an integral part of the decision-making processes for developing and implementing the strategy and approach to risk management and enables the determination of a risk management policy based on the principles of sound and prudent business management.

The definition of the risk appetite also represents a management tool that, in addition to enabling a concrete application of the prudential measures, makes it possible to:

- strengthen the capacity to govern and manage corporate risks;
- support the strategic process;
- facilitate the development and promotion of an integrated risk culture;
- develop a fast and effective system for monitoring and communicating the risk profile.

In order to achieve an integrated and coherent risk governance policy, strategic decisions at Group level (in the context of which those relating to the RAF play a major role) are made by the Parent Company's corporate bodies, assessing the overall operations and risks of the entire Group and also paying the utmost attention to the characteristics of the different businesses and local contexts.

The Parent Company has therefore adopted a unitary and integrated system of internal controls that allows effective control over both the strategic choices of the Group as a whole and the managerial balance of the individual Group Companies and, in particular, their organisation, technical situation and financial position.

The Corporate Bodies of the Group Companies are responsible for the implementation of individual RASs, in line with individual company characteristics, strategies and risk management policies defined by the Parent Company's Corporate Bodies.

The Group's RAF process is based on a structured and detailed risk identification process, carried out also for the purpose of risk mapping required by the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). To this end, individual Group companies may be involved in the definition of the RAF and contribute relevant information on their operational and market environment and their corporate risk profile.

The RAF defines the following thresholds:

- Risk Profile, indicating the risk actually assumed, measured at a given time on a current or forward-looking basis;
- Risk Appetite, i.e. the level of risk that the Group intends to take in order to pursue its strategic objectives;
- Alert, i.e. the threshold risk at which the Risk Tolerance will be exceeded or approached and the activation of any corrective actions in order to avoid the Risk Tolerance being reached or exceeded;
- Risk Tolerance, i.e. the maximum deviation from the Risk Appetite allowed, set in such a way as to ensure sufficient margins to operate, even in stress conditions, within the maximum assumable risk;
- Risk Capacity, indicating the maximum risk that the Group is technically able to assume without violating regulatory requirements or other restrictions imposed by shareholders or by the Supervisory Authority.

The indicators included in the RAS are monitored at a consolidated level, by the Risk Management Department, and at an individual level, with support from the Internal Representative, and by the Head of the Risk Management Department for the other Group Companies with an independent risk management function. The process is formalised through the preparation of an adequate overview report of the corporate risk profile, which provides an overall and integrated view of the other risk processes (such as ICAAP, ILAAP, Individual Risk Focus and MSTs) with a view to guaranteeing effective reporting to the Corporate Bodies of the Group and of the individual Group Companies at least on a quarterly basis.

If the defined thresholds are exceeded at either consolidated or individual level, remediation actions are envisaged based on the severity of the type of threshold breached, to be implemented if one of the initial critical situations occurs, so as to activate processes intended to ensure that the risk level returns to within the pre-established levels.

In conclusion, the definition of the RAF and the resulting operational limits on the main specific risks mentioned above, the use of risk assessment tools within the credit management processes and the reference control and monitoring of operational and compliance risks, capital and liquidity adequacy assessment measures and risk capital measures for the assessment of company performance, are the cornerstones of the operational declination of the risk strategy defined by the Board of Directors.

Risk map

As part of the process of identifying relevant risks, the Group has defined the relevant risk map, which constitutes the framework within which all risk measurement/assessment, monitoring and mitigation activities are carried out. This process is carried out taking into account the Group's unique characteristics, its current and future operations, its operating context and the provisions laid down by the Regulators and market best practices.

To this end, the Group identifies all of the risks to which it is or could be exposed, i.e. risks that could affect its operations, the pursuit of strategies and the achievement of corporate objectives.

The process of identification of the Group's significant risks is a fundamental recognition process for the whole system of risk management as it constitutes an ideal "link" between different processes, representing the starting point to address:

- as part of the RAF, the identification of the most significant types of risk on which to define appropriate "risk appetite" values, tolerance thresholds and risk limits;
- as part of ICAAP/ILAAP, the delimitation of the risks with the greatest impact on the adequacy of the Group's capital and liquidity situation, in terms of current and/or potential risks and under stress conditions;
- as part of the MRB area, the identification of the main areas of vulnerability of Affiliated Banks and the possible activation of strengthening mechanisms;
- as part of the Recovery Plan, the definition of possible areas of intervention aimed at recovering from near default situations and the consequent calibration of appropriate recovery actions; the reporting system, defined in line with all the main processes outlined above, to guarantee its accuracy, exhaustiveness, clarity and usefulness, thus ensuring that the control of significant risks is sufficiently regular with respect to the phenomena in question.

The process of identifying significant risks is the basis for all the Group's strategic processes and is carried out through a structured and dynamic process:

- at centralised level, the Risk Management Department;
- with the involvement of the Corporate Bodies, the Corporate Control Functions and the other Parent Company Structures, to the extent of their spheres of competence, in order to ensure alignment with the evolution and/or changes in the business model;
- with the involvement of the main Group Companies that have outsourced corporate control functions, where deemed necessary, to enhance their role in relation to individual operational specificities.

In accordance with the requirements of the "ECB Guide to the Internal Capital Adequacy Assessment Process (ICAAP)" and the "ECB Guide to the Internal Liquidity Adequacy Assessment Process (ILAAP)", the risk identification process is carried out following a "gross approach", i.e. without considering the specific techniques aimed at mitigating the underlying risks. The analysis was therefore carried out by evaluating the Group's current operating conditions to identify any risk profiles already present in the current context but not adequately captured by the pre-existing mapped categories, by attempting to anticipate the types of risks historically not relevant for the Group but likely to become so in a prospective scenario, as they are connected to foreseeable changes in the economic, financial and regulatory environment.

The process of identifying the Group's significant risks consisted of four main steps:

- verification of the significant of corporate risks already subject to evaluation and analysis and research and identification of new potentially relevant risks not yet considered by the Group (so-called Long List of Risks);
- definition of the criteria and set of evaluation elements according to which the risks identified in the previous step can be included in the Short List of Risks given the Group's operational characteristics;
- finalisation of the Short List of Risks by defining their hierarchy and taxonomy;
- verification of the degree of current and future materiality of the measurable Level-1 risks on the Short List through specific quantitative analyses without distinguishing between risks that generate capital absorption and risks that do not;
- formalisation of the Group Risk Map on the basis of the previous steps;
- definition of the organisational structure, identification of the organisational dimensions considered relevant to risk management and monitoring and the consequent mapping of relevant risks on these axes of analysis.

The Group's "Risk Map" valid for 2023 is shown below, with reference to the first level of risk identified [14], which is adopted by all Group Companies.

Credit and counterparty risk

Risk of reduction in the value of an exposure in correspondence with a deterioration in the creditworthiness of the user, including the inability to meet all or part of its contractual obligations.

Market risk

Risk of an unfavourable change in the value of an exposure to financial instruments, included in the trading book, due to adverse trends in interest rates, exchange rates, inflation rates, volatility, share prices, credit spreads, commodity prices (generic risk) and/or the situation of the issuer (specific risk).

Credit valuation adjustment (CVA) risk

Risk of adjustment of the interim market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the current market value of the Counterparty Risk vis-à-vis the institution, but does not reflect the current market value of the credit risk of the institution vis-à-vis the counterparty.

[14] The risk hierarchy is structured across four levels.

Operational risk

Risk of incurring losses arising from inadequate or failed internal procedures, human resources and systems, or from exogenous events. This includes losses resulting from fraud, human error, business disruption, system unavailability, breach of contract, or natural catastrophes, among other things.

Reputational risk

Current or prospective risk of a decline in profits or capital resulting from a negative perception of the Group's image by customers, counterparties, Group shareholders, investors or Supervisory authorities.

Risk of non-compliance with rules

Risk of incurring judicial or administrative penalties, significant financial losses or damage to reputation as a result of violations of mandatory rules (laws or regulations) or self-regulation (e.g. Articles of Association, Cohesion Contract, Code of Ethics) with regard to all company activity.

Risk of money laundering and terrorist financing

Risk arising from the violation of legal, regulatory and self-regulatory provisions functional to the prevention of the use of the financial system for the purposes of money laundering, terrorist financing or the financing of weapons of mass destruction development programmes as well as the risk of involvement in money laundering and terrorist financing or the financing of weapons of mass destruction development programmes.

Interest rate risk of the banking book

Current and future risk of changes in the Group's banking book following adverse changes in interest rates, which affect both the economic value and the interest margin.

Sovereign risk

Risk that a deterioration in the creditworthiness of government securities could have on overall profitability.

Credit concentration risk

Risk arising from exposures to counterparties, including central counterparties, groups of related counterparties operating in the same economic sector, in the same geographical region or carrying out the same activity or trading the same commodity, as well as from the application of credit risk mitigation techniques, including in particular risks deriving from indirect exposures, such as, for example, towards individual guarantee providers.

Strategic and business risk

Current or prospective risk of a decline in profits or capital resulting from changes in the operating environment or erroneous business decisions, inadequate implementation of decisions, poor responsiveness to changes in the competitive environment.

Real estate portfolio risk

Current or prospective risk deriving from changes in the value of owned properties due to changes in prices in the Italian real estate market.

Risk associated with the acquisition of equity investments

Risk of inadequate management of equity investments, in line with the provisions of Bank of Italy Circular no. 285/2013 and subsequent updates.

Excessive leverage risk

Risk that a particularly high level of indebtedness in relation to capital endowment will make the bank vulnerable, making it necessary to take corrective measures to its business plan, including the sale of assets with losses that could also lead to value adjustments on the remaining assets.

Liquidity and funding risk

The risk of not being able to cope efficiently and without jeopardising normal operations and financial equilibrium, not being able to meet its payment obligations or disburse funds due to the inability to find sources of funding or to find them at above-market costs (funding liquidity risk) or due to the presence of limits on the disposal of assets (market liquidity risk) and incurring capital losses.

Risk of conflicts of interest with respect to associated parties

Risk that the proximity of certain persons to the decision-making centres of a bank may compromise the impartiality and objectivity of decisions regarding the granting of loans and other transactions to them, with possible distortions in the process of resource allocation, exposing the bank to risks that are not adequately measured or monitored, and potential harm to depositors and shareholders.

Geopolitical risk

Risk deriving from geopolitical uncertainty.

Governance risk

Risk that the entity's corporate structure is not adequate and transparent, and therefore not fit for purpose, and that the governance mechanisms put in place are not adequate. In particular, this risk may arise from the absence or inadequacy of:

- a solid and transparent organisational structure with clear responsibilities, including the Corporate Bodies and the associated Committee;
- knowledge and understanding, among the Management Body, of the operating structure of the entity and the associated risks;
- policies aimed at identifying and preventing conflicts of interest;
- a transparent governance structure.

Pandemic risk

Risk of losses related to the consequences on public health, the economy and trade caused by the pandemic.

ESG risks

Risk of a negative financial impact resulting, directly or indirectly, from the impact that ESG events may have on the bank and its stakeholders, including customers, employees, savers and suppliers.

Main actions and Functions involved in mitigating and controlling the Risks to which the Group is exposed

With reference to each of the relevant risks identified, the definition adopted by the Group and the main information related to the governance of the risk, the tools and methodologies for measuring/assessing and managing the risk and the structures responsible for the management are reported below.

Credit risk

Credit risk is typical of credit intermediation activities. It lies in the possibility of suffering losses on credit positions, whether on- or off-balance sheet, resulting from default or deterioration the counterparty's credit quality. In other words, credit risk is mainly expressed in the risk that a counterparty will not fulfil its obligations in full by not returning, in whole or in part, the subject of the contract.

Therefore, this risk is mainly found in the traditional activity of granting secured and unsecured loans recorded and not recorded in the financial statements (for example, endorsement credits) and the potential causes of default lie largely in the lack of liquidity of the counterparty and to a lesser extent in reasons independent of the financial condition of the counterparty. Activities other than traditional lending also expose the Group to credit risk.

In light of the provisions on the internal control system (Circular no. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted an organisational structure that is functional to achieving an effective and efficient credit risk management and control process consistent with the framework addressed by the Parent Company. In addition to line controls (so-called first level controls), the outsourced functions within the Parent Company in charge of second and third level controls, with the collaboration of their respective contacts, are responsible for measuring and monitoring risk trends, as well as the correctness/adequacy of management and operational processes.

Control activity over credit risk management is carried out by the Risk Management Department, outsourced to the Parent Company, which makes operational use of its internal contacts at Affiliated Banks.

Under the cohesion contract, the Parent Company defines common and uniform rules and criteria for the performance of the Affiliated Banks' activities with reference to the entire process of granting credit and managing the related risk, which must cover risk measurement, preliminary investigation, disbursement, and the valuation of guarantees, including real estate guarantees, performance controls and monitoring exposures, reviewing credit lines, the criteria and process for classifying risk positions as well as the related actions in the event of anomalies, the provisioning policy, measuring credit exposures, and managing and recovering impaired exposures.

The above rules and criteria are set out in the overall Group regulations, within the scope of which the Parent Company also defines its own decision-making autonomy for the granting of credit, the maximum exposure thresholds for each individual customer or group of connected customers for each Affiliated Bank according to the riskiness of the bank itself. Within these thresholds, the decision-making levels for the disbursement of credit are defined by the individual Affiliated Bank.

The Parent Company defines the strategy and related management plan for impaired exposures at Group level, identifying binding short/medium/long-term objectives for each Affiliated Bank. To ensure the efficient management of impaired exposures, they may be assigned to the Parent Company (also through its subsidiaries) and/or to Affiliated Banks and/or to specialised outsourcers.

The Parent Company establishes the measurement criteria of exposures and creates a common information base that allows all Affiliated Banks to know the exposures of customers towards the Group, as well as the measurements concerning the exposures of borrowers. In this regard, the Parent Company prepared the "Group Regulation for the Classification and Measurement of Loans", which, in addition to regulating the process of classifying credit exposures (both on and off-balance sheet), sets out rules for the measurement of real estate collaterals and other types of guarantees.

With reference to transactions with associated parties, the Group has adopted specific Regulations governing the identification, approval and execution of transactions with associated parties, as well as organisational structures and a system of internal controls to guard against the risk that the proximity of certain parties to its decision-making centres may compromise the impartiality and objectivity of the relevant decisions.

In consideration of the operating methods that characterise the Group's lending activities, the credit process was structured in the phases of planning, granting of credit, credit management, classification of positions and management of impaired items.

The Risk Management Department defines, as part of the Risk Appetite Framework process, the risk appetite that represents the maximum amount of capital that the Group is willing to put at risk in order to achieve its strategic-income objectives, based on the business model and strategic decisions adopted; in particular, as regards credit risk, the Risk Management Department, in line with the provisions of the prudential regulatory provisions, breaks down the risk objectives, identified in the RAF, into risk-limits and monitoring indicators.

The former are designed to place a limit on operations through a system of thresholds and escalation procedures. Risk Limits are assessed using the following metrics:

- Capital requirement/internal capital: the metrics used for credit and counterparty risk are REAs, calculated using the standardised methodology, whereas, for concentration risk, internal capital calculated for single-name and geo-sector risk is used;
- Indicators from the rating system: i.e. the risk parameters used to calculate the expected loss; additionally, the rating system forms the basis for the development of the IFRS 9 impairment model.

The Risk Management Department's overall monitoring of the sector is ensured by a methodological framework developed upon a substantial overhaul of the work started off at the Banking Group's inception, launched under the Risk Management Department shake-up in July 2020 and also the establishment of the Credit Risk Management Service as part of a two-year roadmap (2020-22) that governed its gradual implementation.

The controls, carried out on the entire scope of the credit process chain (credit granting, performance monitoring, classification, NPL management, collateral management, provisioning) aim to determine compliance with internal procedures in their key risk coverage aspects and that they are suitable for ensuring efficient and effective credit management. This is also intended to contribute to a gradual increase in the reliability of the processes and procedures used and their ability to better monitor each individual area of the credit chain, including the timely identification and classification of anomalous positions and the correct estimation of the degree of coverage associated with them.

The control model makes it possible to modulate the structure of the verification on the individual control process/area through preliminary quarterly risk assessments (i.e. portfolio analyses) carried out on a large scale through specific sets of dedicated key risk indicators. This should provide an initial measurement of the risk of the individual area, also taking into account its historical evolution (cross-time comparison) and its positioning vis-a-vis the Banking Group (cross-section comparison). It should also localise the possible risk drivers of the sector to more precisely address any in-depth, single-name analyses, at least on the control areas identified as core (credit granting, classification, collateral management, provisioning).

Alongside the ordinary execution of control cycles in accordance with the intervals established at internal regulatory level, the methodological framework undergoes fine-tuning/consolidation or further development pursuant to a predefined roadmap for the financial year 2023.

The Risk Management Department also provides preliminary opinions on the consistency of the most significant transactions (MSTs) with the RAF by obtaining,the opinions of the other departments involved in the risk management process based on the nature of the transaction. For these purposes, it identifies all the risks to which the Group may be exposed in undertaking the transaction; it quantifies and assesses, based on the data acquired by the competent company departments, the impacts of the transaction on the risk objectives, on the alert and tolerance thresholds; it evaluates, based on the aforementioned impacts, the sustainability and consistency of the transactions with the risk appetite defined by the Board of Directors; it identifies the measures to be adopted to adjust the overall risk governance and management system, including therein the need to update the risk appetite and/or the system of operating limits.

For the purpose of determining internal capital for credit risk, the Group uses the standardised method as set forth in Bank of Italy Circular 285/13, adopted for determining the capital requirement for credit risk.

To apply the standardised approach, the exposures are subdivided into portfolios and each portfolio is subjected to differentiated prudential treatments, possibly also based on credit ratings (external ratings) issued by external credit rating agencies or export credit agencies recognised by the Bank of Italy (ECAI and ECA respectively).

For the purpose of measuring the capital requirement for credit risk, the type of customer to which the exposures attributable to the subject are attributed is first identified. Customer classification is carried out not only for assets that generate a capital requirement for credit risk, but also for assets that fall within the scope of counterparty risk and settlement risk on non-contextual settlement transactions. The issuers of securities received as collateral and the guarantors/counter-guarantors/vendors of credit protection relating to personal collaterals are also included.

For classification purposes, account is taken of the sector of economic activity attributed to the customer, the "status" of the exposures, the turnover determined at customer group level, and the deductibility, where applicable, from the Group's own funds.

The following asset classes are particularly notable:

- of "Central governments and central banks" include, inter alia, deferred tax assets (DTAs), other than those deducted from equity, to which different weightings are applied depending on the source;
- of natural persons and small and medium enterprises are classified as "retail exposures". Small and medium-sized enterprises (SMEs) are defined as enterprises with no more than 250 employees and an annual turnover of no more than EUR 50 million and/or total assets of less than EUR 43 million. This threshold is calculated by referring to the total number of connected parties, irrespective of the existence of a customer relationship with them. This class includes only customers or groups of customers that meet certain exposure limits, i.e. exposures to a single customer (or groups of connected customers) that meet the requirement of adequate portfolio segmentation (granularity) and cash exposures (other than those secured by residential real estate collateral) that do not exceed EUR 1 million, without taking into account the effects of the real and personal protection instruments that support those exposures;
- "defaulted exposures" include non-performing exposures, probable defaults, exposures past due for more than 90 continuous days at the counterparty level according to Art. 178 of the CRR (new definition of default effective from 1 January 2021). Impaired (forbearance) exposures also fall within the above three classes. With regard to the allocation of positions in the "defaulted exposures" portfolio and, in particular, the treatment of past-due/defaulted exposures, the Group has adopted the "counterparty approach" also for those portfolios for which the adoption of the "transaction approach" is permitted under the new regulations. Default exposures classified as high risk are not included in this portfolio;
- of "Equity exposures" include, inter alia, significant investments in equities issued by financial sector entities, for the amount not deducted from the Group's own funds (as it does not exceed the thresholds), which receive a weighting of 250%.

Credit risk also applies to the own securities portfolio. In compliance with the provisions of external and internal regulations, as well as the "Group Finance Rules" and other relevant Risk Management Policies/Regulations, the "Group Owned Portfolio Management Policy" establishes precise quantitative limits for the assumption of risks related to these activities.

The Credit Department and the NPL Department are the Parent Company bodies responsible for the governance of the entire credit process (credit granting and auditing, monitoring, management of disputes) as well as the coordination and development of credit and lending business. The overall internal organisational structure in terms of allocating tasks and responsibilities aims to separate activities that are in conflict of interest, to the extent that is feasible, particularly through an appropriate ranking of authorisation profiles within the IT system.

The Group also uses credit risk mitigation techniques (hereinafter also “CRM”) to mitigate credit risk.

The Group considers as authorised CRM the forms of credit protection that comply with the general and specific requirements of Part 3, Title II, Chapter 4 of Regulation (EU) no. 575/2013.

In accordance with the relevant legislation, eligible credit risk mitigation techniques may be collateral or personal forms of credit protection, provided that the assets on which the protection is based meet the requirements of the legislation.

Taking into account its operating characteristics, the Group has decided to use the following CRM tools for prudential purposes:

- financial collateral involving cash shares or listed bonds, government securities, certificates of deposit, bonds of affiliated banks, provided through agreements for the pledging and transfer of ownership and repurchase agreements;
- mortgages, whether voluntary or judicial, on residential and non-residential real estate;
- specific personal guarantees with State guarantee backing (direct guarantee; counter-guarantee).

Finally, the overall internal regulatory framework regarding the acquisition and management of the main forms of guarantee used to protect credit exposures was reviewed and updated during the year, in order to ensure that the legal, economic and organisational requirements under the regulations for their recognition for prudential purposes are met.

In order to mitigate credit risk, the Group is continuing to reduce its NPL stock through:

- the sale of impaired loans;
- the process of recovering impaired exposures by centralising management with the Parent Company.

Counterparty risk

The counterparty risk is a particular type of credit risk and represents the risk that the counterparty to a transaction involving certain financial instruments specifically identified by the regulations will default before the transaction is settled.

The regulations specify that the transactions that can give rise to counterparty risk, which is a particular type of credit risk, are as follows:

- over-the-counter (OTC) credit and derivative financial instruments;
- repurchase and reverse repurchase agreements on securities or commodities, securities or commodities lending or borrowing transactions and margin lending (SFT – Securities Financing Transactions);
- transactions with long-term settlement (LST – Long Settlement Transactions).

Counterparty risk management and control is part of the Group’s broader risk management and control system, structured and formalised in specific internal regulations.

The Cassa Centrale Banca Group is exposed to counterparty risk in relation to OTC derivative activities and repurchase agreements (SFT). OTC derivative transactions are almost entirely perfectly balanced. There are, therefore, sporadic transactions for hedging assets or liabilities, while speculative operations are not implemented.

The Group estimates the additional requirement for Credit Valuation Adjustment (CVA) applicable to OTC derivatives transactions, based on the standardised methodology set out in Article 384 of the CRR. The capital absorption is calculated from the estimated credit equivalent determined for counterparty risk purposes, taking into account the residual maturity of derivative contracts and the creditworthiness of the counterparty.

The Risk Management Department prepares a report on the results of the counterparty risk measurement and monitoring phase for the General Management and the Board of Directors.

Market risks

Market risks concern the risks generated by operations on the markets regarding financial instruments, currencies and commodities. They are divided into:

- **Specific position risk on debt securities in the trading book**, which represents the risk of incurring losses caused by adverse changes in the price of such financial instruments due to factors associated with the situation of the issuers.
- **Generic position risk on debt securities in the trading book**, which represents the risk of incurring losses caused by adverse changes in the price of such financial instruments due to factors associated with movements in market interest rates (risk factor affecting the current value of such instruments).
- **Position risk on equities in the trading book**, which comprises two components:
    - “generic risk”, i.e. the risk of incurring losses caused by adverse changes in market prices of most equities;
    - “specific risk”, i.e. the risk of incurring losses caused by adverse changes in the price of a given equity due to factors connected with the situation of the issuer.
- **Position risk for UCITS units in the trading book**, which represents the risk of incurring losses caused by adverse changes in market prices.
- **Exchange rate risk**, i.e. the risk of incurring losses due to adverse changes in the prices of foreign currencies on all positions held by the Group regardless of the allocation portfolio on the entire financial statements. **Settlement risk** is the risk of losses arising from a counterparty’s failure to settle past due transactions in securities, currencies and commodities, including those represented by derivative contracts and derivative contracts without exchange of principal, in both the banking and trading books for supervisory purposes. Repo transactions and securities or commodities lending or borrowing transactions are excluded.
- **Concentration risk of the trading book** is linked to the possibility that the insolvency of a single large borrower or of several borrowers related to each other could lead to losses that could compromise the stability of the lending bank. For this reason, the regulatory provisions in force concerning “large exposures” prescribe a mandatory quantitative limit, expressed as a percentage of eligible capital, for risk positions with individual “customers” or “groups of connected customers”. Any overdrafts with respect to this limit are permitted only if they refer to a position in the trading book for supervisory purposes and provided that specific additional capital requirements are met.

It should be noted that - given its specific scope of operations - Group is not exposed to commodity position risk.

The Group uses the standardised methodology to determine capital requirements for market risks generated by its transactions in financial instruments, currencies and commodities. This methodology calculates the requirement on the basis of the so-called building-block approach, according to which the overall requirement is the sum of the capital requirements determined against individual market risks.

More specifically, with regard to determining the capital requirement for **"Position Risk on the trading book"**, the Group applies the following methodologies:

- **General debt security risk**: use of the maturity-based method. This method calculates the net position for each issue and then distributes it, by currency, into residual maturity bands.
- **Specific debt security position risk**: net positions in each security in the trading book are allocated to the correct issuer category (zero-weighted issuers, qualified issuers, non-qualified issuers, high-risk issuers). The capital requirement for each category is the product of the respective weighting ratio and 8%. The capital requirement for each specific risk is applied to the total sum of the weighted net long and short positions.
- **Equity position risk**: the capital requirement is determined as the sum of the general requirement (8% of the net general position) and the specific requirement (8% of the gross general position). To calculate equity position risk, all positions in the trading book relating to equities and equity-like securities, such as equity index derivative contracts, are considered.
- **Position risk for UCITS units**: application of the residual method, whereby the capital requirement is determined at 32% of the current value of the units held in the trading book.

With reference to **settlement risk**, the exposure to the risk of past due and unsettled transactions:

- classed as "delivery versus payment" (DVP) represents the difference, if positive, between the contractual forward price to be paid/received and the fair value of the financial instruments, commodities or currencies to be received/delivered;
- classed as "non delivery versus payment" (Non-DVP) represents the fee paid or the fair value of the financial instruments, commodities or currencies delivered.

For DVP transactions, the capital requirement is determined by applying an increasing weight to the risk exposure based on the number of business days following the settlement date. For non-DVP transactions:

- In the period between the "first contractual settlement date" and the fourth business day following the "second contractual settlement date", the capital requirement is determined with regard to credit risk by applying the 8% equity ratio to the credit exposure value weighted according to the relevant weight factors;
- after the second contractual settlement date, the value of the risk exposure, increased by any positive difference between the fair value of the underlying asset and the price, must be weighted at 1250% or fully deducted from the Common Equity Tier 1 capital.

With regard to **exchange rate risk** on the entire balance sheet, capital absorption is quantified as 8% of the "net open foreign exchange position". In compliance with the provisions of the Finance Regulation, the risk strategy document also sets quantitative limits for the Parent Company for the overall open foreign exchange position and for each individual currency.

The Group complies with the observance of prudential rules with specific procedures and control systems aimed at ensuring sound and prudent management of market risks.

The policies relating to the management of the securities portfolio defined by the Board of Directors are based on the following main elements:

- definition of risk/return objectives;
- definition of risk appetite (defined in terms of operating limits in the finance portfolios with reference to the various management, accounting and supervisory aspects). In particular, value-at-risk (VaR) limits, issuer and instrument type limits and concentration risk exposure limits are established and measured;
- restriction on tradable financial instruments in terms of the instruments admitted (or admitted in position but with specific exposure limits) and their nature;
- allocation of delegations.

Negotiable instruments are also defined within the aforementioned policies.

No transactions are permitted, unless authorised in advance by the Board of Directors, on any financial instruments established as a new instrument. Although they have been reviewed according to the organisational processes in force, they require the prior authorisation of the Board of Directors in order for them to be traded since they are exposed to risk factors that should be assessed in absolute terms and with respect to the specific instrument analysed.

In order to manage and monitor market risk exposures taken as part of the trading book, the Group has defined in its Finance Regulation and in the underlying implementing provisions: the guiding principles, roles and responsibilities of the organisational functions involved. This is in order to ensure the regular and orderly execution of financial market activities, within the scope of the risk/return profile outlined by the Board of Directors or declared by customers, and to maintain a correct mix of instruments aimed at balancing liquidity flows.

In this regard, the Finance Department has the task of assessing the opportunities offered by the market and managing the portfolio of financial instruments in line with the strategic guidelines and risk management policy defined by the Board of Directors. To this end, it identifies the instruments to be traded and carries out the purchase/sale transaction in line with the strategy it wishes to implement (investment or hedging) and in compliance with the limits and powers assigned. The Finance Department is also responsible for monitoring the price performance of financial instruments and for verifying compliance with the operating limits and/or risk/return objectives defined, adjusting, where appropriate, the structure and composition of the proprietary portfolio.

The Group has established systems and controls for portfolio management by defining a documented trading strategy by position or portfolio and appropriate policies and procedures for active position management. The system of operating limits and delegations on the trading book and on the banking book is compliant with regulatory provisions and consistent with the requirements of international accounting standards.

In order to monitor and control market risks, information flows to the corporate bodies and organisational units involved are produced on a regular basis, concerning the specific phenomena to be monitored and the aggregate values relating to the composition of the Group's trading book.

Operational risk

Operational risk is defined as the possibility of incurring losses resulting from inadequate or dysfunctional procedures, human resources and internal systems, or from exogenous events. This definition includes legal risk, but not reputational and strategic risk. This includes, inter alia, losses resulting from fraud, human error, breach of contract, natural catastrophes, business interruptions and system downtime.

Operational risks, depending on the specific aspects, also include IT risk, i.e. the risk of incurring losses in connection with the use of information and communication technology (Information and Communication Technology - ICT). This sub-category of risk considers potential damage resulting from the unavailability of information systems, degradation of service quality, violation of data confidentiality, compromise of data integrity, and loss of data quality.

Operational risk also includes the risk of outsourcing, i.e. the risk of incurring potential organisational malfunctions, critical issues and/or losses linked to the decision to outsource the performance of one or more business activities to third-party suppliers; legal and compliance risks are also included, while strategic and reputation risks are not.

With regard to legal risk, the Group includes the risk of losses deriving from contractual or non-contractual liability or from other disputes, while the risk of losses deriving from violations of laws or regulations is attributed to a specific case, defined as compliance risk.

With reference to the measurement of the prudential requirement for operational risks, the Group has approved the application of the Basic Indicator Approach (BIA). In addition, the Group, for the purpose of managing and controlling operational risk, continuously verifies exposure to certain onset profiles through the analysis and monitoring of a set of indicators, carried out by the Risk Management Department.

In addition to the corporate bodies, different organisational units are involved in the management and control of operational risks, each of which is assigned specific responsibilities consistent with the ownership of the activities of the processes in which the risk in question can occur. Among these, the Risk Management Function is responsible for analysing and assessing operational risks, ensuring an effective and timely evaluation of the related event profiles, in accordance with the operating procedures for which it is responsible.

The Internal Audit Function, in the broader context of the control activities for which it is responsible, carries out specific and targeted periodic checks on operational risks. Lastly, with regard to organisational controls, particularly important is the Compliance Function which is responsible for monitoring and controlling compliance with the rules as well as providing support in the prevention and management of the risk of incurring judicial or administrative sanctions, of incurring significant losses as a result of the violation of external (laws or regulations) or internal (articles of association, codes of conduct, corporate governance codes) rules, and, for all pertinent areas, also important is the work carried out by the Anti-Money Laundering Function.

Considering the peculiar characteristics of the risk in question and the way it manifests itself, as well as the substantial inability of the regulatory method of calculating capital absorption (BIA method) to identify the areas of operations most exposed to operational risks, the Group deemed it appropriate to develop a more in-depth management approach, aimed at acquiring a better knowledge and awareness of the actual level of exposure to risk.

With the support of a dedicated tool, a census, collection and storage of the most significant loss events found in the company's operations is carried out. To this end, a specific database has been set up in which the loss events identified are traced back to the types envisaged by the Basel Agreement (and to the related risk owners). The application adopted allows to frame the entire operational risk management process (from the recognition and registration by the organisational units where the event was found, to the "validation" of the same, up to the authorisation for the accounting of the economic impact) within a predefined workflow. The Group's objective is to identify the areas characterised by greater vulnerability, in order to prepare more effective control and mitigation systems. In this context, the application solution adopted makes it possible to manage the mitigation "tasks", i.e. the risk containment initiatives for risk owners and activated by them.

Operational risks also include the risk profile associated with ICT and security risk, i.e. the risk of incurring losses in connection with the use of information and communication technology. This sub-category of risk considers therefore potential damage resulting from the unavailability of information systems, degradation of service quality, violation of data confidentiality, compromise of data integrity, and loss of data quality.

The Group defined, in close connection with project references drawn up in the competent association offices and in compliance with the principles and regulations in force, the method for analysing ICT and security risk and the related management process (including profiles relating to the provision of IT services through the outsourcing of ICT services to external suppliers). The implementation of the afore-mentioned methodology makes it possible to integrate the management of operational risks by also considering the risks connected to IT and business continuity profiles, and to document the evaluation of ICT and security risk based on the continuous information flows established with the Centre(s)/Service(s). The adoption of these references is also prior to the preparation of the process of verification, at least annually, of the evaluation of ICT and security risk based on the results of the monitoring of the effectiveness of the measures to protect ICT resources.

With regard to the management of operational risks, to be noted are the controls adopted in the context of compliance with the regulations introduced by the regulatory provisions on the internal control system which have defined a comprehensive framework of principles and rules to be followed in order to outsource corporate functions and have required the activation of specific controls against the related risks, as well as the maintenance of the ability to control the work of the supplier and the skills necessary for the possible re-insourcing, if necessary, of the outsourced activities.

In order to ensure compliance with the requirements of the regulations in force, the Legal Department defines specific outsourcing agreements. In this context and with reference to the outsourcing of important operational and corporate control functions, which entails more stringent obligations in terms of contractual restrictions and specific requirements demanded of suppliers (related to defining specific, objective and measurable service levels and related materiality thresholds, among other things), the service levels assured in the event of an emergency and the related continuity solutions are defined. The contractual provisions also provide for, *inter alia*: (i) the right for the Supervisory Authority to access the premises where the service provider operates; (ii) the presence of specific termination clauses to terminate the outsourcing agreement in the event of certain events that prevent the provider from guaranteeing the service or in the event of failure to meet the agreed service level.

The Group internally maintains the expertise required to effectively control the Important Operational Functions (IOF) and to manage the risks associated with outsourcing, including those arising from potential conflicts of interest of the service provider. In this context, an internal contact representative has been identified within the organisation for the outsourced activities, with adequate professional requirements, responsible for monitoring the level of services provided by the outsourcer and set out in the respective outsourcing contracts and for reporting to corporate bodies on the status and performance of the outsourced functions.

More generally, as part of the actions undertaken with a view to ensure compliance with the regulations introduced by the Bank of Italy through the 15th update of Circular 263/06 (and subsequently merged into Circular 285/13, Part One, Title IV, Chapter 4, including the recent 40th update), initiatives related to the implementation of organisational profiles and internal provisions of regulatory references on information systems are of note.

The adoption of a Business Continuity Plan to protect the Bank against critical events that may affect its overall operations is also part of the measures to mitigate these risks. With this in mind, the operating procedures to be activated to deal with the crisis scenarios were established, assigning to this end the roles and responsibilities of the various players involved.

Although it is not necessary, in general, to change the underlying business continuity strategy, the references adopted have been reviewed and supplemented in the light of the requirements set out in Chapter 5 of Title IV of Part One of Bank of Italy Circular 285/13, to support compliance with the reference provisions. In particular, the business continuity plan was updated with reference to the risk scenarios which, although in principle compatible with those already described previously, are now more precautionary than those envisaged in the current provisions. Incident classification and rapid escalation procedures have also been introduced along with the anticipation of the necessary links with the IT security incident management procedure in accordance with the relevant regulatory provisions set forth in Chapter 4, Title IV, Part One of Circular 285/13.

Credit concentration risk

Credit concentration risk is the risk arising from exposures to counterparties, including central counterparties, groups of related counterparties (single-name concentration) and counterparties operating in the same economic sector, in the same geographical region or carrying out the same activity or trading the same commodity (geo-sectorial concentration), as well as from the application of credit risk mitigation techniques, including in particular risks deriving from indirect exposures, such as, for example, towards individual guarantee providers.

The policies on concentration risk, defined by the Board of Directors, are mainly based on the following specific elements:

- powers delegated in terms of concentration risk management;
- total amount of exposure to “large risks”.

With a view to prudent management, the Parent Company defines maximum exposure thresholds at the level of each individual affiliated bank, depending on its risk class, and at Group level, in line with the regulatory provisions in force relating to Large Exposures and the provisions contained in the risk management framework. Compliance with the thresholds is ensured by the application of specific preventive controls carried out by the Credit Department of the Parent Company, in the pre-investigation and pre-trial phase, for each loan application processed within the processes of granting and managing credit by the Affiliated Banks and of the Parent Company.

Exposure to concentration risk is also measured and monitored in terms of capital absorption. To this end, the Group uses the following calculation metrics:

- with regard to single-name risk definition (i.e. concentration towards individual counterparties or groups of connected counterparties), the regulatory Granularity Adjustment (GA) algorithm. For the application of this algorithm, Circular 285/13 of the Bank of Italy refers to the concept of loan portfolio and, in particular, to exposures to companies that do not fall within the “retail” class. In this regard, reference should be made to the asset class “companies and other entities”, “short-term exposures to companies”, “exposures to companies in the asset classes that are past due and secured by real estate”, “equity exposures” and “other exposures”. The exposures also include off-balance sheet transactions, the latter to be considered for an amount equal to their credit equivalent. In the presence of credit protection instruments that meet the (objective and subjective) eligibility requirements under the current rules for credit risk mitigation techniques (CRM), exposures to companies backed by guarantees provided by eligible companies are included in the calculation and exposures to companies backed by guarantees provided by eligible entities other than companies are excluded. In application of this algorithm, the quantification of the internal capital in relation to the concentration risk requires preliminary:

   i. determination of the amount of exposures for individual counterparties or groups of related counterparties;
   ii. calculation of the Herfindahl index, a parameter that expresses the degree of concentration of the portfolio;
   iii. calculation of the proportionality constant C which is a function of the “probability of default” (PD) associated with cash loans. The proportionality constant is determined on the basis of a specific calibration - established by the regulatory provisions in force - of the constant itself when the PD attributed to cash loans changes.

- with reference to the geo-sectoral profile of the risk, the methodology for estimating the effects on internal capital used is the method developed by the ABI Laboratorio per il Rischio di Concentrazione [Laboratory for Concentration Risk]. The objective of measuring the impacts of geo-sectoral concentration risk is to estimate any capital add-on with respect to the standardised credit risk model, measured by the Herfindahl indicator at industrial sector level (Hs). The capital add-on is envisaged only if the calculated mark-up coefficient is greater than one.

Liquidity and funding risk

Liquidity risk relates to the possibility of the Group not being able to fulfil its payment obligations due to an incapacity to obtain new funds (funding liquidity risk), its inability to sell its assets on the market (asset liquidity risk), or that it may be forced to liquidate its assets in unfavourable market conditions, incurring very high costs to meet these commitments (market liquidity risk).

Funding liquidity risk can be divided into: (i) mismatching liquidity risk, consisting of the risk associated with the different time profile of cash inflows and outflows determined by the misalignment of the maturities of financial assets and liabilities on (and off) the balance sheet; (ii) contingency liquidity risk, i.e. the risk that unexpected events may require a higher amount of cash and cash equivalents than estimated as necessary; and (iii) margin calls liquidity risk, i.e. the risk that the Group, in the event of adverse changes in the fair value of financial instruments, is contractually required to restore the reference margins by means of collateral/cash margins.

Liquidity risk can be generated by various factors both internal and external to the Group. The identification of these risk factors is done through:

- the analysis of the time distribution of cash flows of financial assets and liabilities and off-balance sheet transactions;
- the identification of:
  - items that do not have a defined due date (on demand and revocation items);
  - financial instruments that incorporate optional components (explicit or implicit) that may change the entity and/or the time distribution of cash flows (e.g. early redemption options);
  - financial instruments that by their nature determine variable cash flows depending on the performance of specific underlying assets (e.g. derivatives);
- the analysis of the level of seniority of financial instruments.

The Parent Company's Board of Directors has approved a document entitled "Group Regulation for Liquidity and Funding Risk Management" which defines the policies, responsibilities, processes, operational limits and tools for managing liquidity risk, both during normal business operations as well as during potential liquidity crises, in line with current liquidity regulations. The Regulation includes the strategies and organisational measures which serve to promptly contain liquidity risk; the ordinary and stress scenarios which the Group may encounter are defined. The sources of liquidity risk to which the Group is exposed can primarily be identified within the Finance/Treasury, Funding and Credit processes.

The Group has adopted a liquidity risk governance and management system that, in accordance with the provisions of the Supervisory Authorities, pursues the goal of financing the development of its activities at the best market conditions in normal operating circumstances and to guarantee the ability of meeting payment commitments even if a liquidity crisis situation emerges, without interrupting operational continuity or alter the Group's financial balance.

If the Parent Company finds a deterioration of the Group's liquidity position in terms of operational and/or intraday management such as to jeopardise the settlement of payment commitments in the short term, it can use the liquid assets owned by the Affiliated Banks, which are required to comply with the Parent Company's instructions. In order to ensure the operational requirements envisaged by the Delegated Regulation no. 61/2015, the Affiliated Banks expressly agree that the securities in their own portfolios fall under the direct control of the Group Liquidity Management function as a potential source of funding in times of stress.

With the purposes of knowing future liquidity requirements with adequate advance notice, to have available fund supply sources that can be activated within the time intervals and at the costs deemed appropriate, and to carry out the activity efficiently, the management of liquidity risks requires:

a. defining the organisational structure responsible for the preparation and implementation of the "Group Regulation for Liquidity and Funding Risk Management";
b. setting up an adequate information system to:
    - know and measure, at any time, the Group's current liquidity position and its future evolution;
    - assess the impact of different scenarios, in particular of unforeseen and adverse conditions, on the future evolution of the Group's liquidity position;
    - monitor the different fund procurement channels, in the evolution of their profiles in terms of times required for activation, amounts and costs;
c. defining a Contingency Funding Plan, to be activated promptly if the Group experiences a liquidity crisis, establishing the chain of responsibility and the system of initiatives to overcome the crisis situation successfully.

The organisational structure tasked with governing and managing the liquidity risk provides for the operational management of the Group's liquidity position to be entrusted to the Treasury department, which acts on the basis of the strategic guidelines defined by the Board of Directors, as well as the indications given by the Finance Committee. Control activities are carried out by the Risk Management Department in coordination with the Treasury Department. The results of the control activities are passed on to the Board of Directors.

The principles for liquidity risk management are defined in the "Regulation for Liquidity and Funding Risk Management". This document is divided into four processes:

- Operating Liquidity, whose objective is to assure the ability to meet expected and unexpected payment commitments by maintaining a sustainable ratio between incoming and outgoing cash flows. The management of operational liquidity is entrusted to the Parent Company's Treasury Department and to the Finance Department of the Affiliated Banks on the basis of indications received and in compliance with the guidelines established by the Parent Company's Board of Directors. The main risk objective envisaged by the Group RAF to measure and govern the operational liquidity risk profile is the Liquidity Coverage Ratio (LCR), which aims to strengthen the short-term resilience of the liquidity risk profile by ensuring that sufficient high-quality liquid assets are held. On a weekly basis, a consolidated report is produced and sent to the Supervisory Authority, which monitors the short-term trend of the Group's liquidity position. Within the analysis of operational liquidity, the Parent Company monitors intra-day liquidity by using the two indicators derived from the 'Annual report on financial stability' of the Bank of Italy of November 2011 (LCNO - Largest cumulative net out flow and LIIP - Liquidity and intraday payment commitments).
- Structural Liquidity, whose objective is to maintain an adequate ratio between medium/long term assets and total liabilities, in order to avoid pressures on current and prospective short-term sources; structural liquidity is managed by the Treasury Department and the Finance Department of the Affiliated Banks, which operate in accordance with the strategic guidelines laid down by the Board of Directors, and it is directed at assuring the financial balance of the structure by maturity over a time horizon exceeding one year. Through the analysis of the Group's structural liquidity position, the ability to finance assets and to meet payment commitments through an adequate balance of the maturity of asset and liability items is assessed. Hence, the main objective is to manage funding through strategic decisions pertaining to funding sources and to the loans to be made in such a way as to prevent the emergence of excessive imbalances deriving from short-term financing of medium-long term operations. To measure and control structural liquidity risk, the Group uses as a reference the Net Stable Funding Ratio (NSFR).

- Stress test and scenario analysis, a process during which the financial balance is assessed in plausible, albeit improbable, extreme conditions. The data collected through reports during the year, along with the historic records of the same types of data, provide support in the execution of stress tests and scenario analyses, carried out with the goal of verifying the Group's ability to address alert and crisis conditions outside normal operations. The procedure for carrying out operational liquidity stress tests entails modifying the profile of incoming and outgoing cash flows on the basis of the effects deriving from the occurrence of stress cases. These cases, tied to factors inside and outside the Group, are selected taking into consideration scenarios built ad hoc, which can prove to be sufficiently severe, and contemplating even low-probability events. The Risk Management Department, with the support of the Finance Department, periodically estimates the maximum amount of liquidity that can be obtained at the Parent Company level (back-up liquidity estimates). Moreover, the amount of available margin of high-quality liquid assets at Affiliated Banks is also shown. This type of analysis is carried out with respect to the time horizon of 30 calendar days following the valuation date.
- Contingency Funding Plan, or emergency Plan, a process directed at managing the emergence of a severe liquidity crisis of the Group. This document governs the tools for monitoring the onset of a crisis, the internal escalation processes for managing it and the actions that can be put in place to restore a situation of equilibrium.

The liquidity risk tolerance thresholds are set by the Board of Directors on the basis of the following limits:

- for Operational Liquidity, the limit is set to the value assumed by the Liquidity Coverage Ratio (LCR) indicator, i.e. the ratio between basic and supplementary liquid assets and total net cash outflows in the 30 subsequent calendar days in a stress scenario. The structure of the indicator is based on Commission Delegated Regulation (EU) no. 2015/61, supplementing Regulation (EU) no. 575/2013 (CRR) and hence transposes into Italian law the provisions of the Basel Committee in the document "Basel 3 - The Liquidity Coverage Ratio and liquidity risk monitoring tools". With reference to the monitoring of operational liquidity, a series of additional indicators were identified;
- for Structural Liquidity, the limit is set at the value assumed by the Net Stable Funding Ratio (NSFR) indicator, i.e. by the ratio between the elements that provide stable financing and the elements that require stable financing. The structure of the indicated is based on Regulation (EU) no. 2019/876, which recognised the guidelines of Basel Committee "Basel III: the Net Stable Funding Ratio", of October 2014. With reference to the monitoring of structural liquidity, a series of additional indicators were identified.

If the Risk Limits are exceeded, actions and measures are envisaged with the aim of reducing the level of risk to within the pre-established limits identified in the Group Regulation for the Management of Liquidity and Funding Risk, identifying actions to be taken when the first critical situations occur. Therefore, escalation processes were envisaged: they will be activated if the Risk Management Department, through its periodic monitoring activities, finds changes in the thresholds envisaged in the Regulation. Moreover, the Risk Management Department, as part of its ordinary monitoring reporting, informs the corporate bodies of the individual Affiliated Banks concerned and the corporate bodies of the Parent Company about the overrunning of the thresholds and about the remediation actions taken to restore the liquidity position.

Regulation (EU) no. 575/2013 (CRR) prescribes that financial intermediaries shall use additional liquidity monitoring metrics (ALMM) to obtain a full picture of the liquidity risk profile. Specifically, the Implementing Regulation (EU) no. 2016/313 prescribes that the following 6 models must be set up as control information instruments:

- **Funding concentration by counterparty**: its purpose is to collect information about funding concentration by counterparty of the reporting entities, highlighting the first ten funding contributors;
- **Funding concentration by type of product**: its purpose is to collect information about funding concentration by type of product of the reporting entities, broken down by the following types of funding: retail funding and wholesale funding;

- **Prices for funding of various durations**: its purpose is to collect information about the average value of the transactions and the average prices paid by the entities for funding with duration ranging from overnight to 10 years;
- **Renewal of the funding**: its purpose is to collect information about the volume of funds due and on the new funding obtained, i.e. on the renewal of funding at the daily level over a one-month time horizon;
- **Concentration of the offsetting capacity by issuer/counterparty**: its purpose is to collect information about the concentration of the offsetting capacity of the reporting entities with reference to the ten main assets held or liquidity lines granted to the entity for that purpose;
- **Maturity Ladder**: used to represent assets and liabilities falling due, divided into a number of time brackets; it is possible to determine any gaps for each time bracket and compare them with the Group's compensation capacity.

These information models are drawn up monthly and the Group, in the face of possible critical situations, assesses whether to activate appropriate governance strategies to avoid the emergence of stress situations.

The monitoring of the Group's liquidity situation, based on the reports, on the scenario analyses and on the signals provided by the risk indicators, is carried out, according to their related competences and functions, by the Treasury Department, by the Finance Committee and by the Risk Management Department.

The positioning of the Group with regard to operational and structural liquidity is also reported to the Board of Directors on a quarterly basis.

The requirements of the Cassa Centrale Group are largely ascribable to decreases in liquidity available to shareholder banks or clients; the Group's ability to respond to its own needs is constantly assessed, taking into account in particular the following:

- availability and price of securities that can be easily liquidated;
- availability of credit within the interbank system;
- potential of institutional bond funding;
- use of other funding tools.

With regard to attainable credit and the potential for bond funding, the Group adopts the best practices in order to safeguard or improve the ratings attained thus far. The internal regulation of liquidity risk management meets the requirements set out in the regulatory provisions and guarantees consistency between the management measurements and the regulatory ones.

With regard to monthly monitoring, the Group measures and monitors its exposure to operating liquidity risk at 30 days through the regulatory indicator called Liquidity Coverage Ratio (LCR). It is a short-term rule aimed at ensuring the availability of liquid assets by individual banks that allow them to survive in the short to very short term in the event of acute stress, without recourse to the market. The indicator compares the liquid assets available to the Group with net cash outflows (difference between gross outflows and inflows) expected over a 30-day time period, the latter developed taking into account a predefined stress scenario.

The indicator in question is determined monthly through the specific Supervisory Reports that the Group is required to send to the Supervisory Authority.

Interest rate risk of the banking book

The interest rate risk on the banking book consists of the possibility that a change in market interest rates has a negative impact on the financial situation of the Group, determining both a change in the economic value and in the expected interest margin.

More specifically, exposure to interest rate risk can be divided into two areas:

- equity risk, i.e. the possibility of negative changes in the value of assets, liabilities or off-balance sheet instruments due to changes in the interest rate structure, with a consequent negative impact on the value of equity;
- income risk, which arises from the possibility that an unexpected change in the structure of interest rates will lead to a reduction in interest margin; it can depend on the mismatch in the maturity structure and the periods of redefinition of interest rate conditions for loans and funding.

Exposure to interest rate risk is measured in terms of changes in the economic value of assets and liabilities in the banking book; therefore, positions in the trading book for supervisory purposes for which reference is made to market risk are not taken into account in this context.

In order to measure the exposure to interest rate risk in terms of capital absorption from an economic value perspective, the Group has decided to use an estimation approach that follows the method prescribed in the EBA 2022/14 guidelines. The calculation of the change in economic value (delta EVE) carried out by the Group is summarised below:

- the present value of all asset and liability positions sensitive to interest rate risk is determined on the basis of the expected interest rate scenario in the banking book;
- appropriate upward and downward shocks to the curve, both parallel and non-parallel. The measurement of sensitivity on the economic value and that calculated on the interest margin uses the six shock scenarios envisaged by the Basel Committee, then borrowed from the EBA guidelines (EBA/GL/2022/14), in addition to the parallel shock scenarios, assuming rising and falling rates (Parallel +100 bps, Parallel -100 bps, Parallel +200 bps, Parallel -200 bps, Steepener, Flattener, Parallel Down, Parallel Up, Short Up, Short Down) there are also internal management scenarios;
- for scenarios involving a decline in rates, a decreasing floor is taken into account, starting at -150 basis points and zeroing out linearly up to the 50-year maturity in increments of 3 basis points for each year;
- the performance over time of non-indexed demand liability items uses an internally developed behavioural benchmark model;
- the new present value is redetermined for each shock scenario;
- capital absorption is determined by the difference of the two present values, pre- and post-shock.

The Group assesses exposure to interest rate risk not only in terms of economic value, but also in terms of changes in interest margin. This assessment, considering a hypothetical change in the interest rate curve, is carried out over a period of 12 months following the reference date, under the assumption of "constant financial statements", i.e. assuming that the volume and composition of assets and liabilities remain constant, thus providing for their replacement in equal measure as they are settled.

Supervisory review and evaluation process and MREL requirement

With reference to the outcome of the SREP - Supervisory Review and Evaluation Process communicated by the Supervisory Authority by the Parent Company with the letter dated 16 December 2022, and effective from 1 January 2023, the Group is required to meet, on a consolidated basis, a total SREP capital requirement (TSCR) of 10.50%, including an additional requirement with regard to Pillar 2 (P2R) own funds of 2.50%, to be held as a minimum in the form of Common Equity Tier 1 (CET1) capital for 56.25% and in the form of Tier 1 capital of 75%).

The Supervisory Authority also expects the Group to meet the Pillar 2 (P2G) approach on a consolidated basis, which should consist entirely of Common Equity Tier 1 capital and held in addition to the total capital requirement.

Finally, with reference to the Resolution regulatory framework, in application of the European Directive establishing a framework for the reorganisation and resolution of credit institutions and investment firms (so-called Bank Recovery and Resolution Directive - BRRD), during the 2022 Resolution Cycle, discussions continued with the SRB (Single Resolution Board), in order to define the MREL (Minimum Requirement of Eligible Liabilities) target to be assigned to the Group. These targets are defined in compliance with the regulatory changes introduced by the so-called Banking packages, and therefore replace the previous decisions adopted by the SRB on the matter.

The determination of the MREL requirement was communicated to the Parent Company in April 2023. For details, please refer to the section "Significant events in the year" of this Report.

ICAAP and ILAAP

The corporate self-assessment processes of capital adequacy (known as ICAAP) and liquidity risk management and governance system (known as ILAAP) of the Group and their structure are based on a management model consistent with the operations and complexity of the Group, according to the principle of proportionality.

In the exercise of guidance, coordination and control over the Affiliated Banks and Group Companies, the Parent Company defines in detail the roles and responsibilities of the corporate bodies and structures involved in the management of the ICAAP/ILAAP process. In particular, to achieve an effective and efficient management and control system, the Bodies are responsible for implementing it, supervising its actual functioning and verifying its overall functionality and compliance with the regulatory requirements. In order to achieve an integrated and coherent risk governance policy, Group strategic decisions are made by the Parent Company's corporate bodies, assessing the overall operations and risks of the entire Group with attention to the peculiarities of the different businesses and local contexts. The Parent Company has therefore adopted a unitary and integrated system of internal controls that allows effective control over strategic decisions at consolidated level and the managerial balance of the individual affiliated banks and other companies that have outsourced the Risk Management function to the Parent Company.

In particular, in compliance with the structure of the ICAAP/ILAAP process provided for by the Supervisory Provisions, procedures were defined for:

- the identification of all risks to which the Group is or could be exposed, i.e. risks that could jeopardise its operations, the pursuit of defined strategies and the achievement of corporate objectives;
- the measurement/assessment of risks in current, prospective and stress scenarios with measurement methodologies adapted to the new supervisory provisions;

- the self-assessment of capital adequacy taking into account the results separately obtained with reference to the measurement of risks and of capital from a current, prospective and stress perspective;
- the self-assessment of the adequacy of the liquidity and funding risk management process, taking into account the results obtained with reference to the measurement of liquidity risk from a current, prospective and stressed perspective.

Climate and Environmental Risks

For the financial sector, the issue of ESG risks and, specifically, of climate and environmental (C&E) risks, is not only an ethical/reputational and sustainability issue, but a strategic driver that will guide the choices of individual players in the coming years in terms of competitive positioning and the search for a risk/return balance.

This acceleration was mainly driven by a political will that - within the European Union, in particular - led to the financial sector playing a role in transmitting "ESG sensitivity" to the productive sectors, encouraging the redirection of financial flows (in the form of credits and investments granted by banks) towards "sustainable" counterparties/transactions, promoting their transparency, in order to achieve balanced and inclusive growth (known as "Sustainable Finance").

The European Central Bank considers climate and environmental risks to be among the main risk factors for the euro zone banking system, as evidenced by the fact that - for the third year in a row - it has identified climate and environmental risks among the main risk factors in the risk map of the Single Supervisory Mechanism (SSM). From this angle, banks are potentially exposed to climate-related financial risks, regardless of their size, complexity or business model. Climate-related financial risk factors may fall within traditional financial risk categories. Banks should therefore consider the potential impacts of climate-related risk factors on their individual business models and evaluate the financial significance of such risks.

In 2022, the Group took part in the "2022 SSM Climate Risk Stress Test" exercise, conducted by the ECB to determine the European banking system's ability to cope with financial and economic shocks resulting from climate risk. In the same year, the ECB also conducted the "*Thematic Analysis on Climate and Environmental Risk Management Strategies, Governance and Systems*", aimed at gaining further insights into the practices of significant institutions and their ability to effectively target climate and environmental risk strategies. In confirmation of the importance of climate and environmental risks for the Regulator, the outcomes of the thematic analysis were fed into the Supervisory Review and Evaluation Process (SREP).

The Group prioritised the issue of climate and environmental risks by initiating multiple activities to further develop the existing system and analysis framework for these risks, integrating them in a structured manner within the Group's broader risk management framework. The universal nature of C&E risks has attracted the involvement of various internal Group structures with structured activities being planned and/or launched, directly affecting the main traditional risk categories.

In the Group Risk Map, C&E risks are defined as "risks arising from climate change and environmental degradation, which give rise to structural changes affecting economic activity and, consequently, the financial system". C&E risks can be broadly divided into the following two categories:

- Physical risk: i.e. the financial impact of climate change, including more frequent extreme weather events and gradual changes in climate, as well as environmental degradation, i.e. air, water and soil pollution, water stress, loss of biodiversity and deforestation;
- Transition risk: i.e. the financial loss that an institution may directly or indirectly incur as a result of adjusting towards a low-carbon and more environmentally sustainable economy.

Based on these considerations, the Group formalised its first C&E risk mapping operation by first identifying the following C&E risk factors:

- Physical risk factors: acute physical risks include extreme heat and drought, fires, landslides, earthquakes, floods, tornadoes and extreme precipitation (snow, hail and heavy rainfall); chronic risks include rising temperatures, changes in rainfall patterns, sea level rise, water stress, land-use change (including loss of biodiversity and deforestation), pollution and scarcity of resources;
- Transition risk factors: regulatory policies, technological innovation and market sentiments (such as consumer preferences, incentives for ESG investment, etc.).

The mapping concludes with analyses of the transmission channels of the aforementioned C&E risk factors and their potential impacts on the traditional first-level financial risks identified.

As regards physical risk, indicators have been developed to monitor the extent of the Group's exposures to non-financial counterparties in medium-high and high physical risk areas. The methodology involves constructing a geographical map of Italy, separating it into five risk classes.

As regards transition risk, the Group made use of the activities and experience gained from its participation in the Climate Risk Stress Test 2022 by collecting and analysing data from the top 15 NFC counterparties per NACE sector. A number of projects are also being developed to ramp up the involvement of customers to obtain precise information about their energy transition plans so as to be able to more adequately assess and manage the Group's transition risk. Also with regard to transition risk, the Group has conducted initial analyses of the potential impact on liquidity risk, in terms of estimated LCR, NSFR and maturity ladder stressed for physical and transition risk.

The Group has also provided for a structured set of monitoring indicators within the individual and consolidated RAS panel. With particular reference to the latter, in addition to a quantification of the green asset ratio (representing the share of taxonomy-aligned assets against balance sheet assets, excluding exposure to sovereigns, central banks and the trading portfolio), the level of concentration of the NFC portfolio on climate policy relevant sectors (CPRSs) was identified, as well as NFC exposures exposed to hydrogeological and landslide risks. On the liquidity front, specific physical and transition risk shocks are in place for the liquidity coverage ratio and the net stable funding ratio.

Internal control system

The Cassa Centrale Group has created a structured system of internal controls which, on a daily basis and proportionally to the complexity of the activities carried out, involves the entire organisational structure and conforms to the legislation governing the "Internal Control System', reported in Part One, Title IV, Chapter 3 of Bank of Italy Circular 285/2013 and subsequent updates.

The Cassa Centrale Group attributes strategic importance to the integrated management of controls and related risks as they constitute, among other things:

- an element to ensure that all activities are carried out in accordance with the principles of sound and prudent management and defined strategic guidelines;
- a clear and complete representation for the corporate bodies of the internal control system to monitor risks, the critical elements to which the Group is exposed and the interventions in progress;
- an important element for monitoring compliance with the relevant provisions by the competent authorities, as well as spreading the use of integration parameters.

The Parent Company has adopted a unitary and integrated system of internal controls that allows effective control over both the strategic choices of the Group as a whole and the managerial balance, organisation, technical situation and financial position of the individual Group Companies. This system consists of all the rules, functions, structures, resources, processes and procedures that aim to ensure, in compliance with sound and prudent management, the achievement of the following objectives:

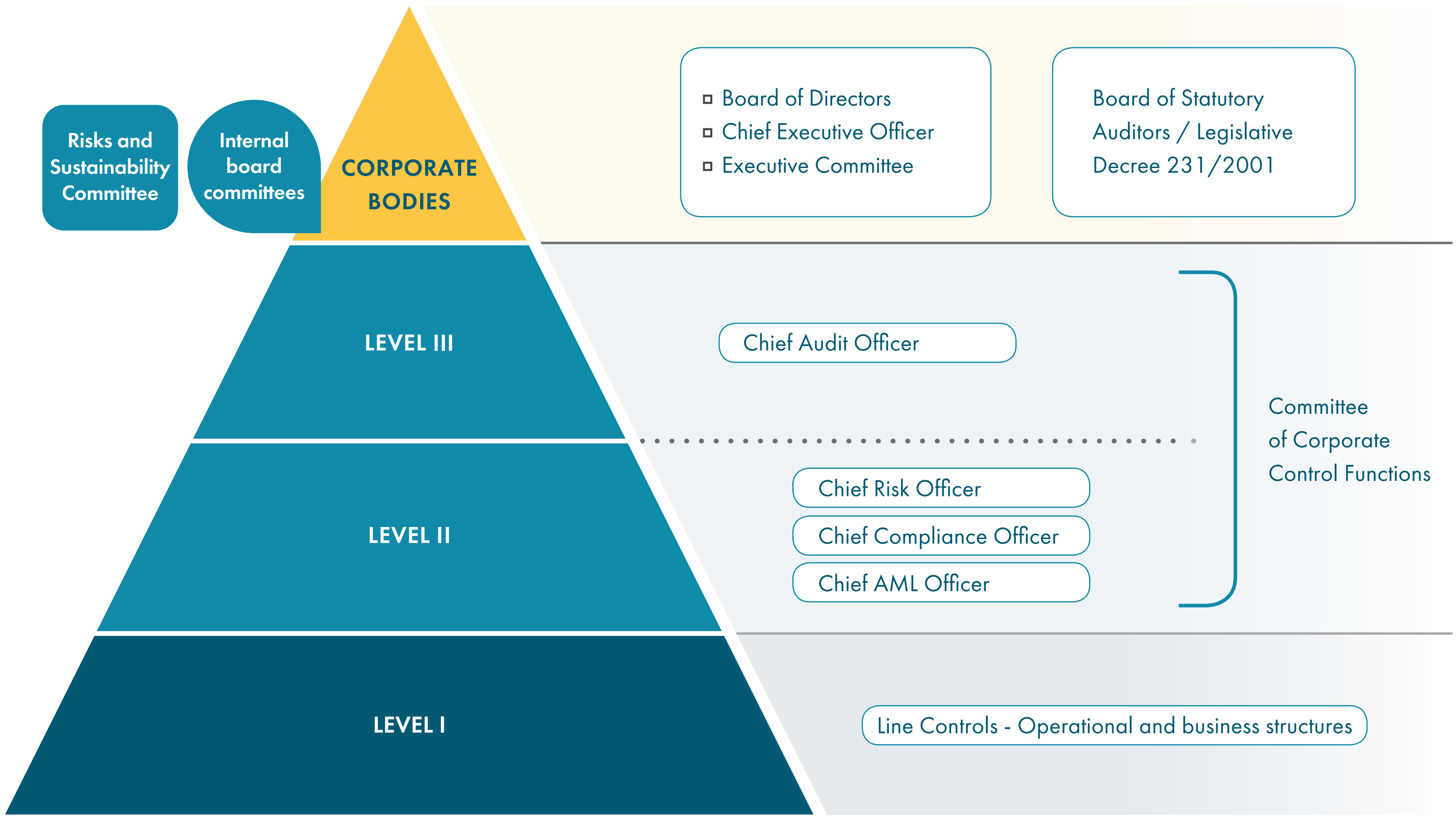
- verification of the implementation of company strategies and policies;
- containment of risks within the limits indicated in the Group's Risk Appetite Framework (RAF);
- safeguarding the value of assets and protection against losses;
- effectiveness and efficiency of business processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Group may be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- compliance of the company's operations with the law and supervisory regulations, as well as with internal policies, regulations and procedures.

The Group's internal control system includes, in keeping with regulatory and legislative provisions in force, the following types of controls:

- **line controls** (so-called "first-level controls"): controls which are designed to ensure the proper conduct of operations (e.g. hierarchical, systematic and spot checks) and which, as far as possible, are incorporated into computerised procedures. These are carried out by the operational structures themselves, including through units dedicated exclusively to control tasks that report back to the managers of the structures, i.e. performed within the back office. The operational structures are primarily responsible for the risk management process; in the course of day-to-day operations, these structures must identify, measure and assess, monitor and control, mitigate and communicate risks arising from ordinary business operations in accordance with the risk management process. They must comply with their assigned operational limits in line with the risk objectives and the procedures in which the risk management process is structured;
- **controls on risks and compliance** (so-called "second-level controls"): controls designed to ensure, *inter alia*:
    - the proper implementation of the risk management process;
    - compliance with the operational limits assigned to the various Functions;
    - compliance of the company operations with regulations, including self-regulations.

  The Functions responsible for these controls are separate from the production functions; they contribute to the definition of risk management policies and the risk management process;

- **internal audit** (so-called "third level controls"): internal audit controls aimed at identifying breaches of procedures and regulations and periodically assessing the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and the information system (ICT audit) at Group level, at predetermined intervals in relation to the nature and intensity of the risks.



The Parent Company's corporate bodies, the Parent Company's Risks and Sustainability Committee, the Committee of Corporate Control Functions, as well as the Corporate Control Functions themselves represent the main players in the internal control system.

Specifically:

- the **Board of Directors**, as a body with strategic supervision functions, it defines and approves the business model, strategic guidelines, risk appetite, tolerance threshold (where identified) and risk management policies, the guidelines of the internal control system, the criteria for identifying the most significant transactions to be submitted to the prior scrutiny of the Risk Management Department and the general terms of the ICAAP/ILAAP process, ensures its consistency with the RAF and the timely adjustment in relation to significant changes to the strategic guidelines, the organisational structure, and the reference operating context;
- the **Risks and Sustainability Committee** is responsible for the tasks assigned to it by the regulations in force from time to time and by the Board of Directors, also with regard to the Affiliated Banks and, in particular, it performs support functions for the Parent Company's Board of Directors with

regard to risks and the internal control system, paying particular attention to all activities that are instrumental and necessary for the Parent Company's Board of Directors to arrive at a correct and effective determination of the Risk Appetite Framework (RAF) and risk management policies;

- the **Board of Statutory Auditors**, as the body with control functions, is responsible for overseeing the completeness, adequacy, functionality and reliability of the internal control system and the RAF at Group level, in accordance with the provisions of current legislation, the Cohesion Contract and the Articles of Association of Cassa Centrale Banca;
- the **Supervisory Board pursuant to Legislative Decree 231/2001**, in implementation of the provisions of Legislative Decree 231/2001 and in accordance with the Organisation, Management and Control Model adopted by the Bank, is responsible for supervising the operation of and compliance with 231 Model and informing the Board of Directors of the need to update it;
- the **Executive Committee**, in compliance with the provisions of the Articles of Association, is responsible for implementing the policies on corporate governance and risk management;
- the **Chief Executive Officer** is responsible for executing the Board of Directors' resolutions, with particular reference to implementing the strategic guidelines and risk management policies defined by the Board of Directors;
- the **Committee of Corporate Control Functions**, consisting of the managers of the corporate control Functions, carries out the coordination and integration activities of the Functions overseeing the internal control system.

The Group's corporate control Functions are represented by the following structures:

- Internal audit function (**Internal Audit Department**);
- Risk control function (**Risk Management Department**);
- Compliance function (**Compliance Department**);
- Anti-money laundering function (**Anti-Money Laundering Department**).

Under the Group's organisational model, the tasks and responsibilities of the second-level control function for the management and control of ICT and security risks are assigned to the Compliance Department and the Risk Management Department, to the extent of their competence.

The model adopted for the Group

The regulatory provisions for Banks in relation to the Cooperative Banking Group issued by the Bank of Italy establish that the corporate control Functions for affiliated Cooperative Credit Banks are carried out under an outsourcing regime by the Parent Company or other companies of the Group.

The Parent Company carries out its tasks in compliance with the following criteria:

- the corporate bodies of the members of the Group are aware of the choices made by the Parent Company and are responsible, each according to their own competencies, for the implementation, within their respective business realities, of the strategies and policies pursued in the field of controls, favouring their integration within the scope of Group controls;
- special internal representatives are appointed within the Companies that have outsourced the Function who: i) perform support tasks for the outsourced control Function and hierarchically to the Bank's Board of Directors; ii) report functionally to the outsourced control Function; iii) promptly report particular events or situations, which may change the risks generated by the subsidiary.

Within the scope of the internal control system, of those companies that have outsourced the corporate control functions, the Boards of Directors perform the activities for which they are responsible in accordance with the provisions of the Articles of Association and the principles laid down in the regulations that the Parent Company (in fulfilment, with regard to the Affiliated Banks, of the provisions of the Cohesion Agreement) has issued in this area, taking decisions, in particular on:

- the guidelines of the internal control system;
- setting up corporate control functions;
- the appointment and dismissal, in consultation with the Board of Statutory Auditors, of contact representatives; and
- the approval of the departments' annual work programmes.

For companies that have outsourced corporate control functions, the Board of Statutory Auditors performs its assigned activities in accordance with the provisions of the Articles of Association and the principles laid down in the regulations that the Parent Company (in fulfilment, with regard to the Subsidiary Banks, of the provisions of the Cohesion Agreement) has issued in this area.

The Supervisory Board, pursuant to Legislative Decree 231/2001 has the task of supervising the operation of and compliance with the company's organisation, management and control model and the guidelines on the administrative liability of entities within the Group.

The General Manager of the Companies that have outsourced corporate control functions performs the activities under their responsibility in accordance with the Articles of Association and the principles laid down in the regulations that the Parent Company (in fulfilment, with regard to the Subsidiary Banks, of the provisions of the Cohesion Agreement) has issued in this area; the General Manager, in particular, implements the resolutions of the corporate bodies in accordance with the provisions of the Articles of Association, pursues management goals and supervises the performance of operations and the functioning of the services as per the instructions of the Board of Directors, ensuring that the organisation is managed as a single entity and that the internal control system operates effectively.

The internal representatives of the individual Companies that have outsourced the Function support the outsourced corporate control Function, report functionally to the same and promptly report particular events or situations, which are likely to modify the risks generated by the subsidiary.

The bodies and the General Manager, where appointed, of the companies that have not outsourced corporate control functions perform the same activities as those falling within their remit, in accordance with their respective by-law provisions and the principles laid down in the regulations issued by the parent company in this area. The internal corporate control Functions, where present, in compliance with the rules applicable to them, carry out their activities in line with the principles and provisions issued by the Parent Company.

In order to ensure guidance and coordination, the Parent Company oversees Group Companies through the continuous exchange of flows, information and data in order to carry out management control that is useful for ensuring the balanced maintenance of economic, financial and equity conditions, the level of risk and, more generally, the integrated internal control system at Group level as a whole.

Internal audit function

The Internal Audit Department oversees, according to a risk-based approach, on the one hand, the control of the regular performance of operations and development of risks and, on the other hand, the evaluation of the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, bringing possible improvements to the attention of corporate bodies, with particular reference to the Risk Appetite Framework (RAF), the risk management process and the instruments for measuring and controlling risks and making recommendations to corporate bodies.

This Function – which is separate from the other corporate control Functions from an organisational point of view – reports directly to the Board of Directors of Cassa Centrale Banca and has specific requirements such as independence, authority and professionalism, which are necessary to ensure effectiveness and efficiency in the performance of its duties. It operates according to principles based on the diligence and professionalism of its employees, in light of the awareness that an effective preventive activity can only be effectively implemented if all staff are duly made aware of their responsibilities and if a culture based on the value of integrity (honesty, fairness, responsibility) and on a set of values to be recognised and shared at all organisational levels is promoted.

The Internal Audit Department operates, for the Affiliated Banks, under an outsourcing of control functions regime in compliance with the service levels established and formalised in the agreement to outsource the Function and avails itself of the collaboration and support of the internal representatives of the same, who report functionally to the Manager of the Internal Audit Department of the Parent Company and hierarchically to the Bank's Board of Directors. With similar operating procedures, the Internal Audit Department also operates for Group Companies that sign an agreement to outsource the Function.

The main activities of the Internal Audit Department are the following:

- assessing the completeness, adequacy, functionality, reliability of the other components of the ICS, the risk management process and other business processes, also taking into account the ability to identify errors and irregularities. In this context, it reviews, among other things, the second level corporate control Functions (Risk Management, Compliance, Anti-Money Laundering);
- annually submitting a risk-based Audit Plan to the corporate bodies for approval, which reports the planned audit activities and takes into account the risks of the various corporate activities and structures. The Plan contains a specific section relating to the audit of the information system (so-called ICT - Audit);
- assessing the effectiveness of the RAF definition process, the internal consistency of the overall scheme and the compliance of the company's operations with it and, in the case of particularly complex financial structures, their compliance with the strategies approved by the corporate bodies;
- assessing the consistency, adequacy and effectiveness with respect to the governance mechanisms described in the business model and carrying out periodic tests on the functioning of operational and internal control procedures;
- regularly checking the business continuity plan;
- carrying out detection tasks regarding specific irregularities as well;
- carrying out, on request, verifications in particular cases (so-called Special Investigation) for the reconstruction of facts or events considered to be of particular importance;
- coordinates with the other corporate control Functions in order to adopt consistent and integrated risk measurement and assessment methodologies, in order to share priorities for risk-based intervention and providing a common and integrated representation of the areas of greatest risk;
- if, as part of the collaboration and exchange of information with the manager of the statutory audit, it becomes aware of critical issues that have emerged during the statutory audit activity, it shall take steps to ensure that the competent corporate Functions adopt the necessary measures to overcome such critical issues.

In order to fulfil the responsibilities assigned to it, the Internal Audit Department has access to all the central and peripheral activities of Cassa Centrale Banca and the Group Companies and to any information relevant for this purpose, including through direct contact with staff.

Risk control function

The Risk Management Function, as part of the Group's internal control system, fulfils the responsibilities and tasks envisaged by the Bank of Italy Circular 285/2013 for the risk management function. It provides useful elements to Corporate bodies in the definition of guidelines and policies on risk management and ensures the measurement and control of the Group's exposure to different types of risk. The Department Manager reports directly to the Corporate Bodies and is accountable to them in the performance of their duties and responsibilities.

The Risk Management Function is also responsible for identifying, measuring and monitoring the risks assumed or assumable, establishing the control activities and ensuring that the anomalies found are brought to the attention of the corporate bodies so that they can be appropriately managed.

The Risk Management Department is also given the responsibilities and tasks of the ICT and security risk control function provided for by Circular 285/2013, in according to the allocation of tasks established in agreement with the Compliance Department.

The Risk Management Department operates Companies that have outsourced the function under an outsourcing regime, in compliance with the service levels established and formalised in the agreement for outsourcing the Risk Management Function, and avails itself of the cooperation and support of their internal representatives, who report functionally to the Manager of the Risk Management Department of the Parent Company.

Within this scope, the Risk Management Department:

- guarantees the effective and proper implementation of the process of identifying, evaluating, managing and monitoring the risks undertaken, whether current or prospective;
- coordinates the process of defining, updating and managing the Risk Appetite Framework (RAF), within which it has the task of proposing the qualitative and quantitative parameters necessary for the definition of the RAF;
- checks the adequacy of the RAF;
- is responsible for defining the operational limits to the assumption of the various types of risk, as well as for verifying their adequacy on a continuous basis;
- assesses, at least annually, the robustness and effectiveness of the stress tests and the need to update them;
- is responsible for the development, validation, maintenance and updating of risk measurement and control systems, ensuring that they are subject to periodic backtesting, that an appropriate number of scenarios are analysed and that conservative assumptions are used on dependencies and correlations;
- defines common metrics for assessing operational risks in line with the RAF and methods for assessing and controlling reputational risks in coordination with the Compliance Department and the relevant Structures;
- assists corporate bodies in assessing strategic risk by monitoring significant variables;
- ensures the consistency of the risk measurement and control systems with the processes and methodologies for assessing company activities, coordinating with the appropriate company structures;
- develops and applies indicators capable of highlighting anomalous and inefficient situations in risk measurement and control systems;
- verifies, on an ongoing basis, the presence of adequate risk management processes;

- analyses and assesses risks deriving from new products and services and from entry into new operating and market segments, including by assuming different risk scenarios and evaluating the bank's ability to ensure effective risk management;
- provides prior opinions on the consistency of MSTs with the RAF, including those that have outsourced the Function, also contributing to defining the parameters for their identification, where appropriate, and obtaining the advice of other Functions involved in the risk management process;
- issues its own prior assessment of the Group's Governance Rules in order to assess their consistency with the overall risk management and control framework it oversees. Exceptions are documents for which the Function, having considered the nature of the contents and/or the changes, does not see any impact on the framework it oversees. The evaluation is issued as described in the Group policy for managing internal regulations;
- measures and monitors the current and prospective exposure to risks, also at Group level, and its consistency with the risk objectives, as well as the compliance with the operational limits, making sure that the decisions on risk taking taken at the different corporate levels are consistent with the advice provided;
- is responsible for activating monitoring activities on the actions put in place if targets/thresholds/limits are exceeded and for communicating any critical issues until the thresholds/limits return within the established levels;
- carries out second-level checks on credit exposures;
- in case of violation of the RAF, including the operational limits, it assesses the causes and the effects on the business situation, also in terms of costs, it informs the business units concerned and the corporate bodies, and proposes corrective measures. It ensures that the body with strategic supervisory function is informed in case of serious violations; the risk control function has an active role in ensuring that the recommended measures are taken by the Functions concerned and brought to the attention of the corporate bodies;
- verifies the proper monitoring of the performance of individual credit exposures;
- verifies the adequacy and effectiveness of the measures adopted to remedy the shortcomings identified in the risk management process;
- contributes to ensuring the consistency of the remuneration and incentive system with the reference framework for determining the Bank's risk appetite (RAF);
- is responsible for assessing the adequacy of internal capital (ICAAP) and liquidity reserves (ILAAP);
- is responsible for preparing the public disclosure (Pillar III);
- is involved in defining the risk governance policies and the phases of the risk management process through the establishment of a system of policies, regulations and documents for the implementation of the risk limits for the Group;
- defines the metrics and methodologies for measuring and monitoring risks and the related guidelines to be adopted at the Group level;
- ensures, through reporting activities, a constant and continuous flow of information to the corporate bodies and other corporate control functions on the exposure to risks and the results of the activities carried out;
- oversees the process of assigning and updating the ratings used to assess the creditworthiness of the counterparties;
- oversees the processing of the classification of the risk-based model and, in agreement with the Planning Department, the activation of the appropriate corrective actions (i.e., Relaunch Plan, Recovery Plan, Combination Plan);
- informs the Chief Executive Officer/General Manager of any exceeding of targets/thresholds/limits relating to the assumption of risks;

- prepares and submits to the Corporate bodies the report on the activities carried out by Management, in accordance with the provisions of the reference regulations;
- contributes to the dissemination of a control culture within the Group.

The Risk Management Department, in its role as ICT and security risk control department, which it performs in conjunction with the Compliance Department, is responsible for monitoring and controlling these risks, as well as ensuring that ICT operations conform with the ICT risk management system. For this purpose:

- it helps to define the information security policy and is informed about any activity or event that could significantly affect the Group's risk profile, major operational or security incidents, or any substantial changes to the ICT systems and processes;
- is actively involved in the projects creating substantial changes to the information system and, in particular, in the risk control processes related to such projects.

As part of the Integrated Internal Control System, the Risk Management Department coordinates with the other corporate control functions in order to:

- adopt consistent and integrated risk measurement and assessment methods, providing a common and integrated representation of the areas of greatest risk;
- define risk-based intervention priorities;
- develop the sharing of operational and methodological aspects and the actions to be taken in case of significant and/or critical events in order to identify possible synergies and avoid potential overlapping and duplication of activities.

As part of the activities listed above, the Risk Management Department prepares annually a risk-based approach and submits an activity plan to the corporate bodies based on:

- the main risks to which the Group is exposed;
- any shortcomings emerging from the checks carried out;
- any elements identified by the Internal Audit or any findings reported by the Validation Service;
- the risk objectives defined by the Group;
- any evidence emerged from discussions with the Supervisory Authorities.

Compliance function

The Compliance Department of the Parent Company oversees, according to a risk-based approach, the management of the risk of non-compliance — understood as the risk of incurring judicial or administrative sanctions, significant financial losses or reputation damage as a result of violations of mandatory rules (laws or regulations) or self-regulation (e.g. Articles of Association, Cohesion Contract, Code of Ethics) — with regard to all company activity.

In particular, in its role as Parent Company Function, it exercises control over the risks impending on the activities carried out by all the Cassa Centrale Group Companies in order to assess the various risk profiles contributed by these Companies and the overall risks of the Group. This translates to the performance of specific monitoring and verification activities concerning the Cassa Centrale Group as a whole and/or individual Group Companies, which therefore guarantee adequate information flows and timely responses to specific requests and collaboration.

The Compliance Department is separate from the other corporate control Functions from an organisational point of view, it reports directly to the Board of Directors of Cassa Centrale Banca and has specific requirements such as independence, authority and professionalism, which are necessary to ensure effectiveness and efficiency in the performance of its duties.

The Compliance Department operates, for the Affiliated Banks, under an outsourcing regime in compliance with the service levels established and formalised in the Function outsourcing agreement and avails itself of the collaboration and support of the Internal Representatives of the same (and any operational support structures), who report hierarchically to the Board of Directors of the respective Company and, at the same time, report functionally to the Department Manager. With similar operating procedures, the Compliance Department also operates for the other Companies of the Cassa Centrale Group that sign an agreement to outsource the Function. This Department also carries out any further activities aimed at assessing and reporting the various risk profiles brought to the Group by the Companies and the overall risks of the Group.

For the monitoring of certain regulatory areas for which it is permitted by applicable regulations or for the performance of specific obligations in which the Compliance Department's activities are articulated, the same may make use of specialist control units, remaining in any case responsible for the definition of risk assessment methodologies. In particular, the role of specialist control units is attributed to the Tax Service and the Workplace Prevention and Protection Office & RSPP (Head of prevention and protection service), for the respective regulations indirectly supervised by the Function.

In particular, the Compliance Department:

- continuously identifies the applicable rules and assesses their impact on corporate processes and procedures;
- collaborates with the corporate structures for the definition of methodologies for the assessment of compliance risks;
- identifies suitable procedures and/or organisational changes for the prevention of the detected risk, with the possibility of requesting their adoption;
- verifies the adequacy and correct application of the procedures for the prevention of the detected risk;
- ensures ongoing and continuous monitoring of the adequacy and effectiveness of the measures, policies and procedures relating to investment services and activities;
- prepares information flows directed to the corporate bodies and structures involved (e.g.: operating risk management and internal audit);
- verifies the effectiveness of the organisational adjustments (structures, processes, procedures, including operational and commercial) suggested for the prevention of compliance risk;
- is involved in the ex-ante assessment of the compliance with applicable regulations of all innovative projects (including the operation of new products or services) that the company intends to undertake as well as in the prevention and management of conflicts of interest between the different activities carried out by the company and also with regard to employees and company representatives;
- provides advice and assistance to Corporate Bodies in all matters in which compliance risk is significant;
- collaborates in the training of staff on the provisions applicable to the activities carried out;
- coordinates with the other corporate control functions in order to adopt consistent and integrated risk measurement and assessment methodologies and sharing priorities for risk-based intervention and providing a common and integrated representation of the areas of greatest risk;

- provides, for the aspects within its competence, its contribution to the Risk Management Department in the assessment of risks, in particular those that cannot be quantified, as part of the process of determining capital adequacy;
- collaborates with the Risk Management Department, in line with the Risk Appetite Framework (RAF), to develop appropriate methodologies for the assessment of operational and reputational risks arising from any areas of non-compliance, also ensuring the reciprocal exchange of information flows suitable for an adequate oversight of the areas of competence;
- spreads a corporate culture based on the principles of honesty, fairness and respect for the spirit and letter of the rules.

For the parent Company and its Affiliated Banks, in the context of managing and supervising ICT and security risks, the Compliance Department:

- helps define the information security policy by assessing its compliance with the relevant regulations;
- is informed, to the extent of its competence, about any activity or event that could materially affect the Group's risk profile, significant operational or security incidents, or any substantial changes to the ICT systems and processes;
- is actively involved, to the extent of its competence, in projects creating substantial changes to the information system and, in particular, in the risk control processes related to such projects.

The Compliance Department of the Parent Company coordinates the maintenance and updating of the 231 Model of Cassa Centrale Banca and the performance of the activities dependent on it, including the submission of a periodic report with the Supervisory Board, and also provides technical/operational support to the Group Companies and their 231 Representatives as identified pursuant to the Guidelines on the Administrative Responsibility of Entities within the Group, without prejudice to the responsibility of each Company for the ongoing updating of their respective Models.

Anti-money laundering function

The Anti-Money Laundering Department adopts a risk-based approach in overseeing the management of the risks of money laundering and terrorist financing with regard to the company's activities by evaluating the adequacy of internal procedures intended to prevent the violation of applicable external standards (laws and regulations) and self-regulation (e.g. Articles of Association and Codes of Ethics).

The Anti-Money Laundering Department operates in accordance with the responsibilities assigned to it as a second-level corporate control Function of the Parent Company and fulfils the contractual obligations arising from its role as supplier to the Affiliated Banks and the user companies.

The Anti-Money Laundering Department operates, for the Affiliated Banks and the user companies, under an outsourcing regime in compliance with the service levels established and formalised in the agreement to outsource the Function, and avails itself of the collaboration and support of internal representatives, who, operating in close functional coordination with the Anti-Money Laundering Department, supervise the processes related to anti-money laundering legislation in the Affiliated Bank/User Company.

The Anti-Money Laundering Department of the Parent Company formulates and prepares specific directives and instructions to which the Anti-Money Laundering representatives must adapt their operations, in order to ensure the operational consistency of the Group in relation to the management and measurement of the risks of money laundering and terrorist financing.

In the event that a Group Company is the recipient of anti-money laundering obligations and has not outsourced the Function to the Parent Company, specific information flows are transmitted to the Anti-Money Laundering Department of the Parent Company by the same companies (the Annual Anti-Money Laundering Report, the annual planning of activities, any significant critical issues identified by the execution of anti-money laundering activities).

The Anti-Money Laundering Department has the objective of:

- contributing to the definition of strategic guidelines and policies for the overall governance of risks related to money laundering and terrorist financing, the preparation of communications and periodic reports to corporate bodies and the feeding of the Risk Appetite Framework, collaborating with other corporate control Functions in order to achieve an effective integration of the risk management process;
- developing a global approach to risk based on the strategic decisions taken by the Parent Company, defining the Group's methodology for assessing the risks of money laundering and terrorist financing, the procedures for coordinating and sharing information between Group Companies and general standards for the adequate verification of customers, the retention of documentation and information and the identification and reporting of suspicious transactions;
- ensuring adequate Group supervision, continuously verifying the suitability, functionality and reliability of the anti-money laundering arrangements, the procedures and processes adopted within the Group and their degree of adequacy and compliance with the law;
- playing a management and coordination role in relation to Group Companies, promoting and spreading the culture of prevention of the risk of money laundering and terrorist financing.

The Anti-Money Laundering Department oversees and coordinates the management of money laundering and terrorist financing risks, through the execution of a series of activities that may be related to the following types of processes:

- main processes, i.e. the set of activities aimed at the correct fulfilment of the obligations of proper customer due diligence, data and information retention and reporting of suspicious transactions;
- cross-cutting processes, i.e. the set of activities functional to mitigate and contrast the risk of money laundering.

In the performance of its duties, the Anti-Money Laundering Department has access, in the manner deemed most appropriate, to all activities and to all central and peripheral structures of the Group, as well as to any information that it deems relevant for the performance of its duties and is equipped with tools that are useful for carrying out the controls for which it is responsible.

As part of the integrated internal control system, the Anti-Money Laundering Department contributes in its areas of responsibility to:

- the definition of a common risk taxonomy for analysis and evaluation activities;
- the constant exchange of information;
- the establishment of uniform risk measurement and reporting methods;
- the management of any misalignments in the level of risk assessments that have emerged during the planning of activities;
- the examination of the findings that have emerged and the related corrective actions proposed, examining any conflicting assessments in order to reach a single and satisfactory solution for all the corporate control Functions that have highlighted the same significance.

Human Resources

The total workforce of the Cassa Centrale Group as at 30 June 2023 stood at 11,914 employees, compared to 11,702 as at 31 December 2022.

Staff composition by category and gender

NUMBER OF EMPLOYEES BY CATEGORY AND GENDER	30/06/2023			31/12/2022	Change	% change
	Men	Women	Total	Total		
Executives	183	13	**196**	195	1	0.5%
Middle managers	2,468	840	**3,308**	3,190	118	3.7%
Office staff	4,149	4,261	**8,410**	8,317	93	1.1%
TOTAL	**6,800**	**5,114**	**11,914**	**11,702**	**212**	**1.8%**

Staff composition by age group

NUMBER OF EMPLOYEES BY CATEGORY AND AGE GROUP	30/06/2023				31/12/2022	Change	% change
	<30	30-50	>50	Total	Total		
Executives	-	45	151	**196**	195	1	0.5%
Middle managers	1	1,563	1,744	**3,308**	3,190	118	3.7%
Office staff	1,067	5,304	2,039	**8,410**	8,317	93	1.1%
TOTAL	**1,068**	**6,912**	**3,934**	**11,914**	**11,702**	**212**	**1.8%**

The average age of the Group's personnel is in the 30-50 bracket with about 58% of employees in that bracket.

The long-term strategy of the Group is always oriented towards the quality of its human resources, with a primary commitment in promoting the constant development of individual and group capabilities and skills.

The main guidelines followed by the Group are valuing initiative and flexibility, supporting growth opportunities through adequate development paths and promoting active participation in the implementation of projects, providing instruments and methods for the emergence of innovative contributions to be made available to the company.

Corporate culture and brand identity

Also in the first half of 2023, committed efforts continued on promoting a corporate culture capable of enhancing the unique characteristics of the Cassa Centrale Group, paying particular attention to the dynamics that affect the people who live within our organisations. The progressive overcoming in the pandemic allowed for a return to traditional social relations, whilst confirming the added value of the integrated use of innovative technological systems to enable and facilitate interaction between people. As a result, webinars, live debates, and sharing of best practices in expert communities were conducted, enabling professionals from the Parent Company and Representatives of the Affiliated Banks to engage with each other on a daily basis, in order to understand the needs of the Banks and incorporate them into the strategies of the Parent Company.

New online "Communities of Practice" were established, which is increasingly being used by various Services to engage with those operating at the Banks who deal with certain issues. The Communities are spaces for discussion and growth, but also represent smart and efficient tools for conveying practices and behaviours that support the sharing of Group-wide policies and regulations.

The project on the corporate identity of Cassa Centrale Banca was strengthened with the realisation of the "Manifesto of values", built within the Parent Company through the dialogue of people with different experiences, young people and executives engaged in the search for those "key words" that could be used to represent the identity culture of the Parent Company. The Cassa Centrale Banca Manifesto outlines the purpose to promote the positive impact the company has on communities, employees and investors. Having a clearly stated purpose helps to recruit like-minded people and to make decisions in line with the Group's values. To this end, numerous video interviews were conducted with employees to tell different stories based the words and values that underpin the corporate identity of the Cassa Centrale Group. The project was developed and further expressed in the Posterzine initiative, definable as part poster and part magazine, which in the first half of 2023 resulted in the publication of further editions. Each one focuses on one of the key words identified in the Manifesto of Values, also promoting a high level of reflection thanks to the involvement of renowned external writers. The end goal is to create a sense of belonging and to define a trajectory that the people themselves brand as of value, a trajectory towards shared and identity goals.

Well-being remains a pillar in the strategy to build the Group's corporate culture, which is why the psychological well-being awareness project continued in early 2023 through ad hoc webinars aimed at employees. The free listening and mental health counselling service, supported by a network of specialised professionals partnering in these initiatives, continues to be highly appreciated and widely used, including for personal growth plans thanks to the commitment of expert coaches.

Activities to raise awareness and improve understanding of ESG issues also continue. Workshops, seminars, and communities of practice for experts aim to involve employees at various levels to encourage them to take responsibility for environmental, social and governance impacts. In relation to ESG topics, a new internal communication project has been created.

The project "Sam, the employee who gives voice to employees" continued, enabling surveys to be carried out through quantitative and qualitative measurements of employee engagement.

Agile working

In recent years, society and the labour market have undergone profound socio-demographic changes that have created a revolution in the goals and roles of women and men and have made work-life balance a crucial issue for individuals and organisations. Corporate well-being, understood as a corporate social responsibility strategy, plays a central role and aims to improve the working conditions and environment of employees and increase their productivity by investing in their physical, mental and social well-being. With this in mind, it is necessary to mention the tool that most clearly represents the change taking place, i.e. smart working or agile working, a flexibility tool widely used both at Cassa Centrale Banca and Allitude, and at the BCC and Group companies.

Introduced in the Parent Company as early as 2020, it is now an ordinary tool which the various teams use to manage activities within their Departments. Agile Working is a way of facilitating work-life balance goals and thus promotes the complete well-being of people. It is particularly appreciated by the younger generations and helps attract and retain talent of all ages.

Agile Working is also a valuable tool for the promotion of gender equality, giving everyone the opportunity to manage non-work tasks of active and shared parenting and care-related tasks equally.

Management was able to acquire new skills for managing teams remotely and hybridly, thanks to a self-learning catalogue full of content on the subject.

Recruiting activities

Recruitment is a keystone for the development of the entire Group's organisational structure. The identification and subsequent placement of new human resources in the Parent Company's Departments, and in the affiliated banks that request the search and selection service, are essential processes for the acquisition of people with new skills and experience, coming from universities, cooperative credit institutions, other banking groups, consultancy companies and the professional world.

The entire recruiting process is managed in-house by specialised professionals supported by the SAP SuccessFactors platform, Linkedin and, where necessary, specialised headhunting companies.

During the period, through an initial revision of the organisational structure, the relationship between the recruiting and HR management processes was emphasised, with the aim of further developing and consolidating the management of the entire life cycle in the company.

Partnerships to innovate and compete

The well-established partnership with SDA Bocconi School of Management also continued in the first half of 2023 for most of the finance and core banking courses. On in particular was the "Executives in Banking Management" course for the long-term training of the Group's top management.

A collaboration with ABI Formazione led to the setting up of a specific training course for the Sustainability Representatives in our Banks to support the Group's ESG strategies, set out in the Sustainability Plan and the Strategic Plan. Two editions of the "Become an ESG Expert in the Cassa Centrale Group" course were held, in blended classroom and webinar modes. They were highly appreciated by the participants and the General Management of the Group Banks.

The partnership with CeTif, the Research Centre for Technology, Innovation and Financial Services of the Sacred Heart Catholic University, continues to bring expertise to the Group's Banking Care Academy, particularly in digital banking, digital HR, digital compliance and cyber security.

With regard to the drive to promote an organisational culture oriented towards respect for diversity, in the first half of 2023 we again relied on the partnership with Valore D, a long-standing association of Italian companies that works to promote gender balance and an inclusive culture in organisations and in our country. Together with Valore D, we created several training schemes for top management and Group employees, in particular by running two editions of the Path for the Development of Female Empowerment in the Cassa Centrale Group.

In the area of corporate well-being, we maintained our partnerships with corporate wellness company Eukinetica, and Mindwork, which specialises in psychological well-being and the promotion of inclusive, person-centred environments.

Also in the first half of 2023, several schemes were carried out in cooperation with a number of Junior Enterprises of North-Eastern universities, in particular with JeTn of the University of Trento, JeVe of the University of Venice, and JeST of the University of Padua. The ongoing development of the student network has allowed the Cassa Centrale Group to make itself known for its special aspects and helps maintain a channel of listening and attention on the younger generations, which proves itself a source of constructive exchange and a valuable element in the search for innovation.

Developing human capital: training and skills development in the Group

The Group's Banking Care Academy is responsible for the design, promotion and implementation of training courses for the Cassa Centrale Group, with training programmes reaching all employees through the SAP SuccessFactors LMS Learning Management System platform.

It does so by constant listening to the needs of the banks in our territories and by the high-value connection with the Parent Company's internal departments and Group strategies. Indeed, the proposals reflect on the one hand the regulatory requirements to fulfil certain training obligations and, on the other, the development and updating of the skills of our people from a Group perspective. The creation of synergistic environments in which to learn these skills renders the Corporate Academy offering highly professional and consistent with the present and future of the Group. It helps standardise skills, thus fostering the exchange of best practices and the desirable internal mobility of talent.

An entire section of our Corporate Academy concentrates on the issue of sustainability. More than 10 specific training courses are aimed at the employees of our banks as well as the Board and corporate officers of the Affiliates. They are made up of online activities with asynchronous courses and in-person webinars/pathways, addressing transversal topics such as the 2030 Agenda and more specific content such as finance-related matters and consulting in the ESG sphere. Particular attention was paid to diversity and inclusion issues, with both online and webinar formats. Courses included transversal activities relevant to all personnel, as well more specific option for roles of responsibility. In-person/webinar activities are in line with the academic calendar while online activities are always active and are run several times during the year. The goal is to reach all employees with different levels of depth of learning, depending on their roles and responsibilities.

The issue of inclusiveness and gender equity is particularly felt; activities have been proposed to support and enrich female leadership in the Group environment and to raise senior figures' awareness of discriminatory behaviour and cognitive bias in order to foster career paths for the less represented gender.

The Group's e-learning proposals are composed of high quality multimedia content, systems for monitoring and controlling users while they take online certification examinations to verify skills in vocational courses (proctoring model), interaction, and the use of elements borrowed from games and supported by game design techniques in learning contexts (gamification). The programme is created with a synergetic and coordinated approach, uniting the points of view of those with knowledge of the content with those who can offer creativity, experience, innovation and methodologies. Thanks to this approach, the programme evolves throughout the year and adapts to regulatory updates and the Regulations and Policies issued by the Parent Company, also based on the input provided by the Parent Company's Departments and Affiliated Banks and the countless national and international hubs and communities in which the Cassa Centrale Group regularly participates.

With regard to classroom, webinar and blended schemes, the first half of 2023 saw numerous initiatives that brought the Group's employees back to in-person participation, thus reprising an aspect of interpersonal exchange enriched by social experiences that consolidate the network linking the Group's professionals. In particular, mention should be made of the "Executives in Banking Management" course with SDA Bocconi for the Group's top management, the long-standing course for private consultants, the new proposal *"Become an ESG Expert in the Cassa Centrale Group"* and *"Middle Managers of the Cassa Centrale Group: Leadership and Team Management",* aimed at increasing the skills of management personnel.

During the first half of the year, a number of events were organised for the contact persons of particular areas within the banks. These included dedicated events such as the Compliance Representatives' Meeting, the Group Audit Meeting and Credit Day. focusing on credit issues. All events featured external speakers and internal Parent Company specialists, helping to create internal debate and the sharing of experiences between bank participants.

Thanks to the SAP SF platform, Communities of Practice and thematic groups continue to serve as supports for training activities and the exchange of best practices within the Group, creating new synergies and promoting a spirit of sharing and cooperation between diverse entities.

Remuneration policies

On 07 June 2023, the Ordinary Shareholders' Meeting of the Parent Company - on the proposal of the Board of Directors - approved the Group's 2023 remuneration and incentive policies for all personnel, including the most important personnel, as well as for members of corporate bodies.

With regard to Group Companies within "scope", the Remuneration and Incentive Policies (hereinafter also referred to as the "Policies") approved by the respective Shareholders' Meetings were adopted by formal resolution of the respective Shareholders' Meetings for the Affiliated Banks and by competent bodies for the other Companies.

In particular, the Policies have been defined on the basis of the 37th update of 24 November 2021 of the Regulatory Provisions on "Remuneration and Incentive Policies and Practices", issued by the Bank of Italy in November 2014 with the 7th Update of Circular no. 285 of 17/12/2013 in implementation of EU Directive 2013/36/EU of 26/06/2013, as amended by Directive (EU) 2019/878 (so-called CRD V), and Delegated Regulation (EU) no. 923/2021 of 25 March 2021, which supplements Directive no. 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and setting out qualitative and quantitative criteria able to identify staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of the CRD. The Guidelines on Sound Remuneration Policies under Directive 2013/36/EU, issued by the EBA on 2 July 2021, were also considered.

The Policies also comply with the Provisions on "Transparency of banking and financial transactions and services"; appropriateness of relations between intermediaries and customers, updated by the Bank of Italy on 19 March 2019, align national provisions with the Guidelines on remuneration policies and practices relating to the sale and supply of retail banking products and services issued by EBA in December 2016.

Furthermore, the Policies include information on their consistency with the integration of sustainability risks, in compliance with the provisions of Article 5 - Transparency of remuneration policies in relation to the integration of sustainability risks of Regulation (EU) no. 2019/2088 of the European Parliament and of the Council of 27 November 2019.

The Policies describe in an organic manner: the principles on which the Cassa Centrale Group's remuneration and incentive system is based; the roles, timing and activities that define the governance of the process of drafting, reviewing and adopting Group remuneration and incentive policies; the remuneration and incentive system to be adopted in 2023 by the Group for all employees, including the most important personnel, as well as for the members of corporate bodies.

The aim is to implement remuneration systems consistent with the Group's values and the shared aims of the Affiliated Banks to support the interest of all stakeholders. The remuneration policies support the Group's long-term strategy and the achievement of its corporate objectives, including sustainable finance, taking ESG factors into account. They are defined in accordance with the Group's prudent risk management policies, including strategies for monitoring and managing impaired loans, as defined under the current provisions on the prudential control process.

For further information and a detailed description of the policies in place, please refer to the document "2023 remuneration policies" available on the Cassa Centrale Banca website at the address www.cassacentrale.it, in the Governance section.

Welfare and Trade Union Relations

The first half of 2023 saw the Welfare, Trade Union Relations and Labour Regulations Service working towards the finalisation of the first part of the Group Supplementary Agreement, which was concluded on 1 June.

In particular, the agreements of 1 June:

- consolidate the methods for calculating the corporate productivity value (CPV) that will be applied on an trial basis to the year 2023 amounts to be disbursed in 2024 and which, as provided for in Articles 29 and 48 of the CCNL, regulate the territorial areas of comparison between the Banks for the purposes of their placement in bands, the scope of equivalence, the indicators and the relative weights to be used for the purpose of calculating the latter, and the methods of disbursing the bonus for Group Companies other than BCC-CR-RAIKA. As provided for in the CCNL regulations, the bonus takes into account not only the productivity data of the individual company (80%), but also the overall Group results for a total share of 20%;
- provide, with regard to Welfare, the payment of EUR 225 per year to each colleague with effect from 1 October 2023. The payment will be made annually, starting from 1 January 2024;
- determine, with regard to health insurance, a supplementary 0.50% contribution at the company burden. This, together with a 0.15% contribution from each individual colleague, reaches the target requested by the trade unions of 0.65% overall;
- define, for meal tickets, a reference face value for the entire Group of EUR 8, which will be applied as of 1 October 2023, without prejudice to existing agreements that already set higher values. For people who are uninterested in the welfare goods and services referred to above and expressly waive them, it is envisaged that the meal ticket will be EUR 9, with the possibility of monetising this sum in the pay slip or allocating it to supplement the value of the meal ticket.

As regards the progress of the Group's trade union negotiations, the procedure under Article 22, part three, for the company Allitude and the procedure under Article 22, part two, for the merger between BCC FriuliOvest and BCC BancaTer was managed.

In the Federcasse case, negotiations continued on the agreement for the electronic management of coupons, trade Union permits and new professional profiles.

Employment law support continued to be provided to the Banks, both with regard to specific activities and more generally to the drafting of opinions, preparation of contracts, out-of-court assistance, operational support, interpretative advice on labour law and assistance in relations with their company Trade Union Representatives.

Other information on operations

Consolidation and development of Corporate Identity activities

In the first half of 2023, a series of activities continued to ensure continuity in support for banks and territories.

In the area of finance, a new edition of the prize competition for NEF PAC subscribers was launched, called *IL RISPARMIO TI PREMIA* (Saving is Rewarding). The competition ran from 1 January and until 31 May 2023 and aimed to encourage savers to consider risk-mitigating investment formulas, such as Capital Accumulation Plans (CAPs). In addition, a major national communication campaign was planned under the NEF brand and coordinated with the Cassa Centrale Group brand identity. The project involved the major daily newspapers, information web portals and social media activities.

In the area of e-money and payment cards, the important partnerships with Nexi, American Express and Bancomat continued in the first half of 2023 through a series of commercial initiatives and communication campaigns aimed at building customer loyalty and encouraging the use of cards.

At the end of May, a major collaborative project was started with Allitude to completely redesign the screens of all ATMs of the Group Banks. This action is part of the Group's broader identity evolution project intended to give it communications consistency across all channels of access to the bank. In the first half of 2023, a project was launched to support the banks' digital communications. Specifically, a storytelling project was developed to be used as dedicated editorial content that the Banks can post on their social media channels (Facebook, Instagram, LinkedIn). The aim was to create a direct yet emotional narrative to illustrate the story of the Cassa Centrale Group, from the birth of Credito Cooperativo to future prospects. The resulting 12 content items thus added value to the efforts of the individual Affiliated Banks that contribute daily to the economic, social and cultural development of communities in the interest of members, customers and territories. The initiative was highly appreciated by the Banks, which increasingly use social channels as a tool for communication and contact with their customers.

In continuity with previous years, work continued on the MyCMS (Content Management System), the shared multi-site platform that allows individual banks to configure and customise their websites in just a few steps. Following the upgrade of the Umbraco open source management software programme, from version 7 to version 8, the innovative developments of MyCMS were shared with the Group's banks in a dedicated meeting: a set of projects involving a major graphical overhaul of the websites connected to the platform and new features. Preparatory activities for the development of MyCMS were also presented, including an overview digital trends, market and statistical analyses and the results of a customer satisfaction survey conducted on the Banks. In the first half of 2023, work was completed on the analysis and definition of a new graphic solution that will be published on all websites linked to MyCMS during the summer. This will be followed up in the second half of the year by the rolling out of the additional features presented.

As of 30 June 2023, 62 Affiliated Banks had joined the project.

Following the performance analysis of the corporate website cassacentrale.it and the demographic and behavioural analysis of the public aimed at assessing its positioning and visibility, constant monitoring activities continued with a view to strengthening the positioning of the brand in the search engine results pages and sharing information aimed at raising awareness on specific corporate topics.

With regard to the Mutuo Prima Casa Giovani, which allows access to the "Guarantee Fund for the purchase of first homes" for up to 80% of the capital, a communication line was developed – also in view of the market trends in this area – for the Banks to use in the promotion of the product in the reference territory. The material produced (posters, ATMs and social media formats) is fully customisable, allowing banks to add their own reference content and conditions.

The Marketing Service was also involved in the Working Group on Accessibility of Digital Channels [15], thus following up on the activities already started in 2022 on the managed sites:

- MyCMS: at the end of 2022, a sample site was assessed in order to be able to draw up the Accessibility Statement for sites adopting the platform; this assessment will be repeated in the second half of 2023 after the new graphic release, and will be followed up with an error correction and code modification action;
- Group institutional website: an assessment was made for the drafting of the Accessibility Statement and activities for adapting the code will be arranged in 2023.

Relations with related parties

Details of transactions with related parties are provided in Part H of the Explanatory Notes, to which reference should be made.

Information on going concern, financial risks, impairment testing of assets and uncertainties in the use of estimates

With reference to the Bank of Italy, CONSOB and ISVAP documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010, concerning the information to be provided in the financial reports on the business outlook, with particular reference to business continuity, financial risks, impairment testing and uncertainties in the use of estimates, the Board of Directors confirms that it has a reasonable expectation that the Group can continue to operate in the foreseeable future and therefore certifies that the condensed consolidated half-yearly financial statements as at 30 June 2023 have been prepared on a going concern basis.

There are no elements or warnings in the Group's equity and financial structure and operating performance that could lead to uncertainties as to its ability to continue as a going concern.

For information on financial risks, impairment testing of assets and uncertainties in the use of estimates, reference should be made to the information provided in this report, comments on operating performance, and/or in specific sections of the consolidated financial statements.

[15] Accessibility is understood as the ability of information systems to deliver services and provide information that is usable and non-discriminatory, including for people who require assistive technologies or special configurations due to disabilities.

Own shares

The share capital of the Parent Company Cassa Centrale Banca amounts to EUR 952,031,808, made up of 18,158,304 ordinary shares and 150,000 preference shares, both with a nominal value of EUR 52.

As at 30 June 2023, 15,874,453 ordinary and preference shares with a nominal value of EUR 825,471,556 (corresponding to 86.71% of the share capital) are held by the Affiliated Banks of the Cassa Centrale Group and therefore, in the consolidated financial statements, these are to be considered as own shares held in portfolio.

No shares of the Parent Company were sold during the year.

Policies for business continuity management

The rapidly changing digital landscape and the evolving regulatory framework, exemplified by the introduction of Regulation (EU) No. 2022/2554 (so-called DORA Regulation) concerning digital operational resilience for the financial sector, necessitate a paradigm shift in order to better prevent business interruption events and to maintain the continuity of critical services over time.

Taking best practices in Business Continuity Management (BCM) as a starting point, Cassa Centrale Banca has launched an organisational change by relocating the Business Continuity Department to the Information Technology and Security Department. The primary goal of this change is to further expand the preventive measures for reactive response and recovery of the Bank's critical processes through better synergy between the technological and organisational components inside and outside the structure and the complete integration of the IT Risk Management framework with the Operational Resilience framework, with a view of decreasing required effort and complexity in the execution of impact and risk assessment processes.

In the first half of 2023, the Risk Assessment process was performed on business continuity. More advanced methods were used for the identification of inherent risk, analysis of vulnerabilities, determination of residual risk and for the mitigation measures added to the Group's Regulations for Business Continuity and Crisis Management.

During this period, support and training activities for the Affiliated Banks continued for the implementation of the new activities. Special training workshops gave support to the business continuity contact persons, and several dedicated sessions were organised with the individual affiliated banks. These meetings illustrated the methodological changes made to the BIA (business impact analysis) and the Risk Assessment in the area of business continuity. Help was provided in compiling the related documents.

Tests were planned for 2023, to be carried out in the second half of the year, with a focus on the technology testing of the Disaster Recovery solution provided by Allitude.

Some test scenarios were extended and implemented with positive results, such as the first end-to-end critical process test carried out at Cassa Centrale Banca. It involved the verification of the complete process of transmitting and receiving orders on the market and checking the availability and operational capacity of the provider's recovery site, as well as the reachability of the services offered by the parent company.

The support and communication activities of the Business Resilience Office during emergencies continued without interruption during the first half of the year, with particular reference to the very serious flooding that hit Emilia-Romagna in May and affected some Affiliated Banks. The event caused no disruption to critical activities and caused minimal disruption and damage to customers, thanks to prompt intervention by the Banks and the execution of recovery solutions.

Organisation, management and control model for crime prevention pursuant to Italian Legislative Decree no. 231/2001

In implementation of the delegation pursuant to article 11 of Law no. 300 of 29 September 2000, Legislative Decree no. 231 of 8 June 2001 (hereinafter also "the Decree") was issued, with which the legislator aligned domestic regulations to the international conventions, adopted also by Italy, on the liability of legal persons.

These in particular include the Brussels Convention of 26 July 1995 on the protection of the financial interests of the European Communities, the Convention signed in Brussels on 26 May 1997 on the fight against corruption involving officials of the European Community or of the Member States and the Organisation for Economic Co-operation and Development (OECD) Convention of 17 December 1997 on the fight against corruption of foreign public officials in economic and international transactions.

The Decree, containing "Guidelines for the administrative liability of legal entities, companies and associations, including those without legal personality", introduced into Italian law a system of administrative liability applicable to entities for offences that are exhaustively listed and committed in their interest or to their advantage: (i) by natural persons with representation, administration or management functions in the Entities or in one of their organisational units endowed with financial and functional autonomy, as well as by natural persons who exercise, including de facto, management and control of the Entities, or (ii) by natural persons under the direction or supervision of one of the above mentioned persons.

The entity is not liable, on the other hand, if the aforementioned parties have acted in the exclusive interest of themselves or of third parties (art. 5, paragraph 2 of the Decree) or when it voluntarily prevents the carrying out of the action or the occurrence of the event.

In any case, the administrative liability of entities is independent of the criminal liability of the natural person who committed the offence.

The offences for which the administrative liability of entities is configurable, with specific indication of the applicable sanctions, are listed in Section III of the Decree. The Decree provides for forms of exemption from the administrative liability of entities. In particular, it establishes that, in the event of a crime committed by a top management party, the entity is not liable if it proves that:

- the management body has adopted and effectively implemented, prior to the commission of the offence, organisational and management models suitable for preventing offences of the type that occurred;
- the task of supervising the functioning and observance of the models and their updating has been entrusted to a corporate body with autonomous powers of initiative and control;
- individuals have committed the offence by fraudulently circumventing organisational and management models;
- there has been no lack of or insufficient supervision by the body responsible.

Therefore, in the case of a crime committed by top management, there is a presumption of liability on the part of the entity due to the fact that such parties express and represent the policy and, therefore, the will of the entity itself: this presumption, however, can be overcome if the entity can demonstrate the existence of the four conditions indicated above in compliance with the provisions of art. 6, paragraph 1 of the Decree.

In this case, although there is personal responsibility on the part of the top management, the entity is not liable under the Decree.

In the same way, the administrative liability of the entity also exists for offences committed by subordinates, if their action was made possible by failure to comply with management or supervisory obligations. In any case, failure to comply with these management or supervisory obligations is excluded if the company demonstrates that it has adopted and effectively implemented, prior to the commission of the offence, an organisational and management model suitable for preventing offences of the type that has occurred.

The Model must meet the following requirements:

- identification of the activities within the scope of which there is the potential that offences provided for in the Decree may be committed;
- provision of specific protocols aimed at planning the formation and implementation of the company's decisions in relation to the crimes to be prevented;
- identification of methods of managing financial resources suitable to prevent the commission of such offences;
- provision of information obligations towards the body responsible for supervising the functioning of and compliance with the Model;
- introduction of a disciplinary system suitable to sanction non-compliance with the measures indicated in the Model;
- provision of adequate information channels that, also through IT methods and ensuring the confidentiality of the identity of the reporter, allow individuals in top positions and their subordinates to submit detailed reports of unlawful conduct or violations of the Model;
- prohibit retaliatory or discriminatory acts against whistle-blowers for reasons linked - directly or indirectly - to the reporting of potential violations of the Model.

The Parent Company has long since adopted a Model aimed at preventing the risk of incurring administrative liability of entities for the offences provided for in the Decree. The Cassa Centrale Banca model consists of two parts.

The General Section provides a description of the reference regulatory framework, the Bank's governance model and organisational set-up, the tasks and responsibilities of the Supervisory Board, the disciplinary system and the training and communication plan relating to the Model. It also provides indications on the methodology used to define the Model. Lastly, it identifies the roles and responsibilities regarding the adoption and updating of the Model.

The Special Section, organised in specific protocols for each category of offence envisaged by the Decree, identifies the sensitive activities within which the commission of such offences is reasonably conceivable, as well as the control measures, the organisational measures and the behavioural principles to be adopted for the purpose preventing their commission.

In particular, through the adoption and constant updating of the Model, the Parent Company has proposed pursuing the following main objectives:

- contribution to the internal dissemination of knowledge of the offences provided for in the Decree and of the activities that may lead to their implementation;
- communication within the Bank of the knowledge of activities in the context of which there is a risk of offences being committed and the internal rules adopted by the Bank governing the same activities;

- communication of full awareness that conduct contrary to the law and internal provisions is condemned by the Bank, as, in carrying out its corporate mission, it intends to comply with the principles of legality, fairness, diligence and transparency;
- assurance of an organisation and system of controls appropriate to the activities carried out by the Parent Company and guarantees of the correctness of the behaviour of top management, employees and collaborators.

With the establishment of the Cooperative Banking Group, the Parent Company adjusted its Model overall to ensure alignment with the new governance structure and the changed operating environment.

At the same time, the Parent Company, in order to rationalise and standardise the management of the administrative liability of entities by the Group Companies, has prepared a document containing principles and guidelines with which they are required to comply. In particular, the document provides that the Affiliated Banks are required to adopt, in line with the indications contained in the document, their own Organisational, Management and Control Model, to be shared with the Supervisory Board and subsequently submitted for approval to the Management Body; Italian-registered subsidiaries other than the Affiliated Banks are required to adopt a model if, on the basis of the results of the risk self assessment, a clear exposure to the risk of offences being committed is identified. In such cases, they are also required to set up a Supervisory Board in accordance with the guidelines provided in the document, as well as to prepare specific information flows aimed at enabling the Parent Company to become aware of relevant facts concerning the companies themselves.

The Parent Company's Model is updated with the most recent regulatory changes concerning additions and/or amendments to the predicate offences. The Parent Company promptly informs the Group Companies of regulatory changes relevant to the updating of their respective Models.

Sustainability

Sustainability now has a central role on the political agenda, resulting in a considerable amount of legislation and regulation, especially at European level (Directives, Regulations and specific expectations of regulators).

On account of its characteristic cooperative values, the Cassa Centrale Group has set itself the goal of contributing to the transition towards economic, social and environmental sustainability in all its communities and territories of operation, through a process that can be summarised as follows:

- as banks: to maintain balanced management in order to be able to play a full role in serving the Communities;
- as a BCC-CR-RAIKA: to enhance knowledge of proximity and the privileged relationship with cooperative members, which derive from its regional roots and small size;
- as a Cooperative Banking Group: combining the autonomy of banks with the economies and synergies of being a Group.

Non-financial reporting is prepared by ensuring comparability with the rest of the banking system and at the same time enhancing the principles of mutual cooperation.

Within the parent company's ESG and Institutional Relations Department, whose tasks were reorganised in spring 2023, the following is list of activities that were completed and were also instrumental in fully responding to regulatory requirements and regulatory innovations:

- collaboration in the preparation of the Strategic Plan 2023-2026 project lines, with ESG issues linked as one of the Plan's enabling factors;

- drafting the "Group Regulation on Sustainability" and distributing it to Group companies in order to provide the Cassa Centrale Group (Parent Company, Subsidiaries and Affiliated Banks) with a suitable organisational structure that can further strengthen the oversight of ESG issues. In particular, the first part of the Regulation sets out the organisational and governance structures of the Parent Company as regards sustainability. The second part describes the provisions, for the Affiliated Banks and Subsidiaries, of the roles (mainly ESG Steering Committees, ESG Managers and ESG Representatives) and their related responsibilities;
- enhancement of specific projects such as the launch of the "Community of Practice of ESG Representatives", issued at the same time as the training course for ESG Representatives, with the aim of pooling ESG initiatives in the territories of individual entities, thereby fostering mutual comparison.

Further sustainability initiatives undertaken during the half-year period included the "green" competition, which ran from 1 April to 31 May 2022 in collaboration with Apple. The project saw the involvement of AzzeroCO2, a company set up in 2004 by Legambiente and Kyoto Club to help companies, bodies and territories along the path of ecological conversion, as part of the "Mosaico Verde" project for the forestation of new areas and the protection of forests in Italy. The initiative led to the planting of 1,000 trees in the Gargano National Park. The Group's commitment to the environment continued with a project arising from a partnership with VAIA, a start-up for the reforestation of the Dolomites following the 2018 Vaia storm. The initiative resulted in the planting of 1,500 trees at the Redebus Pass (Trentino-Alto Adige).

Lastly, as further recognition of the Group's daily efforts to help improve conditions in its operating territories in accordance with cooperative credit principles and values, the Cassa Centrale Group is once again one of this year's "Sustainability Leaders" in the annual ranking drawn up by Il Sole 24 Ore in cooperation with Statista, a leading market research company specialising in the ranking and analysis of company data.

The Sustainability Plan

Following the update of the 2022-2025 Sustainability Plan at the end of 2022, activities continued to monitor the achievement of the objectives set out in the document, supported by constant awareness-raising activities on the Plan's main topics, with a special focus on external communications.

The plan was drafted using a rolling approach. Common and coordinated objectives at Group level, which can be achieved and reported on through specific indicators, are also provided for in the update of the Plan scheduled for the second half of 2023.

In short, the Plan is an opportunity to enhance, affirm and reiterate the cooperative nature of the Cassa Centrale Group, with an interpretation of sustainability characterised by a particular focus on the needs and specificities of the territories in which the Group operates.

Consolidated non-financial statement

For more details on the Group's Sustainability, please refer to the Consolidated Non-Financial Statement, which Cassa Centrale Banca prepares on an annual basis pursuant to Article 5, paragraph 3 of Legislative Decree no. 254/2016. The document is published on the Cassa Centrale Banca website at www.cassacentrale.it in the "Investors" section.

Research and Development

The Cassa Centrale Group conducts research and development in line with its strategic objectives and the demands of the market. The Group's R&D has been described in several paragraphs of this report as part of the activities managed by the Departments of the Parent Company and its Subsidiaries.

Significant events after the first half of the year

It should be noted that, after 30 June 2023 and until the date of approval by the Board of Directors of this consolidated financial report, no events, facts or circumstances have occurred that led to a change in the data approved at that time, nor that they have had significant subsequent impacts on the Group's financial position and income statement.

The main events occurring after the end of the first half-year are described below.

Interest rate scenario

The ECB Governing Council decided at its meeting on 27 July 2023 to raise the three key ECB interest rates by 25 basis points. Accordingly, interest rates on the main refinancing operations, the marginal lending facility and the deposit facility were raised to 4.25%, 4.50% and 3.75% respectively, with effect from 2 August 2023.
Furthermore, the ECB Governing Council of the at its meeting on 14 September 2023 raised the three reference rates by a further 25 bps to 4.50%, 4.75% and 4.00% respectively, with effect from 20 September 2023.
The rise in interest rates also (negatively) affects the remuneration of the TLTRO III financing operations, which the banking system, including the Cassa Centrale Group, has used extensively.

Extraordinary tax calculated on higher interest margin

Article 26 (under "Extraordinary tax calculated on higher interest margin") of Decree-Law No. 104 of 10 August 2023, published in the Official Gazette No. 186 of 10/08/2023 (to be converted into law within 60 days, with possible amendments), provided for a one-off extraordinary tax (to be paid by 30 June 2024, for banks whose financial year coincides with the calendar year). The actual calculation method of the tax, as defined by the aforementioned Decree-Law, will only be certain only upon completion of the parliamentary procedure for conversion into law, currently under way.
In fact, it cannot be ruled out that the measure may be amended during the parliamentary process of conversion into law.
In any case, based on the current provisions of the article, maximum thresholds for calculating taxes, commensurate with capital variables, are identified.
Finally, the extraordinary tax in question will not be deductible for IRES and IRAP purposes.

Appointment of the new Chief Human Resources Officer

Stefania Buratto was appointed Chief Human Resources Officer, with responsibility for the new Human Resources Department of Cassa Centrale Banca as from 1 September 2023.

Business outlook

The first half of 2023 was marked by a climate of strong geopolitical and economic uncertainty.

On the geopolitical front, the conflict Russia-Ukraine continues. How long it will last is now an unpredictable variable, but is at the same time fundamental in determining the repercussions on the Italian and world economies.

In economic terms, high levels of inflation persisted in the first half of 2023, leading to restrictive monetary policy decisions by the major Central Banks with the aim of protecting the purchasing power of households and businesses.

The European Central Bank's restrictive interest rate policy was also reflected in the cost of credit, leading to a systemic cooling of demand.

This framework also affected the banking system's funding structure, with a partial migration towards the managed and administered assets segment, the latter emerging as attractive by the current yields on government bonds.

Given the challenging context, the entire banking sector will have to continue to assess the evolution of the situation very carefully and maintain a strong focus on credit quality, aiming to consolidate the results achieved in recent years in terms of asset quality.

Improved operating efficiency, cost reduction and new business strategies in particular are confirmed as the main levers for the recovery of structural profitability in the sector.

In such an economic and social context, the Group continues to focus its attention on strongly supporting the economic fabric of the reference territories, which are facing a rapidly and constantly changing situation, and on overseeing the overall risk profile.

Finally, activities related to the Group's organisational and operational structure continued, with a renewed focus on investments in technology and human capital, aspects which are considered as fundamental enablers to the achievement of the objectives set out in the Group's new Strategic Plan.

Independent Auditors' Report on the Condensed Consolidated Half-Yearly Financial Statements of the Cassa Centrale Group

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REPORT ON REVIEW OF THE CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

To the Board of Directors of
Cassa Centrale Banca – Credito Cooperativo Italiano S.p.A.

Introduction

We have reviewed the accompanying condensed consolidated half-yearly financial statements of Cassa Centrale Banca – Credito Cooperativo Italiano S.p.A. and subsidiaries (the "Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group"), which comprise the consolidated balance sheet as of June 30, 2023 and the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated equity and consolidated cash flow statement for the six-month period then ended, and the related explanatory notes. The Directors are responsible for the preparation of the condensed consolidated half-yearly financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the condensed consolidated half-yearly financial statements based on our review.

Scope of Review

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

Deloitte.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated half-yearly financial statements of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group as at June 30, 2023 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Enrico Gazzaniga
Partner

Milan, Italy
September 29, 2023

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

Condensed Consolidated Half-Yearly Financial Statements of the Cassa Centrale Group

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

	ASSETS	30/06/2023	31/12/2022
10.	Cash and cash equivalents	672	710
20.	Financial assets measured at fair value through profit or loss	363	473
	a) financial assets held for trading	8	7
	b) financial assets designated at fair value	1	1
	other financial assets mandatorily measured at fair value	354	465
30.	Financial assets measured at fair value through other comprehensive income	10,306	10,919
40.	Financial assets measured at amortised cost	75,300	76,376
	a) loans to banks	1,505	1,445
	b) loans to customers	73,795	74,931
50.	Hedging derivatives	112	125
60.	Fair value change of financial assets in hedged portfolios (+/-)	(108)	(118)
70.	Equity investments	57	58
90.	Tangible assets	1,239	1,234
100.	Intangible assets	86	80
	of which:		
	- goodwill	27	27
110.	Tax assets	690	783
	a) current	115	131
	b) deferred	575	652
120.	Non-current assets and groups of assets held for disposal	1	1
130.	Other assets	2,389	2,195
	Total assets	**91,107**	**92,836**

	LIABILITIES AND EQUITY	30/06/2023	31/12/2022
10.	Financial liabilities measured at amortised cost	79,560	83,588
	a) due to banks	12,865	16,391
	b) due to customers	62,050	64,114
	c) debt securities in issue	4,645	3,083
20.	Financial liabilities held for trading	5	7
30.	Financial liabilities designated at fair value	1	1
40.	Hedging derivatives	1	1
60.	Tax liabilities	44	36
	a) current	31	20
	b) deferred	13	16
80.	Other liabilities	3,230	1,529
90.	Provision for severance indemnity	92	95
100.	Provisions for risks and charges	390	372
	a) commitments and guarantees given	137	141
	b) post-employment benefits	-	-
	c) other provisions for risks and charges	253	231
120.	Valuation reserves	(177)	(231)
140.	Equity instruments	1	1
150.	Reserves	6,889	6,399
160.	Share premium	75	74
170.	Share Capital	1,276	1,271
180.	Own shares (-)	(867)	(867)
200.	Profit (loss) for the year (+/-)	587	560
	Total liabilities and equity	**91,107**	**92,836**

Consolidated income statement

	ITEMS	30/06/2023	30/06/2022
10.	Interest income and similar revenues	1,584	1,013
	of which: interest income calculated with the effective interest method	1,572	1,008
20.	Interest expenses and similar charges	(410)	(70)
30.	**Interest margin**	**1,174**	**943**
40.	Fees and commissions income	447	418
50.	Fees and commissions expenses	(62)	(57)
60.	**Net fees and commissions**	**385**	**361**
70.	Dividend and similar income	3	3
80.	Net result from trading	(1)	9
90.	Net result from hedging	2	4
100.	Profit (loss) from disposal/repurchase of:	(107)	71
	a) financial assets measured at amortised cost	(59)	55
	b) financial assets measured at fair value through other comprehensive income	(48)	16
	c) financial liabilities	-	-
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	2	(36)
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	2	(36)
120.	**Net interest and other banking income**	**1,458**	**1,355**
130.	Net value adjustments/write-backs due to credit risk relative to:	73	(62)
	a) financial assets measured at amortised cost	73	(61)
	b) financial assets measured at fair value through other comprehensive income	-	(1)
150.	**Net income from financial activies**	**1,531**	**1,293**
180.	**Net income from financial and insurance activities**	**1,531**	**1,293**

	ITEMS	30/06/2023	30/06/2022
190.	Administrative expenses:	(883)	(806)
	a) staff expenses	(479)	(436)
	b) other administrative expenses	(404)	(370)
200.	Net allocations to provisions for risks and expenses	-	(7)
	a) commitments and guarantees given	2	(1)
	b) other net allocations	(2)	(6)
210.	Net value adjustments/write-backs to tangible assets	(52)	(52)
220.	Net value adjustments/write-backs to intangible assets	(7)	(9)
230.	Other operating expenses/income	96	97
240.	**Operating costs**	**(846)**	**(777)**
250.	Profit (loss) on equity investments	(1)	1
280.	Profit (loss) from disposal of investments	2	-
290.	**Profit (loss) before tax from current operating activities**	**686**	**517**
300.	Income taxes for the year on current operating activities	(99)	(71)
310.	**Profit (loss) after tax from current operating activities**	**587**	**446**
330.	**Profit (loss) for the year**	**587**	**446**
340.	Profit (loss) for the year for minority interests	-	(1)
350.	**Profit (loss) for the Parent Company**	**587**	**445**

Statement of consolidated comprehensive income

	ITEMS	30/06/2023	30/06/2022
10.	**Profit (loss) for the year**	**587**	**446**
	Other post-tax components of income without reversal to the income statement	**6**	**33**
20.	Equities measured at fair value through other comprehensive income	7	21
30.	Financial liabilities designated at fair value through profit or loss (changes in credit rating)	-	-
40.	Hedging of equities measured at fair value through other comprehensive income	-	-
50.	Tangible assets	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(1)	12
80.	Non-current assets and groups of assets held for disposal	-	-
90.	Quota of reserves from the valuation of shareholdings measured with the equity method	-	-
100.	Financial revenues or costs relating to insurance contracts issued	-	-
	Other post-tax components of income with reversal to the income statement	**48**	**(200)**
110.	Hedging of foreign investments	-	-
120.	Exchange rate differences	-	-
130.	Cash flow hedging	(1)	-
140.	Hedging instruments (undesignated elements)	-	-
150.	Financial assets (other than equities) measured at fair value through other comprehensive income	49	(201)
160.	Non-current assets and groups of assets held for disposal	-	-
170.	Quota of reserves from the valuation of shareholdings measured with the equity method	-	1
180.	Financial revenues or costs from insurance contracts issued	-	-
190.	Financial revenues or costs relating to reinsurance transfers	-	-
200.	**Total other post-tax components of income**	**54**	**(167)**
210.	**Comprehensive income (Item 10+200)**	**641**	**279**
220.	**Consolidated comprehensive income pertaining to minority interests**	**-**	**1**
230.	**Consolidated comprehensive income pertaining to the Parent Company**	**641**	**278**

Statement of changes in consolidated equity as at 30/06/2023

	Balance as at 31/12/22	Adjustment to opening balances	Balance as at 01/01/23	Allocation of result from previous year		Changes during the year										Group equity as at 30/06/23	Equity pertaining to minority interests as at 30/06/23
						Changes to reserves	Equity transactions							Comprehensive income for 2023			
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock Options	Changes in equity investments				
Share capital:																	
a) ordinary shares	1,263	X	1,263	-	X	X	6	(1)	X	X	X	X	-	X		1,268	-
b) other shares	8	X	8	-	X	X	-	-	X	X	X	X	-	X		8	-
Share premium	74	X	74	-	X	-	1	X	X	X	X	X	-	X		75	-
Reserves:	-																
a) profit	6,389	-	6,389	499	X	(4)	-	-	-	X	X	X	(5)	X		6,879	-
b) other	10	-	10	-	X	-	-	X	-	X	-	-	-	X		10	-
Valuation reserves	(231)	-	(231)	X	X	-	X	X	X	X	X	X	-	54		(177)	-
Equity instruments	1	X	1	X	X	X	X	X	X	-	X	X	-	X		1	-
Own shares	(867)	X	(867)	X	X	X	-	-	X	X	X	X	X	X		(867)	-
Profit (loss) for the year	560	-	560	(499)	(61)	X	X	X	X	X	X	X	X	587		587	-
Group's equity	**7,207**	**-**	**7,207**	**-**	**(61)**	**(4)**	**7**	**(1)**	**-**	**-**	**-**	**-**	**(5)**	**641**		**7,784**	**-**
Equity pertaining to minority interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**

Statement of changes in consolidated equity as at 30/06/2022

	Balance as at 31/12/21	Adjustment to opening balances	Balance as at 01/01/22	Allocation of result from previous year		Changes during the year										
						Changes to reserves	Equity transactions							Comprehensive income for 2022	Group equity as at 30/06/22	Equity pertaining to minority interests as at 30/06/22
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock Options	Changes in equity investments			
Share capital:																
a) ordinary shares	1,264	X	1,264	-	X	X	3	(1)	X	X	X	X	-	X	1,266	-
b) other shares	8	X	8	-	X	X	-	-	X	X	X	X	-	X	8	-
Share premium	73	X	73	-	X	-	-	X	X	X	X	X	-	X	73	-
Reserves:	-															
a) profit	6,106	-	6,106	294	X	(6)	-	-	-	X	X	X	-	X	6,394	(1)
b) other	8	-	8	-	X	-	-	X	-	X	-	-	-	X	8	-
Valuation reserves	43	-	43	X	X	-	X	X	X	X	X	X	-	(167)	(124)	-
Equity instruments	6	X	6	X	X	X	X	X	X	-	X	X	-	X	6	-
Own shares	(866)	X	(866)	X	X	X	-	(1)	X	X	X	X	X	X	(867)	-
Profit (loss) for the year	333	-	333	(294)	(39)	X	X	X	X	X	X	X	X	445	445	1
Group's equity	**6,975**	**-**	**6,975**	**-**	**(39)**	**(6)**	**3**	**(2)**	**-**	**-**	**-**	**-**	**-**	**278**	**7,209**	**-**
Equity pertaining to minority interests	**1**	**-**	**1**	**-**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**

Consolidated cash flow statement

Indirect method

	Amount	
	30/06/2023	30/06/2022
A. OPERATING ACTIVITIES		
1. Operations	**574**	**498**
- income for the year (+/-)	587	446
- gains/losses on financial assets held for trading and other assets/liabilities measured at fair value through profit or loss (-/+)	5	34
- gains/losses on hedging activities (-/+)	(2)	(4)
- net value adjustments/write-backs due to credit risk (+/-)	(73)	62
- net value adjustments/write-backs to tangible and intangible assets (+/-)	59	61
- net allocations to provisions for risks and expenses and other costs/revenues (+/-)	-	7
- revenues collected and net costs paid of insurance contracts issued and reinsurance transfers (-/+)	-	-
- taxes, duties and tax credits not settled (+/-)	99	71
- net value adjustments/write-backs from discontinued operations net of tax (-/+)	-	-
- other adjustments (+/-)	(101)	(179)
2. Cash flows generated/used by the financial assets	**1,821**	**(4,922)**
- financial assets held for trading	(4)	-
- financial assets designated at fair value	-	-
- other assets obligatorily measured at fair value	109	21
- financial assets measured at fair value through other comprehensive income	668	(631)
- financial assets measured at amortised cost	1,149	(3,805)
- other assets	(101)	(507)
3. Cash flows generated/used by the financial liabilities	**(2,305)**	**4,354**
- financial liabilities measured at amortised cost	(4,028)	3,094
- financial liabilities held for trading	(2)	1
- financial liabilities designated at fair value	-	-
- other liabilities	1,725	1,259
4. Cash flows generated/used by insurance contracts issued and by reinsurance transfers	**-**	**-**
- insurance contracts issued that are liabilities/assets (+/-)	-	-
- reinsurance transfers that are assets/liabilities (+/-)	-	-
Net cash flow generated/used by operating activities	**90**	**(70)**

	Amount	
	30/06/2023	30/06/2022
B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	**25**	**14**
- sales of equity investments	-	-
- dividends collected on equity investments	3	3
- sales of tangible assets	22	11
- sales of intangible assets	-	-
- sales of subsidiaries and business units	-	-
2. Cash flows used by	**(92)**	**(62)**
- equity investment acquisitions	-	-
- tangible asset acquisitions	(79)	(58)
- intangible asset acquisitions	(13)	(4)
- purchases of subsidiaries and business units	-	-
Net cash flow generated/used by investment activities	**(67)**	**(48)**
C. FUNDING ACTIVITIES		
- issues/purchases of own shares	-	-
- issues/purchases of equity instruments	-	-
- dividend distribution and other	(61)	(39)
- sale/purchase of third parties' controlling interests	-	-
Net cash flow generated/used by funding activities	**(61)**	**(39)**
NET CASH FLOWS GENERATED/USED DURING THE YEAR	**(38)**	**(157)**

KEY:

(+) generated

(–) absorbed

Reconciliation

ITEMS	Amount	
	30/06/2023	30/06/2022
Cash and cash equivalents at the beginning of the year	710	895
Total net cash flows generated/used during the year	(38)	(157)
Cash and cash equivalents: impact of exchange differences	-	-
Cash and cash equivalents at year-end	672	738

Condensed Consolidated Half-Yearly Financial Statements of the Cassa Centrale Group

CONSOLIDATED EXPLANATORY NOTES

PART A – Accounting policies

A.1 – General Section

Section 1 – Statement of compliance with international accounting standards

Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group (hereinafter also referred to as the "Cassa Centrale Group" or the "Group") is required to prepare its condensed consolidated half-yearly financial statements in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission under the procedure set out in art. 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, in force at the reference date of this document, including the interpretative documents of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), limited to those applied for the preparation of the condensed consolidated half-yearly financial statements as at 30 June 2023.

The condensed consolidated half-yearly financial statements and the interim report on consolidated operations constitute the Consolidated Half-Yearly Financial Report.

The Bank of Italy defines the formats and rules for the preparation of financial statements in Circular no. 262 of 22 December 2005, including subsequent updates. The eighth update, published on 17 November 2022, has now been adopted.

In interpreting and applying the new international accounting standards, reference was also made to the "Framework for the Preparation and Presentation of Financial Statements" (known as "Conceptual Framework" or the "Framework"), issued by the IASB. In terms of interpretation, also considered were the documents on the application of IAS/IFRS in Italy, prepared by the Italian Accounting Body (OIC) and the Italian Banking Association (ABI).

In the absence of a standard or an interpretation specifically applicable to a particular transaction, the Group uses the professional judgement of its departments in developing accounting recognition rules which make it possible to provide a reliable financial disclosure, necessary for guaranteeing that the financial statements give a true and fair view of the Group's equity and financial position, reflecting the economic substance of the transaction as well as the relevant related aspects.

In formulating these accounting recognition rules, reference was made, as much as possible, to the provisions contained in the international accounting standards and the associated interpretations that address similar cases. Finally, the report considered the communications issued by the Supervisory Authorities (Bank of Italy, CONSOB, ESMA, EBA, ECB) which provide recommendations on the information to be included in the half-yearly consolidated financial report, on priority topics, or on the accounting treatment of certain operations, where applicable.

Section 2 – General preparation criteria

The condensed consolidated half-yearly financial statements as at 30 June 2023 of the Cassa Centrale Group include the Parent Company Cassa Centrale Banca and the direct and indirect subsidiaries: for further details on the scope of consolidation, please refer to "Section 3 – Scope and methods of consolidation" of this Part A.

The aforementioned condensed consolidated half-yearly financial statements consist of i) the consolidated balance sheet, ii) the consolidated income statement, iii) the statement of consolidated comprehensive income, iv) the statement of changes in consolidated equity, v) the consolidated cash flow statement, vi) the explanatory notes, and are accompanied by the Directors' report on operations and the situation of the Group.

The aforementioned condensed consolidated half-yearly financial statements are prepared in compliance with the provisions of IAS 34 "Interim Financial Statements" and, by virtue of the possibility granted by paragraph 10 of the aforementioned accounting standard, the same is summarised without including the complete information required for the annual financial statements and must be read together with the consolidated financial statements of the Cassa Centrale Group prepared for the year ended 31 December 2022.

The explanatory notes contained in the condensed consolidated half-yearly financial statements have been prepared with reference to the structure of the explanatory notes provided for the consolidated financial statements from the Bank of Italy Circular no. 262 of 22 December 2005 and subsequent updates (hereinafter also "Circular no. 262/2005"). Although the information content is limited, it is a summarised half-yearly financial statement. In addition, in order to facilitate reading, the numbering provided for in Circular no. 262/2005 has been maintained, although some parts, sections or tables may be omitted. As mentioned above, this document has been summarised.

The consolidated financial statements provide, in addition to the accounting data at 30 June 2023, comparative information relating to the corresponding period of the previous year, with the exception of the Balance Sheet, which is compared with the latest consolidated financial statements approved at 31 December 2022.

In accordance with the provisions of Article 5 of Italian Legislative Decree no. 38/2005, the condensed consolidated half-yearly financial statements are prepared using the euro as the accounting currency. The consolidated balance sheet and the consolidated income statement, as well as the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated cash flow statement and the explanatory notes have been prepared in millions of euros. Any differences found between the amounts in the explanatory notes and the condensed consolidated half-yearly financial statements are attributable to rounding up.

The consolidated balance sheet and the consolidated income statement comprise items, sub-items and additional detailed information. Items not valued either in the current or the previous year are not reported.

In the consolidated income statement and the related section of the Explanatory Notes, revenues are recorded without sign, while the costs are indicated in brackets. In the statement of consolidated comprehensive income, the negative amounts are stated in brackets.

These condensed consolidated half-yearly financial statements are subject to a limited audit by Deloitte & Touche S.p.A.

The condensed consolidated half-yearly financial statements have been prepared with clarity and give a true and fair view of the financial position, economic result for the reporting period, changes in Group equity and generated cash flows.

The condensed consolidated half-yearly financial statements are prepared on the basis of the going concern assumption of the Cassa Centrale Group, as the directors reasonably expect that the Group will continue operating in the foreseeable future. The situation of the financial markets and the real economy and the still uncertain forecasts made with reference to the short/medium-term require particularly precise valuations to be performed as regards the going concern assumption, since the results history of the Group and its easy access to financial resources may not be sufficient in the current context. The directors believe that the risks and uncertainties to which the Group may be subject in the flow of its operations are not significant and therefore do not cast doubt on the company's ability to continue as a growing concern, despite considering the current macroeconomic environment characterised by various factors, such as inflation, high interest rates, geopolitical risks related to the Russia/Ukraine conflict, as well as related uncertainties affecting future developments.

Estimation processes are based on past experience as well as other factors considered reasonable in the circumstances, and aim to estimate the book value of assets and liabilities that are not readily apparent from other sources. In particular, estimation processes were adopted that support the book value of some of the most important valuation items posted in the accounts, according to reference regulations. These processes are mainly based on estimates of future recoverability of the values in the accounts and were carried out on a going concern basis.

The main cases for which subjective evaluations are required to be made by the Board of Directors include:

- the quantification of expected losses due to the reduction of loan values and, in general, of other financial assets;
- the determination of the fair value of financial instruments, with particular reference to financial assets not listed on active markets;
- the assessment of congruity in the value of goodwill, other intangible assets and equity investments;
- the measurement of personnel funds and provisions for risks and charges;
- the estimates and assumptions regarding recoverability of deferred tax assets.

The information provided on the accounting policies applied for the main aggregate values of the condensed consolidated half-yearly financial statements includes the necessary details for identifying the main assumptions and subjective evaluations made in preparing these financial statements. The processes adopted support the carrying amounts on the date of preparing these financial statements. The measurement process, as in the previous year, continues to be complex in consideration of the persisting uncertainty of the macroeconomic and market environment, characterised both by the considerable volatility of the financial parameters determined for the measurement and by a progressive increase in interest rates, despite the fact that in the first six months of 2023, we are experiencing a slowdown of the inflationary trend and, at present, no significant indicators of impairment in credit quality have yet been found. These parameters and the information used to check the mentioned values are significantly affected by these factors which are out of the Group's control and may undergo rapid and unforeseeable changes. For further details, see paragraph d) of the Other Aspects section.

The condensed consolidated half-yearly financial statements also make reference to the general preparation criteria listed below, where applicable:

- principle of clarity, truth, fairness and completeness in the presentation of the balance sheet, income statement and cash flows (true and fair view);
- accrual principle;
- principle of consistent presentation and classification from one year to another (comparability);
- principle of prohibited offsetting of entries, except where expressly permitted;
- principle of prevalence of economic substance over legal form;
- principle of prudence in exercising the necessary judgement to make the estimates required in conditions of uncertainty so that the assets or revenues are not overestimated and the liabilities or costs are not underestimated, without this implying the creation of hidden reserves or excessive allocations;

- principle of neutral nature of information;
- principle of relevance/significance of the information.

Ultimately, with reference to the main implications related to the method of application of the international accounting standards (in particular IFRS 9) in the current macroeconomic environment characterised by geopolitical tensions arising from the Russia-Ukraine conflict, please refer to the specific paragraph "d) Risks, uncertainties, impacts and methods of application of the international accounting standards in the current environment" included among the "Other Aspects" of this Part A.

The 2023 financial year was not characterised by any changes in the estimation criteria already applied for the preparation of the Consolidated Financial Statements as at 31 December 2022 except for what is shown in "Other Aspects" in paragraph d in relation to the measurement of loans to customers in the current macroeconomic environment.

Section 3 - Scope and methods of consolidation

The condensed consolidated half-yearly financial statements as at 30 June 2023 refer to a scope of consolidation better defined below. In this regard, the provisions of IFRS 10, 11, 12 and IFRS 3 have been taken into account, including in the scope of consolidation - as specifically provided for by IAS/IFRS - including companies operating in sectors of activity different from that of the Parent Company. Similarly, structured companies are also included if their control requirements are met, regardless of their mere shareholding.

Moreover, with regard to the consolidation of Cooperative Banking Groups, it should be pointed out that Law no. 145 of 30 December 2018 "State Budget for the 2019 financial year and multi-annual budget for the three-year period 2019-2021" (2019 Budget Law), in transposing into Italian law, Article 2, paragraph 2, letter b) of Directive no. 86/635/EEC on the treatment of central bodies for the purposes of consolidated accounts, introduced the obligation to prepare consolidated financial statements for the whole of the central body and its affiliates (known as "single consolidating entity"). The adoption of this EU provision introduced, inter alia, the following two regulatory changes:

a. "for the purposes of preparing the consolidated financial statements, the Parent Company and the banks belonging to the cooperative banking group constitute a single consolidating entity";
b. "in preparing the consolidated financial statements, the accounting items relating to the Parent Company and the Affiliated Banks are recorded on a consistent basis".

In this regard, it seems reasonable to believe that the Italian legislator, as part of the amendments introduced by the 2019 Budget Law, has taken into account the interpretation provided by the European Commission in 2006 according to which, even in the case of IAS adopters, the obligation to prepare consolidated financial statements must be assessed in accordance with the provisions of the national transposition of European directives.

In light of the interpretation of the European Commission and considering that, as a result of the transposition into Italian law of Article 2, paragraph 2, letter b) of Directive no. 86/635/EEC, in the case of Cooperative Banking Groups, the entity required to prepare consolidated financial statements (reporting entity) is represented by the aggregation of the central body and the Affiliated Banks (known as "single consolidating entity"), it is considered that the rules of IFRS - 10 "Consolidated Financial Statements" apply only for the purposes of identifying the scope of consolidation of the reporting entity; i.e. only for the purposes of assessing the existence of situations of control between the entities forming the reporting entity and third parties (e.g. subsidiaries of the Parent Company or individual Affiliated Banks).

Recognition of the reporting entity nature within the sole consolidating entity also implies that IFRS 3 would apply only to the accounting of business combinations involving the latter and third parties (e.g. in the case of acquisition of new subsidiaries).

The provision of the Testo Unico Bancario (Consolidated Banking Act - TUB), according to which the Cohesion Contract ensures the existence of a situation of control as defined by international accounting standards, must also be interpreted in light of the subsequent amendments made to national accounting regulations by the 2019 Budget Law.

In this context, on the one hand, the 2019 Budget Law defines the procedures with which to comply with the consolidation obligations in the case of central bodies, on the other hand, the TUB's provisions are important in order to circumscribe the Central Body's governance powers over its affiliates.

The aforementioned approach is consistent, among other things, with the approach already adopted in other European jurisdictions with regard to the manner in which central bodies and their affiliated entities are consolidated, as for example in France.

That being said, in line with the above, the preparation of the condensed consolidated half-yearly financial statements was carried out through a process of aggregation of:

- financial statements of the Parent Company Cassa Centrale Banca and its subsidiaries/associates over which it exercises control on the basis of the majority of voting rights and/or the connection on the basis of significant influence;
- financial statements of the Affiliated Banks and their subsidiaries/associates over which the Parent Company exercises direction and coordination on the basis of the Cohesion Contract.

This process was followed by a subsequent phase of reclassification to own shares of the same shares of Cassa Centrale Banca held by the Affiliated Banks and the elimination of the asset and economic balances attributable to intra-group transactions.

Subsidiaries

Without prejudice to that stated in the previous paragraph regarding the peculiarities of the consolidation method of the Cooperative Banking Group, the scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 Consolidated Financial Statements. Based on this principle, the control requirement forms the basis of the consolidation of all types of entities, and is realised when an investor simultaneously:

- has the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- has the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

The subsidiaries are consolidated from the date on which the Group acquires control, according to the 'acquisition method' - IFRS 3, and cease to be consolidated when control is no longer held.

The existence of control is subject to a continuous valuation process if there are events and circumstances that indicate the presence of a change in one or more of the three elements forming the control requirement, presented in the following paragraph "Significant valuations and assumptions for determining the scope of consolidation".

The full consolidation consists of the 'line-by-line' acquisition of the aggregates of the balance sheet and the income statement of the entities controlled, as contra-entry to the cancellation of the investment held by the Group in the entity and the recognition, in the appropriate items, of the shares held by minority interests.

The differences emerging from this offsetting were subject to the provisions of IFRS 3; if they were allocated to the appropriate items, they are subject to the accounting treatment of the reference standard; if they were not specifically allocated, they are booked to goodwill under intangible assets and subject to impairment testing. Negative differences (so-called bargain purchase or badwill) are recognised in the consolidated income statement.

In addition, for entities controlled through an investment relationship, the share of equity pertaining to minority interests, the result for the year and comprehensive income is represented separately in the respective consolidated financial statements (under consolidated balance sheet liability item 190. Minority interests, 340. Profit (loss) for the year for minority interests in the consolidated income statement and 190. Consolidated comprehensive income pertaining to minority interests in the statement of consolidated comprehensive income).

Costs and revenues relating to the controlled entity are included in the Consolidated Financial Statements from the date of acquisition of control. The costs and revenues of the subsidiary transferred are included in the consolidated income statement until the transfer date; the difference between the consideration of the transfer and the book value of the net assets of the same is recognised in the consolidated income statement item 280. Profit (loss) from disposal of investments. In the presence of a partial disposal of the controlled entity which does not determine the loss of control, the difference between the consideration of the transfer and the associated book value is booked as a contra-entry to equity.

Controlling interests held for sale are consolidated on a line-by-line basis and stated separately in the Financial Statements as a group held for disposal valued as at the reporting date at the lower of the book value and the fair value less disposal costs, based on the treatment provided for in IFRS 5.

Controlling shareholdings with total assets of less than EUR 10 million are accounted for using the equity method, as line-by-line consolidation would require a considerable effort in terms of production, collection and consolidation of data, against negligible benefits in relation to financial reporting. This option, however, is expressly provided for in Article 19 of Regulation (EU) no. 575/2013 (CRR) on consolidation methods for the purposes of prudential supervision.

In special purpose vehicles, the circumstances that need to be examined for the purposes of any existence of a situation of control pursuant to IFRS 10 are:

- the involvement/role of Group companies in the structuring of the transaction (originator/investor/servicer/facility provider);
- the subscription of a large portion of Asset Backed Securities (ABS) issued by the special purpose vehicle on the part of Group companies;
- the scope/objective of the transaction.

In the first half of 2023, the following business combinations between subsidiaries took place:

- from and effective from 1 January 2023, the merger by incorporation of Credito Etneo - Banca di Credito Cooperativo in Banca Sicana - Credito Cooperativo with simultaneous change of the company name in Sicilbanca - Credito Cooperativo Italiano was carried out.

In addition, on 21 June 2023, the Cassa Centrale Group finished exercising the option provided for in the initial joint venture agreements for the purchase from Deutsche Bank of the 40% equity share of Prestipay S.p.A. As a result of the transaction, the Parent Company Cassa Centrale Banca has acquired the entire share capital of Prestipay S.p.A.

The full scope of the subsidiaries that are part of the Cassa Centrale Group as at 30 June 2023 is shown below.

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
A. ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS						
A.1 ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS - COHESION CONTRACT						
CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	Trento	Trento	4			
BANCA DI CREDITO COOPERATIVO DEL CIRCEO E PRIVERNATE - COOPERATIVE COMPANY	Sabaudia (LT)	Sabaudia (LT)	4			
BANCA DELL'ALTA MURGIA CREDITO COOPERATIVO - COOPERATIVE COMPANY	Altamura (BA)	Altamura (BA)	4			
BANCA DI CREDITO COOPERATIVO DEI CASTELLI E DEGLI IBLEI - COOPERATIVE COMPANY	Mazzarino (CL)	Mazzarino (CL)	4			
BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Rimini	Rimini	4			
BANCA DI CREDITO COOPERATIVO DEI CASTELLI ROMANI E DEL TUSCOLO - COOPERATIVE COMPANY	Castel Gandolfo (Rome)	Rocca Priora (Rome)	4			
CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Ala (TN)	Ala (TN)	4			
CASSA RURALE ALTO GARDA - ROVERETO BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Arco (TN)	Arco (TN)	4			
CASSA RURALE DI LEDRO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Ledro (TN)	Ledro (TN)	4			
LA CASSA RURALE – CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - COOPERATIVE COMPANY	Tione di Trento (TN)	Tione di Trento (TN)	4			
CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Borgo Valsugana (TN)	Borgo Valsugana (TN)	4			
CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Moena (TN)	Moena (TN)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
CASSA RURALE VAL DI SOLE - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Malè (TN)	Malè (TN)	4			
CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Pergine Valsugana (TN)	Pergine Valsugana (TN)	4			
CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Cavalese (TN)	Cavalese (TN)	4			
CASSA RURALE RENON - COOPERATIVE COMPANY	Collalbo RENON (BZ)	Collalbo RENON (BZ)	4			
CASSA RURALE NOVELLA E ALTA ANAUNIA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Fondo (TN)	Revò (TN)	4			
CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - COOPERATIVE COMPANY	S. Martino in Passiria (BZ)	S. Martino in Passiria (BZ)	4			
CREDITO COOPERATIVO CENTRO CALABRIA - COOPERATIVE COMPANY	Cropani Marina (CZ)	Cropani Marina (CZ)	4			
CASSA RURALE VAL DI NON - ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Cles (TN)	Cles (TN)	4			
CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA, VALLE DI CEMBRA E ALTA VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Trento	Trento	4			
BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO, SAMMICHELE E MONOPOLI - COOPERATIVE COMPANY	Alberobello (BA)	Alberobello (BA)	4			
CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Leno (BS)	Leno (BS)	4			
BANCA DI CREDITO COOPERATIVO DI AQUARA - COOPERATIVE COMPANY	Aquara (SA)	Aquara (SA)	4			
BANCANAGNI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Anagni (FR)	Anagni (FR)	4			
BANCA DI CREDITO COOPERATIVO DELL'ALTO TIRRENO DELLA CALABRIA VERBICARO - COOPERATIVE COMPANY	Verbicaro (CS)	Verbicaro (CS)	4			
BANCA DI CREDITO COOPERATIVO DI BARLASSINA - COOPERATIVE COMPANY	Barlassina (MB)	Barlassina (MB)	4			
BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO) - COOPERATIVE COMPANY	Bene Vagienna (CN)	Bene Vagienna (CN)	4			
CASSA RURALE ED ARTIGIANA DI BORGO SAN GIACOMO (BRESCIA) - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Borgo San Giacomo (BS)	Borgo San Giacomo (BS)	4			
CASSA RURALE ED ARTIGIANA DI BOVES - BANCA DI CREDITO COOPERATIVO (BOVES-CUNEO) - COOPERATIVE COMPANY	Boves (CN)	Boves (CN)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
BANCA DI CARAGLIO, DEL CUNEESE E DELLA RIVIERA DEI FIORI - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Caraglio (CN)	Caraglio (CN)	4			
BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE - COOPERATIVE COMPANY	Cassano delle Murge (BA)	Cassano delle Murge (BA)	4			
CASTAGNETO BANCA 1910 - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Donoratico (LI)	Castagneto Carducci (LI)	4			
BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY	Castel Bolognese (RA)	Castel Bolognese (RA)	4			
BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - COOPERATIVE COMPANY	San Lazzaro di Savena (BO)	San Lazzaro di Savena (BO)	4			
BANCA DI CREDITO COOPERATIVO DI CHERASCO - COOPERATIVE COMPANY	Rovereto di Cherasco (CN)	Rovereto di Cherasco (CN)	4			
BANCO MARCHIGIANO CREDITO COOPERATIVO	Civitanova Marche (MC)	Civitanova Marche (MC)	4			
BANCA DI CREDITO COOPERATIVO DI CONVERSANO - COOPERATIVE COMPANY	Conversano (BA)	Conversano (BA)	4			
BANCA CENTRO EMILIA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Corporeno (FE)	Corporeno (FE)	4			
CORTINABANCA – CREDITO COOPERATIVO - COOPERATIVE COMPANY	Cortina d'Ampezzo (BL)	Cortina d'Ampezzo (BL)	4			
BANCA DI CREDITO COOPERATIVO DI FLUMERI - COOPERATIVE COMPANY	Flumeri (AV)	Flumeri (AV)	4			
BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE - COOPERATIVE COMPANY	Aosta	Gressan (AO)	4			
BANCA DEL VENETO CENTRALE - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Longare (VI)	Longare (VI)	4			
BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA - COOPERATIVE COMPANY	Locorotondo (BA)	Locorotondo (BA)	4			
CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY	Gorizia (GO)	Gorizia (GO)	4			
BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	Udine	Udine	4			
PRIMACASSA – CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	Martignacco (UD)	Martignacco (UD)	4			
BVR BANCA - BANCHE VENETE RIUNITE CREDITO COOPERATIVO DI SCHIO, PEDEMONTE, ROANA E VESTENANOVA - COOPERATIVE COMPANY	Schio (VI)	Schio (VI)	4			
BANCA DI CREDITO COOPERATIVO DI BRESCIA - COOPERATIVE COMPANY	Nave (BS)	Brescia	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
BANCA CENTRO LAZIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	Palestrina (Rome)	Palestrina (Rome)	4			
BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY	Brescia	Brescia	4			
BANCA DI CREDITO COOPERATIVO DI PIANFEI E ROCCA DE' BALDI - COOPERATIVE COMPANY	Pianfei (CN)	Pianfei (CN)	4			
BANCA MONTE PRUNO - CREDITO COOPERATIVO DI FISCIANO, ROSCIGNO E LAURINO - COOPERATIVE COMPANY	Roscigno (SA)	Roscigno (SA)	4			
BANCA DI CREDITO COOPERATIVO DI LODI - COOPERATIVE COMPANY	Lodi	Lodi	4			
FRIULOVEST BANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	San Giorgio della Richinvelda (PN)	San Giorgio della Richinvelda (PN)	4			
BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO - COOPERATIVE COMPANY	San Giovanni Rotondo (FG)	San Giovanni Rotondo (FG)	4			
BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO - COOPERATIVE COMPANY	San Marzano di San Giuseppe (TA)	San Marzano di San Giuseppe (TA)	4			
BANCA TERRITORI DEL MONVISO - CREDITO COOPERATIVO DI CASALGRASSO E SANT'ALBANO STURA - COOPERATIVE COMPANY	Carmagnola (TO)	Sant'Albano Stura (CN)	4			
BANCA DI CREDITO COOPERATIVO DI SARSINA - COOPERATIVE COMPANY	Sarsina (FC)	Sarsina (FC)	4			
ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY	Bellaria-Igea Marina (RN)	Rubicone (FC)	4			
BANCA DI CREDITO COOPERATIVO DI SPELLO E DEL VELINO - COOPERATIVE COMPANY	Spello (PG)	Spello (PG)	4			
BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	Bologna	Bologna	4			
BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	Tarzo (TV)	Tarzo (TV)	4			
ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY	Opicina (TS)	Opicina (TS)	4			
BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY	Viterbo	Viterbo	4			
BANCA DI CREDITO COOPERATIVO LA RISCOSSA DI REGALBUTO - COOPERATIVE COMPANY	Regalbuto (EN)	Regalbuto (EN)	4			
BANCA DI CREDITO COOPERATIVO ABRUZZI E MOLISE - COOPERATIVE COMPANY	Atessa (CH)	Atessa (CH)	4			
BANCA ADRIA COLLI EUGANEI - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Adria (RO)	Adria (RO)	4			
SICILBANCA CREDITO COOPERATIVO ITALIANO	Caltanissetta	Caltanissetta	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
A.2 ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS OTHER THAN COHESION CONTRACT						
NORD EST ASSET MANAGEMENT SA	Luxembourg	Luxembourg	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	100.00	100.00
ALLITUDE S.p.A.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	96.70	96.70
				OTHER MINORITY INTERESTS	3.02	3.02
					99.72	99.72
ASSICURA AGENZIA S.r.l.	Udine	Udine	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	100.00	100.00
ASSICURA BROKER S.r.l.	Trento	Trento	1	ASSICURA AGENZIA S.r.l.	100.00	100.00
CLARIS LEASING S.p.A.	Treviso	Treviso	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	100.00	100.00
CENTRALE SOLUZIONI IMMOBILIARI S.r.l.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	100.00	100.00
BANCA DI BOLOGNA REAL ESTATE S.p.A.	Bologna	Bologna	1	BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
IMMOBILIARE VILLA SECCAMANI S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
PRESTIPAY S.p.A.	Udine	Udine	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	100.00	100.00

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
A.3 ENTITIES CONTROLLED BUT CONSOLIDATED AT EQUITY FOR MATERIALITY LIMITS						
AZIENDA AGRICOLA ANTONIANA S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
BENACO GESTIONI IMMOBILIARI S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
CA' DEL LUPO S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
AGORÀ S.r.l.	Leno (BS)	Narbolia (OR)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
BTV GESTIONI S.r.l.	Brescia	Brescia	1	BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
CENTRALE CASA S.r.l.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	100.00	100.00
IMMOBILIARE BCC DI BRESCIA S.r.l.	Nave (BS)	Nave (BS)	1	BANCA DI CREDITO COOPERATIVO DI BRESCIA - COOPERATIVE COMPANY	100.00	100.00
RAIFFEISEN IMMOBILIEN S.r.l.	Renon (BZ)	Renon (BZ)	1	CASSA RURALE RENON - COOPERATIVE COMPANY	100.00	100.00
VERDEBLU IMMOBILIARE S.r.l.	Cherasco (CN)	Cherasco (CN)	1	BANCA DI CREDITO COOPERATIVO DI CHERASCO - COOPERATIVE COMPANY	100.00	100.00
CASSA RURALE ALTA VALSUGANA SOLUZIONI IMMOBILIARI S.r.l.	Pergine Valsugana (TN)	Pergine Valsugana (TN)	1	CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
QUADRIFOGLIO 2018 S.r.l.	Castenaso (BO)	Castenaso (BO)	1	BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - COOPERATIVE COMPANY	100.00	100.00
SOCIETÀ AGRICOLA TERRE DELLA ROCCA S.r.l.	Bologna	Bologna	1	BANCA DI BOLOGNA REAL ESTATE S.p.A.	100.00	100.00
ASSICURA S.r.l.	Udine	Udine	1	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	23.72	23.72
				PRIMACASSA – CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	19.68	19.68
				CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY	15.19	15.19
				ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY	9.98	9.98
				FRIULOVEST BANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	9.07	9.07
					77.63	77.63
CLARIS RENT S.p.A.	Treviso	Treviso	1	CLARIS LEASING S.p.A.	100.00	100.00
CENTRALE TRADING S.r.l.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	42.50	42.50
				ALLITUDE S.p.A.	10.00	10.00
					52.50	52.50

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
DOMINATO LEONENSE S.r.l.	Milan	Milan	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	n.a.	n.a.
FONDO LEONIDA	Verona	Verona	4	BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY	n.a.	n.a.

*Relationship type

1 = majority of voting rights in the ordinary shareholders' meeting

2 = dominant influence in the ordinary shareholders' meeting

3 = agreements with other shareholders

4 = other forms of control

5 = unitary management pursuant to Article 39, paragraph 1, of "Legislative Decree no. 136/2015"

6 = unitary management pursuant to Article 39, paragraph 2, of "Legislative Decree no. 136/2015"

Structured entities

In accordance with IFRS 12 paragraph B21, there are defined entities structured so that voting or similar rights are not the predominant factor in determining who controls the entity.

Structured entities have all or some of the following characteristics:

- limited activities;
- a limited and well-defined social purpose;
- insufficient equity to allow the structured entity to finance its activities without subordinated financial support;
- loans by investors that create concentrations of credit risk or other risks (tranches).

Structured entities subject to consolidation are those over which the Cassa Centrale Group has the power over the entity's relevant activities and is exposed to the variability of their returns, by virtue of the financial instruments underwritten.

At the end of the reporting period, the Cassa Centrale Group consolidated the Fondo Leonida (closed-end alternative real estate investment fund) using the equity method because it is below the aforementioned materiality limit, by virtue of the financial instruments subscribed (fund units), financial support to the fund and exposure to the variability of returns on the fund's relevant activities.

Associates

An associate is a company in which the investing company has significant influence and which is not a subsidiary or part of a joint venture. Significant influence is presumed when the investing company holds, directly or indirectly, at least 20% of the capital of another company. Further indicators of significant influence are as follows:

- representation on the company's governance body;

- participation in the process of defining policies, including therein participation in decisions relating to dividends or other profit distributions;
- the existence of significant transactions between the investor and the investee company;
- the exchange of managerial personnel;
- provision of essential technical information.

Equity investments in associates are consolidated according to the equity method. The equity method provides for the initial recognition of the investment at cost and its subsequent value adjustment based on the share of the investee company's equity. The equity investment in associates includes goodwill (net of any impairment) paid for the acquisition. Participation in the post-acquisition profits and losses of associates is booked to the income statement under item 250. Profit (loss) on equity investments.

Any distribution of dividends is used to reduce the book value of the equity investment.

If the interest in the losses of an associate is equal to or exceeds the book value of the investee, no further losses are recognised, unless specific obligations have been undertaken in favour of the associate or payments have been made to said entity.

The valuation reserves of the associates are shown separately in the Statement of Consolidated Comprehensive Income.

The full scope of the investments in associates belonging to the Cassa Centrale Group as at 30 June 2023 is shown below.

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE						
LE CUPOLE S.r.l.	Manerbio (BS)	Manerbio (BS)	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	22.00	22.00
FINANZIARIA TRENTINA DELLA COOPERAZIONE	Trento	Trento	4	CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA, VALLE DI CEMBRA E ALTA VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	8.49	8.49
				CASSA RURALE ALTO GARDA - ROVERETO BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.22	7.22
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.18	7.18
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	4.08	4.08
				CASSA RURALE VAL DI NON - ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.78	3.78
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.27	3.27

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
				LA CASSA RURALE – CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - COOPERATIVE COMPANY	3.14	3.14
				CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.12	3.12
				CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.88	2.88
				OTHER MINORITY INTERESTS	4.35	4.35
					47.51	47.51
PARTECIPAZIONI COOPERATIVE S.r.l.	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	13.92	13.92
				CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA, VALLE DI CEMBRA E ALTA VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.89	7.89
				CASSA RURALE ALTO GARDA - ROVERETO BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.80	5.80
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.10	5.10
				CASSA RURALE VAL DI NON - ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.18	4.18
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.09	2.09
				OTHER MINORITY INTERESTS	6.50	6.50
					47.79	47.79
SERENA S.r.l.	Manzano (UD)	Manzano (UD)	4	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	29.05	29.05
RITTNERHORN SEILBAHNEN AG	Renon (BZ)	Renon (BZ)	4	CASSA RURALE RENON - COOPERATIVE COMPANY	23.97	23.97
SCOUTING S.p.A.	Bellaria - Igea Marina (RN)	Bellaria - Igea Marina (RN)	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	8.26	8.26
				ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY	6.29	6.29
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.29	6.29

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
				BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.88	4.88
				BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.65	4.65
					30.37	30.37
CABEL HOLDING S.p.A.	Empoli (FI)	Empoli (FI)	4	CASTAGNETO BANCA 1910 - CREDITO COOPERATIVO - COOPERATIVE COMPANY	19.50	19.50
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	7.66	7.66
				BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.01	2.01
					29.17	29.17
SENIO ENERGIA S.r.l. UNDER LIQUIDATION	Faenza (RA)	Faenza (RA)	4	BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY	22.22	22.22
RENDENA GOLF S.p.A.	Bocenago (TN)	Bocenago (TN)	4	LA CASSA RURALE – CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - COOPERATIVE COMPANY	24.76	24.76
SERVIZI E FINANZA FVG S.r.l.	Udine	Udine	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	27.19	27.19
CONNESSIONI - IMPRESA SOCIALE S.r.L.	Brescia	Brescia	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	30.00	30.00
DISTRETTO RURALE TERRE BASILIANE DEL CILENTO S.C.a.r.L	Futani (SA)	Futani (SA)	4	BANCA DI CREDITO COOPERATIVO DI AQUARA - COOPERATIVE COMPANY	20.69	20.69

*Relationship type:

1 - majority of voting rights in the ordinary shareholders' meeting

2 - dominant influence in the ordinary shareholders' meeting

3 - agreements with other shareholders

4 - company subject to a significant influence

5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree no. 87/92"

6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree no. 87/92"

7 - joint ventures

8 - Other type of Relationship.

Jointly controlled companies

A joint arrangement is a contractual agreement in which two or more counterparties have joint control.

Joint control is the sharing, on a contractual basis, of control of an agreement, which exists solely when the unanimous consent of all parties that share control is required for decisions relating to significant assets. According to IFRS 11, joint arrangements must be classified as joint operations or joint ventures based on the contractual rights and obligations held by the Group.

A joint operation is a joint arrangement in which the parties have rights over the assets and obligations with respect to the liabilities of the agreement. A joint venture is a joint arrangement in which the parties have rights over the net assets of the agreement. These equity investments are measured according to the equity method.

The full scope of the investments in jointly controlled companies forming part of the Cassa Centrale Group as at 30 June 2023 is shown below.

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
A. JOINTLY CONTROLLED COMPANIES						
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	Bolzano	Bolzano	7	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	50.00	50.00
FRONTE PARCO IMMOBILIARE S.r.l.	Bologna	Bologna	7	BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	50.00	50.00

*Relationship type:

1 - majority of voting rights in the ordinary shareholders' meeting

2 - dominant influence in the ordinary shareholders' meeting

3 - agreements with other shareholders

4 - company subject to a significant influence

5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree no. 87/92"

6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree no. 87/92"

7 - joint ventures

8 - Other type of Relationship.

Significant valuations and assumptions for determining the scope of consolidation

The scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 Consolidated Financial Statements. Based on this principle, the control requirement forms the basis of the consolidation of all types of entities, including structured entities when the conditions are met, and is realised when an investor simultaneously has:

- the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

Therefore, the Cassa Centrale Group consolidates all types of entities when all three aspects of control are present.

Generally, when an entity is directed through voting rights, control derives from holding more than half of the voting rights.

In other cases, determination of the scope of consolidation calls for consideration of all factors and circumstances that give the investor the practical ability to unilaterally manage the relevant activities of the entity (de facto control). To this end, it is necessary to consider a combination of factors, such as, merely by way of an example:

- the scope and design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held through contractual agreements which confer the power to govern the relevant activities, such as the power to determine the financial and operating policies of the entity, the power to exercise the majority of voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any potential voting rights exercisable and considered substantial;
- the involvement in the entity in the role of agent or principal;
- the nature and the dispersion of any rights held by other investors.

With reference to the Group's situation at the date of these condensed consolidated half-yearly financial statements, all companies in which the majority of voting rights in the ordinary shareholders' meeting are held are considered wholly-owned subsidiaries, given that no evidence has been highlighted that the other investors have the practical ability to direct the relevant activities.

For companies in which half or less of voting rights are held, at the date of these condensed consolidated half-yearly financial statements, no agreements, statutory clauses or situations able to attribute the Cassa Centrale Group the practical capacity to unilaterally govern the relevant activities were identified.

Equity investments in wholly-owned subsidiaries with significant third-party interests

At the date of these condensed consolidated half-yearly financial statements, there are no subsidiaries through an equity relationship with significant third-party interests.

Significant restrictions

At the date of these condensed consolidated half-yearly financial statements, there are no legal or substantive obligations or restrictions able to obstruct the rapid transfer of capital resources within the Group. The only restrictions are those attributable to regulatory provisions which may require a minimum amount of regulatory capital to be retained, or to the provisions of the Italian Civil Code on distributable profits and reserves.

It should be noted that there are no protective rights held by minorities able to limit the Group's capacity to access or transfer assets between Group companies or settle the Group's liabilities, including in relation to the fact that, as at 30 June 2023, there are no subsidiaries with significant third-party interests, as stated in the previous paragraph.

Other information

The accounting positions forming the basis of the line-by-line consolidation process are those relating to 30 June 2023, as approved by the competent bodies of the consolidated companies adjusted, where necessary, to bring them into line with the homogeneous accounting standards of the Group.

For the consolidation of companies subject to joint control and investments in associates, the most recent financial statements (annual or interim) approved by the companies have been used. In cases where the companies do not apply IAS/IFRS, it is verified that any application of IAS/IFRS would not have had a significant impact on the Consolidated Financial Statements of the Cassa Centrale Group.

Section 4 – Subsequent events

In relation to the provisions of IAS 10, after 30 June 2023, the reference date of this document and its approval by the Board of Directors on 21 September 2023, no events occurred such as to entail a change in the data presented in the Financial Statements.

The accounting estimates as at 30 June 2023 were made on the basis of a series of macroeconomic and financial indicators expected at that date.

Having said this, the following is a description of the main events which occurred after the end of the reference period, which as stated above are entirely attributable to the type of non-adjusting events pursuant to accounting standard IAS 10, i.e. events which do not involve any adjustment of the balances, as they are an expression of situations arising after the reference date of the half-yearly financial report.

Interest rate scenarios

The ECB Governing Council decided at its meeting on 27 July 2023 to raise the three key ECB interest rates by 25 basis points. Accordingly, interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will be raised to 4.25%, 4.50% and 3.75% respectively, with effect from 2 August 2023.

Furthermore, the ECB Governing Council of the at its meeting on 14 September 2023 raised the three reference rates by a further 25 bps to 4.50%, 4.75% and 4.00% respectively, with effect from 20 September 2023.

The rise in interest rates also (negatively) affects the remuneration of the TLTRO III financing operations, which the banking system, including the Cassa Centrale Group, has used extensively.

Extraordinary tax calculated on higher interest margin

Article 26 (under "Extraordinary tax calculated on higher interest margin") of Decree-Law No. 104 of 10 August 2023, published in the Official Gazette No. 186 of 10/08/2023 (to be converted into law within 60 days, with possible amendments), provided for a one-off extraordinary tax (to be paid by 30 June 2024, for banks whose financial year coincides with the calendar year). The actual calculation method of the tax, as defined by the aforementioned Decree-Law, will only be certain only upon completion of the parliamentary procedure for conversion into law, currently under way.

In fact, it cannot be ruled out that the measure may be amended during the parliamentary process of conversion into law.

In any case, based on the current provisions of the article, maximum thresholds for calculating taxes, commensurate with capital variables, are identified.

Finally, the extraordinary tax in question will not be deductible for IRES and IRAP purposes.

Stress test outcome

In the final quarter of 2022, the ECB informed the Group of the selection within the scope of credit institutions subject to the stress test conducted at European level by the European Banking Authority (EBA), which began at the end of January 2023.

The results of Cassa Centrale for the aforementioned financial year came at the end of July 2023 and confirmed the Group's capital strength, highlighting a significant resilience even against particularly severe macroeconomic assumptions, such as those proposed in the stress test. The low of 18.52% achieved by the fully-loaded CET1 ratio in the adverse scenario at the end of 2023 against a starting value of 21.55% (thus falling by around 303 bps) would guarantee the maintenance of an extremely significant buffer in relation to the requirements assigned by the Supervisory Authority.

Section 5 – Other aspects

a) IFRS accounting standards, amendments and interpretations applicable from 1 January 2023

The following IFRS accounting standards, amendments and interpretations were applied by the Group for the first time from 1 January 2023:

- IFRS 17 Insurance Contracts (including the amendments published in June 2020): intended to replace IFRS 4 Insurance Contracts;
- amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information;
- amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates. The changes are aimed at improving accounting policy disclosures in order to provide investors and other primary users of the financial statements with more usable information, and to enable companies to distinguish between changes to accounting estimates and changes to accounting policy;
- amendments to IAS 12 Income Taxes: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction.*

The above amendments did not have an impact on the Group's financial position and economic results as at 30 June 2023.

b) Endorsed accounting standards that will enter into force after the reporting date

As of the date of preparing these consolidated financial statements, there are no endorsed accounting standards that will enter into force on 1 July 2023.

c) Accounting standards still not endorsed which will enter into force in the next few years

The following amended accounting principles, instead, have not yet been endorsed by the European Commission:

- amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current. The changes will come into effect on 1 January 2024 but early application is permitted;
- amendments to IAS 1 Presentation of Financial Statements: Non-current Liabilities with Covenants (Amendments to IAS 1) to clarify how the conditions that an undertaking must satisfy, within twelve months from the end of the financial year, influence the classification of a liability. The changes will come into effect on 1 January 2024 but early application is permitted;
- amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The changes will come into effect on 1 January 2024 but early application is permitted;
- amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements to add quantitative and qualitative disclosure obligations related to financing agreements with suppliers. The changes will come into effect on 1 January 2024 but early application is permitted.

The directors do not foresee that the adoption of the accounting standards and amendments cited above will have a significant impact on the financial and economic position of the Group.

d) Risks, uncertainties, impacts and methods of application of the international accounting standards in the current environment

The European regulatory and Supervisory Authorities, as well as the standard setters, have published a series of guidelines aimed also at clarifying the methods of application of the international accounting standards, with particular reference to IFRS 9, in the context of the COVID-19 pandemic. The aforementioned interventions published during 2020 were extensively described in the Annual Financial Report as at 31 December 2020, to which reference should be made.

During 2021 (29 January 2021) the EBA updated its report on the implementation of the prudential regulatory framework defined in relation to the COVID-19 pandemic ("EBA Report on the implementation of selected COVID-19 policies, EBA/Rep/2021/02"), clarifying that, in the event that a bank enters into a second moratorium on the same credit facility, any suspension of payments scheduled to occur on or after 1 April 2021 is treated as an individual moratorium measure. Therefore, in such cases, the general rules regarding the definition of default, forbearance and distressed restructuring apply.

Regarding the use of macroeconomic projections, the ECB recommended using as an anchor point the projections formulated by its staff on 12 March 2020, in the subsequent quarters of 2020, 2021 and 2022.

Finally, with its communication of 21 December 2021, the Bank of Italy incorporated a series of quantitative and qualitative additions to the financial statement disclosures required within the seventh update of Circular no. 262 "Bank financial statements: layouts and rules of preparation", in order to provide the market with detailed information on the effects that COVID-19 and the measures to support the economy have had on the economic and financial situation of intermediaries.

In 2022, aspects of uncertainty were seen due to the end stage of the COVID-19 pandemic and the ongoing Russia/Ukraine conflict. In particular, new elements of uncertainty have emerged which resulted in a revision of forecasts due to the conflict and the latter made the risk measurement system particularly complex, and characterised by the uncertainties reflected in the markets, which are mainly attributable to the increase in the price of energy and food, the interruption in supply chains, as well as the sudden increase in demand following the reopening of the economic sectors previously hardest hit by the pandemic. In this context, the Cassa Centrale Group implemented a particularly conservative risk management policy, continuing to adopt strengthened measures and processes, as in the previous two years.

Since the early stages of the conflict, the Group has monitored the emergence of potential critical issues and weaknesses with regard to credit risk. To this end, it has implemented significant actions aimed at i) identifying potential direct impacts on risk factors associated with exposures, and ii) incorporating new macroeconomic expectations and identifying new vulnerabilities at sector level.

From a macroeconomic perspective, in 2022, the ECB published decreasingly optimistic GDP growth forecasts for the Eurozone, indicating an economic trend of +0.5%, +1.9% and +1.8%, respectively, for the 2023-2025 three-year period compared to the forecast issued in December 2022, which showed an increase of +3.4% for the same year. The growth shown in the forecasts for the three-year period is more modest compared to the projections by the same authority published in 2021 and the first part of 2022 as a result of the conflict in Ukraine. The start of the conflict intensified critical issues regarding the supply of raw materials, with a consequent impact on the price of these commodities, eroding buying power and having a general negative effect on market confidence. In fact, the GDP forecasts for the Eurozone published in 2021 by the ECB indicated a respective growth of +4.2%, +2.9% and +1.6% in the 2022-2024 three-year period, a more sustained trend than shown in the new projections issued in June and December 2022.

Similar trends can be seen across the Italian macroeconomic context. In particular, in December 2022, the Bank of Italy published the GDP forecasts for Italy, which indicated a growth trend of +0.4%, +1.2% and +1.2%, respectively, for the 2023-2025 three-year period and +3.8% for 2022. The latter figure is still higher than the expectations issued in October 2022. Like the Eurozone GDP, this growth is below the forecasts published in 2021 and at the beginning of 2022 due to the start of the conflict between Russia and Ukraine. The most recent outlook of economic forecasts for the 2022-2024 period issued in December 2021 by the Bank of Italy indicate more pronounced economic growth at +4.0%, +2.5% and +1.7% respectively.

In terms of preparing the financial statement disclosures as at 30 June 2023, the Group continued to adopt the guidelines and recommendations issued by the European regulatory and Supervisory Authorities, as well as by the standard setters, while taking into account the assessments of the significant business activities and the support measures put in place by the Government to support households and businesses.

Lastly, the management of the Cassa Centrale Group placed, as usual, special attention on the causes of uncertainty inherent in the estimates that are part of the quantification process of certain items relating to the financial statement assets and liabilities. Due to the effects of the evolution of the current macroeconomic environment arising from the war in Ukraine, the main areas of uncertainty in estimates include those relating to credit losses, the fair value of financial instruments, income taxes, goodwill and intangible assets.

The main areas of the financial statements most affected by the effects of the current macroeconomic environment and the related accounting decisions made by the Cassa Centrale Group as at 30 June 2023 are shown below.

Classification and measurement of loans to customers based on the general impairment model IFRS 9

In order to calculate expected loss at 30 June 2023, the Cassa Centrale Group has incorporated into its IFRS 9 impairment model, consistently with the provisions of the standard, macroeconomic scenarios that include the effects of the war in Ukraine and the uncertain evolution of the economic environment, aspects which have a major influence on growth forecasts, the main macroeconomic variables and the financial indicators for 2023-2025, compared to the previous forecasts.

In order to determine the IFRS 9 value adjustments on the customer loan portfolio as at 30 June 2023, conservative criteria – in accordance with the IAS/IFRS accounting standards – were adopted, taking into account the uncertainty arising from the conflict between Russia and Ukraine and the still ongoing inflationary spiral. However, given the difficulty in estimating their duration and development, the Group incorporated the potential impacts of the aforementioned events — which suggest a possible increase in insolvency rates in the future — into its credit evaluations. The support measures introduced by the State, such as those relating to the granting of state guarantees, required from an operational point of view, a high degree of attention in the management and monitoring mechanisms undertaken by the Group for the possible effects of deterioration of counterparties may not be punctually and promptly intercepted.

These uncertainties resulted in the identification of some areas of intervention considered worthy of further incisive actions to increase coverage, in line with the strict requirements envisaged by the Group policies and with the recommendations of the Supervisory Authority.

In particular, in the first half of 2022, the first area of intervention concerned the continuation of provisions on performing exposures that were still under moratorium during the second half of 2021, envisaging the application of minimum coverage levels (known as floors), identified within ranges defined by the Parent Company, and differentiated on the basis of the staging of the positions in terms of IFRS 9.

Subsequently, the ESMA, in its public statement on 28 October 2022 on “European common enforcement priorities for 2022 annual financial reports”, among other aspects, underlines that the current macroeconomic context poses a significant challenge for the expected credit loss models used by European financial institutions due to a lack of experience in modelling such circumstances. Furthermore, the ESMA, acknowledging that different groups of borrowers may be affected differently by the current macroeconomic developments, draws attention to the need for a greater consideration of the risk drivers of specific economic sectors in measuring the expected loss.

In this context, also taking account of the further deterioration of the macroeconomic growth forecasts associated with the Russia/Ukraine conflict, the Group adopted new mechanisms for determining suitable minimum coverage levels of allocation (floors) on the performing positions, on the basis of Group risk drivers that include a high impact of the overall cash exposure at Group level allocated to Stage 2, as well as the entrusted counterparty belonging to economic sectors deemed most vulnerable in the new risk environment (sectors related to energy-intensive and gas-intensive sectors and/or those impacted directly or indirectly by the Russia/Ukraine conflict).

A further area of intervention concerned positions in Stage 3 defined as sub-threshold, in accordance with the “Group Credit Classification Policy”, i.e. with an exposure of less than EUR 100 thousand and for which there is no analytical recovery plan. In line with the approach in December 2021, minimum coverage has been set for these positions with the aim of aligning the coverage to the average Group coverage assessed on an analytical basis. This approach is also in line with the recommendations of ESMA in its “Public Statement European common enforcement priorities for 2020 annual financial reports” published on 28 October 2020. More generally, in the process of identifying and measuring credit risk, account was also taken of the technical indications and recommendations contained in the communication of 4 December 2020 of the European Central Bank “Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic”, which were still deemed valid in view of the new uncertainties associated with the conflict in Ukraine.

For the purposes of calculating the expected loss as at 30 June 2023, the Cassa Centrale Group has used the three scenarios (mild, baseline, adverse), appropriately averaging their contributions, in accordance with the assessment of macroeconomic projections that expect continued high variability in the future. The scenarios used were those provided by the info-provider Prometeia, in accordance with a scenario generation system that considers publications from leading forecasting bodies as well as publications issued by the Supervisory Authorities, with no corrections.

After over two years, the COVID-19 pandemic has returned to a more structured and ordinary healthcare scenario. Therefore, certain prudential measures, previously introduced in 2021 within the IFRS 9 model, have been revised, such as, for example, the provision of minimum allocation levels, also maintained for the annual financial statements as at 31 December 2022 in an environment characterised by residual effects of the COVID-19 pandemic, the sectoral diversifications of the PD, the likelihood of provisions, as well as the corrective measures in the LGD area.

At the meeting of 25/05/2023, the Parent Company's Board of Directors approved, for all entities of the Group, the removal of the minimum allocation levels on the moratorium pursuant to the COVID-19 portfolio in place, as from the reporting date of 30 June 2023. This decision was supported by the analyses conducted during the first half of 2023 and the positive evaluation of the credit risk framework for the portfolio in question, compared to the current IFRS 9 model, in a deeply different context characterised by overcoming the COVID-19 emergency and which sees the recovery of ordinary amortisation conditions for the loans under previous moratorium.

The interventions outlined above, guided primarily by a conservative approach, in accordance with the IAS/IFRS accounting standards, and in any case improved and finalised during the year, made it possible to limit potential future "cliff effects" as well as identify the economic sectors at greatest risk in the current environment, with particular reference to the sectors of the economy impacted by the sharp increase in energy prices. At the same time, this also ensured the reduction of potentially distorted elements in the estimates.

In order to reflect the uncertainty in the outlook for certain segments of the economy and in line with ECB regulations, PD curves were differentiated by sector, a component calibrated using the Group's internal data and refined in the first half of 2022. This had effects both on staging and on the calculation of expected losses, refining the previous approach of penalisations (by downgrading creditworthiness) in certain economic sectors and geographical areas considered more exposed to the negative effects and the current stress introduced by price rises and the uncertainty in the availability of raw materials resulting from the Russian-Ukraine conflict.

The evolution of geo-sectoral treatment, through the use of specific curves for certain economic sectors, has contributed to maintaining conservative assessments of the most energy intensive sectors, as well as improving the degree of identification of exposures to which more stable and robust criteria should be adopted.

Furthermore, access to support measures was treated from a particularly conservative approach: in particular, for government guarantees given as part of newly originated loans or existing exposures, a specific LGD has been consistently factored into the expected loss calculation that also reflects the collection capacity of the same guarantees.

With reference to the stage classification process of the performing portfolio, as in the previous year, the effects of the prudential backstop of 300% of the SICR (introduced in Q4 2021, in addition to the current transfer threshold definition model) continued to manifest as the maximum threshold of variation between lifetime PD at the reporting date and that defined at the origination date on each relationship.

In the first half of 2023, the Cassa Centrale Group continued to monitor the correct classification of positions, through specific monitoring cycles, conducted by the Group NPL Service and the Risk Management Department, with particular reference to the evolution of credit risk of counterparties who, at the time, benefited from COVID-19 support measures and taking into account the elements of vulnerability connected to the inflationary trends mostly originating from the current geopolitical tensions. The Risk Management Department also carried out in-depth analysis on forbearance detection, aimed at verifying the overall compliance of the associated Banks, as part of the granting processes in the current post-pandemic environment, with regard to the identifying conditions of financial difficulty of the counterparty before becoming forborne.

Therefore, the above activities had a significant impact, all other conditions being equal, on the level of conservatism of net value adjustments to loans for the year.

Measurement of securities at fair value

The Cassa Centrale Group's securities portfolio at fair value mainly consists of listed government securities with fair value level 1 that do not give rise to valuation issues arising from the effects of the pandemic crisis.

The remaining investments in unlisted non-controlling interests and recognised in the portfolio of financial assets measured at fair value through other comprehensive income, exceeding certain thresholds, provided for by the Group's "Fair Value Policy" were measured as at 30 June 2023. Considering that, for these securities, the prevailing valuation methods are those of the market (market approach), it is believed that they incorporate the current market context. In this regard, in order to reflect the turbulence seen on the financial markets it was deemed appropriate to adopt a limited observation horizon of the market capitalisations of comparable listed companies. Specifically, reference was made to the precise observations as at the date the parameters were updated and, limited to the application of the regression methodology, also to the average of the six-month observations.

Impairment test of goodwill and intangibles

Although the Cassa Centrale Group conducted an impairment test on goodwill and intangibles when preparing the financial statements at 31 December 2022, based on the Group Policy on impairment test procedures, which was submitted for approval to the Parent Company's Board of Directors on 20 July 2023, an analysis of the impairment indicators as at 30 June 2023 was conducted. The analysis did not identify trigger events such to require an impairment test on goodwill for the consolidated half-yearly financial statements at 30 June 2023.

Therefore, the impairment test will be carried out with the 2023 annual financial statements, 12 months after the previous impairment test, in compliance with the maximum time horizon provided for by the international accounting standards.

For more details see Part B, Section 10 - Intangible assets.

e) Disclosure regarding Targeted Longer-Term Refinancing Operations (TLTRO III)

At the date of these consolidated half-yearly financial statements, the Cassa Centrale Group had outstanding refinancing operations through the Eurosystem forming part of the TLTRO-III programme for a book value of about EUR 12 billion. The outstanding transactions at the beginning of the year resulted in a negative contribution to interest margin of about EUR 194 million as at 30 June 2023.

The Group has assessed that the transactions of the TLTRO-III programme cannot be assimilated to loans at an interest rate lower than the market rate, as:

- there is no reference market where financing transactions with comparable characteristics can be negotiated;
- the European Central Bank defines the economic conditions applied to the refinancing operations in order to achieve monetary policy objectives for the benefit of the entire economic system of the Eurozone.

At the end of the reporting period, both monitoring time windows for the achievement of performance targets for loan disbursements envisaged by the TLTRO-III programme had been completed. The result obtained was also confirmed by the Bank of Italy.

Consequently, the method used to apply the interest rate to existing TLTRO-III operations considered the following hypotheses:

- incorporation of reference rates effective until the date of the report and subsequent stability of the reference rates of the European Central Bank until the maturity of the operations;
- maintenance of transactions in place until natural maturity, a provision incorporated within the Business Plan approved by the Board of Directors of the Parent Company. At accounting level, in line with this strategic approach and in continuity with the accounting method applied previously, in the case of changes in the rates in interim periods, the internal rate of return of the loan is determined using the residual value of the same transaction.

A.2 – Part relating to the main items in the accounts

The accounting standards adopted for the preparation of these condensed consolidated half-yearly financial statements are shown below.

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

Classification criteria

Financial assets measured at fair value through profit or loss include:

- financial assets which, according to the business model of the Group, are held for trading purposes, i.e. debt and equities and the positive value of derivative contracts held for trading purposes. These assets are included under consolidated asset item 20. Financial assets measured at fair value through profit or loss, sub-item “a) financial assets held for trading”;
- the financial assets designated at fair value at the moment of initial recognition where the conditions are satisfied (that happens if, and only if, on designation at fair value an accounting asymmetry is eliminated or significantly reduced). These assets are included under consolidated asset item 20. Financial assets measured at fair value through profit or loss, sub-item “b) financial assets designated at fair value”;
- the financial assets that do not pass the so-called SPPI Test (financial assets whose contractual terms do not make exclusive provision for the repayments of principal and interest payments on the amount of principal to be repaid) or that in any case, are obligatorily measured at fair value. These assets are included under consolidated asset item 20. Financial assets measured at fair value through profit or loss, sub-item “c) other financial assets mandatorily measured at fair value”.

Therefore, the Group recognises the following in this item:

- debt securities and loans included in an Other business model (not attributable to Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test (including therein UCITS units);
- equity instruments, excluded from those addressed by IFRS 10 and IAS 27 (controlling interests, associates or joint ventures), not measured at fair value through other comprehensive income. In fact, IFRS 9 provides for the possibility of exercising, at the time of initial recognition, the irreversible option (so-called OCI option) to recognise an equity instrument at fair value through other comprehensive income.

This item also includes derivative contracts held for trading that have a positive fair value. The offsetting between the positive and negative present values deriving from transactions with the same counterparty is only possible if there is a legal right to offset the amounts recognised in the accounts and if there is an intention to settle on a net basis the items subject to offsetting.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group’s operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at fair value through profit or loss may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through other comprehensive income.

The reclassification is applied prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification represents the new gross carrying amount on the basis of which the effective interest rate is determined.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through other comprehensive income, the fair value at the date of reclassification is the new gross carrying amount and the effective interest rate is determined on the basis of this value at the date of reclassification. In addition, for the purposes of applying the provisions on write-downs from the date of reclassification, the latter is considered to be the date of initial recognition.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the case of recognising the financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the income statement. Upon initial recognition the financial assets held for trading are recorded at the fair value; unless otherwise indicated, this is represented by the amount paid for executing the transaction, without considering the costs or income referring to it and attributable to the same instrument, which are recorded directly in the income statement.

Measurement criteria

Following initial recognition, the financial assets measured at fair value through profit or loss are measured at fair value with recognition of the related changes in the income statement. If the fair value of a financial asset becomes negative, this entry is booked as a financial liability. The change in the fair value of derivative contracts with "customers" counterparties takes their credit risk into account.

To calculate the fair value of the financial instruments listed in an active market, the market listings are used. In the absence of an active market, commonly adopted estimation methodologies are used to factor in all relevant risk factors related to the instruments.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

The financial assets measured at fair value through profit or loss are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if control is maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Criteria for the recognition of the income components

The positive income components represented by the interest income on securities and relating similar income, as well as the differentials and margins accrued until the date of the financial statements relating to the derivative contracts classified to the item, but managerially connected to the assets or liabilities measured at fair value (the Fair Value Option), are entered in the Income Statement items relating to interest on an accrual basis. The profits and losses from the disposal or repayment and the profits and losses not realised deriving from the changes in the fair value of the trading book are classified in the consolidated income statement under item 80. Net result from trading for instruments held for trading and in item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss for instruments obligatorily measured at fair value and for instruments measured at fair value.

2 - Financial assets measured at fair value through other comprehensive income

Classification criteria

The financial assets recorded under this item include:

- debt securities, loans and receivables for which:
    - the business model associated to financial assets aims at collecting both the cash flows envisaged contractually and the flows deriving from sale (hold-to-collect-and-sell business model);
    - the SPPI Test is passed as the contractual terms only provide for repayments of principal and interest payments on the amount of principal to be repaid.
- equities for which the so-called OCI option has been exercised as an irrevocable choice to present subsequent changes in the fair value of these instruments in other components of the comprehensive income statement. In this respect, it should be noted that the exercise of the so-called OCI option:
    - shall be made at the time of initial recognition of the instrument;
    - must be carried out at the level of the individual financial instrument;
    - is irrevocable;
    - is not applicable to instruments that are held for trading or represent contingent consideration recognised by a purchaser in a business combination to which IFRS 3 applies.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at fair value through other comprehensive income may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through profit or loss.

The reclassification is applied prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification becomes the new gross value for the purposes of amortised cost. The cumulated profits and losses recorded in the OCI reserve are eliminated from equity and adjusted for the fair value of the financial assets at the date of reclassification. Consequently, the financial asset is valued at the date of reclassification as if it had always been measured at amortised cost. The effective interest rate and the valuation of expected losses are not restated following the reclassification.

If, on the other hand, this category is reclassified to the category of financial assets measured at fair value through profit or loss, the fair value at the date of reclassification becomes the new gross Book value. The cumulated profits and losses recognised in the OCI reserve are reclassified to the income statement at the date of reclassification.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the event of recognising financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the equity. Upon initial recognition, the financial assets are recognised at fair value; it is represented, unless otherwise indicated, by the amount paid for executing the transaction, including the transaction costs or income directly attributable to the same instrument.

Measurement criteria

Following initial recognition, the debt securities, loans and receivables classified in this item continue to be measured at fair value. For the aforementioned financial assets the following are recognised:

- in the income statement, the interest calculated with the effective interest rate method, which considers the depreciation of both the transaction costs and the differential between the cost and the repayment value;
- in equity, in a specific reserve, changes in fair value (net of tax) until the asset is derecognised. When the instrument is fully or partially disposed, the cumulated profit or loss in the OCI reserve are booked to the Income Statement (so-called recycling).

Equities classified under this item also continue to be measured at fair value after initial recognition. In this case, however, unlike in the case of debt securities, loans and receivables, the cumulated profit or loss included in the OCI reserve must never be reversed to the income statement (in this case there will be no recycling). In fact, in case of transfer, the OCI reserve may be transferred to a specific available equity reserve. For these equities, only the component relating to dividends received is recorded in the income statement.

For further details on how fair value is determined for financial assets, please refer to paragraph "A.4 - Information on fair value" of this part A.

It should also be noted that "Financial assets measured at fair value through other comprehensive income", both in the form of debt securities, loans and receivables, are subject to impairment in accordance with IFRS 9 in the same way as "Financial assets measured at amortised cost". Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the expected credit loss ("ECL") method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

The equity instruments are not subject to the impairment process.

Derecognition criteria

The financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if control is maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Criteria for the recognition of the income components

Interest income on debt securities, loans and receivables - calculated on the basis of the effective interest rate - is recognised in the income statement on an accruals basis. For these instruments, the effects of impairment and any changes in exchange rates are also recognised in the income statement, while other gains or losses deriving from changes in fair value are recognised in a specific equity reserve. At the moment of full or partial disposal, the cumulated profit or loss in the valuation reserve are reversed, wholly or partly to the income statement (recycling).

With reference to equity instruments, the only component that is recognised in the income statement is dividends. The latter are recognised in the income statement only when (par. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity; and
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

In the case of equities, changes in fair value are recognised as a contra-entry to equity and must not be subsequently transferred to the income statement even if they are realised (no recycling).

3 - Financial assets measured at amortised cost

Classification criteria

Financial assets measured at amortised cost include debt securities, loans and receivables that jointly meet the following conditions:

- the business model associated to financial assets aims at collecting the cash flows envisaged contractually (hold-to-collect business model);
- the SPPI Test is passed as the contractual terms only provide for repayments of principal and interest payments on the amount of principal to be repaid.

Therefore, in the presence of the aforementioned conditions, the Group recognises in this item:

- loans to banks (current accounts, security deposits, debt securities, etc.). This includes operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF (e.g. distribution of financial products). Also included are loans to Central Banks (e.g. compulsory reserve), other than deposits on demand included in the consolidated balance sheet item 10. Cash and cash equivalents;
- loans to customers (mortgages, finance lease transactions, factoring transactions, debt securities, etc.). Also included are loans to post offices and the Cassa Depositi e Prestiti, variation margins with compensation bodies for transactions on derivative contracts and operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF. (e.g. servicing activities).

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at amortised cost may be reclassified to financial assets measured at fair value through other comprehensive income or to financial assets measured at fair value through profit or loss.

The reclassification is applied prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the fair value category through other comprehensive income, any differences between the previous amortised cost and the fair value at the date of reclassification are recognised in the OCI reserve. The effective interest rate and the valuation of expected losses are not restated following the reclassification.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through profit or loss, any difference between the previous amortised cost and the fair value at the date of reclassification is recognised in the income statement.

Recognition criteria

Financial assets are first recognised on the disbursement date (in the case of loans or receivables) or on the settlement date (in the case of debt securities) based on the fair value of the financial instrument. The fair value is normally equal to the amount disbursed or the subscription price, including income and charges directly attributable to the individual instrument and determinable from the origin of the transaction, even when liquidated at a subsequent time.

Excluded are the costs that, though having the above mentioned characteristics, are subject to repayment by the debtor counterparty or can be classified among the normal internal costs of an administrative nature.

In the case of assets for which the net amount of the loan disbursed or the price paid on subscription of the security does not correspond to the fair value of the asset, for example due to the application of an interest rate significantly lower than the market rate, initial recognition is made on the basis of the fair value determined using valuation techniques (e.g. discounting future cash flows at an appropriate market rate).

In some cases, the financial asset is considered impaired upon initial recognition (so-called purchased or originated credit- impaired financial assets), for example because the credit risk is very high and, in the case of acquisition, it is acquired with large discounts. In such cases, at the time of initial recognition, an adjusted effective interest rate is calculated for the receivable which includes, in the cash flow estimates, the expected losses calculated over the life of the receivable. The above rate will be used for the application of the amortised cost criterion and the related calculation of interest to be recognised in the income statement.

Measurement criteria

After initial recognition, financial assets are measured at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial asset is measured on initial recognition less repayments of principal, plus or minus the cumulated amortisation, according to the effective interest criterion, of any difference between that initial amount and the amount at maturity and, for financial assets, adjusted for any provision to cover losses. The effective interest rate is identified by calculating the rate that equals the current value of the future flows of the asset, for principal and interest, to the disbursed amount including the costs/income attributable to said financial asset.

The exceptions to the application of the amortised cost method concern short-term assets, assets that do not have a defined maturity date and receivables subject to revocation. For the above cases, the application of the amortised cost criterion is considered not significant and the valuation is maintained at cost.

It should also be noted that financial assets measured at amortised cost, both in the form of debt securities and loans and receivables, are subject to impairment in accordance with IFRS 9. Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the expected credit loss ("ECL") method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

In such cases, for the purpose of calculating amortised cost, the entity is required to include in its cash flow estimates, the expected losses on initial receivables when calculating the credit-adjusted effective interest rate for financial assets that are considered purchased or originated credit- impaired financial assets on initial recognition (IFRS 9 para. B5.4.7).

Derecognition criteria

The financial assets measured at amortised cost are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold by substantially transferring all the risks and rewards connected to it.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if control is maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

If the contractual cash flows of a financial asset are subject to renegotiation or, in any case, to an amendment, in accordance with IFRS 9, it is necessary to assess whether or not these amendments have the characteristics to determine the derecognition of the financial asset. More specifically, contractual changes lead to the derecognition of the financial asset and the recognition of a new one when they are considered substantial. In order to assess the substantiality of the change, a qualitative analysis of the reasons why the changes were made is necessary. In regards to this, we wish to distinguish between:

- renegotiations made for commercial purposes with performing customers for reasons other than the economic and financial difficulties of the debtor. These refer to renegotiations which are granted at market conditions, in order to avoid losing customers in cases where they require the cost of the loan to be adjusted to the conditions applied by other banking institutions. These types of contractual changes are considered substantial as they are aimed at avoiding a decrease in future revenues that would occur if the customer decides to turn to another operator. They entail the recognition in the income statement of any differences between the Book value of the derecognised financial asset and the Book value of the newly recognised asset;
- renegotiations due to financial difficulties of the counterparty: this scenario includes concessions made to counterparties in financial difficulty (forbearance measures) that aim to maximise the repayment of the original loan by the customer and thus avoid or contain any future losses, by granting contractual conditions that are potentially more favourable to the counterparty. In these cases, as a rule, the change is closely related to the debtor's inability to repay the cash flows originally established and, therefore, in the absence of other factors, this indicates that there was in substance no extinction of the original cash flows such as to lead to the derecognition of the asset. As a result, the aforementioned renegotiations or contractual amendments qualify as non-substantial. Therefore, they do not generate the derecognition of the financial asset and, according to paragraph 5.4.3 of IFRS 9, involve the recognition in the Income Statement of the difference between the pre-amendment book value and the value of the financial asset recalculated by discounting the renegotiated or modified cash flows at the original effective interest rate.

In order to assess the substantiality of the contractual amendment, in addition to understanding the reasons underlying the amendment itself, it is necessary to assess the possible presence of elements that alter the original nature of the contract because they introduce new elements of risk or have a significant impact on the original contractual flows of the asset so as to lead to its derecognition and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual clauses which change the reference currency of the contract, which allow the credit to be converted/replaced into equity instruments of the debtor or which lead to the failure of the SPPI Test.

Criteria for the recognition of the income components

Interest on loans to banks and customers is classified under consolidated income statement item 10. Interest income and similar revenues and is recorded on an accrual basis, based on the effective interest rate, i.e. applying the latter to the gross book value of the financial asset, except for:

- Purchased or originated credit- impaired financial assets. As noted above, for these financial assets, the effective interest rate adjusted for the receivable at the amortised cost of the financial asset from initial recognition is applied;
- financial assets that are not purchased or originated credit- impaired financial assets but have become impaired financial assets in a second phase. For these financial assets, the effective interest rate is applied to the amortised cost of the financial asset in subsequent years.

If there is an improvement in the credit risk of the financial instrument, as a result of which the financial asset is no longer impaired, and the improvement can be objectively linked to an event occurring after the application of the requirements in point 2 of the above list, interest income shall be calculated in subsequent years by applying the effective interest rate to the gross Book value.

It should be noted that the Group applies the criterion referred to in point 2 of the above list only to impaired assets measured using a specific analytical method. Therefore, stage 3 financial assets valued on a flat-rate analytical basis, for which interest is calculated on the gross value of the exposure, are excluded.

Adjustments and write-backs are recorded at each reporting date in the consolidated income statement under item 130. Net value adjustments/write-backs due to credit risk. Profits and losses resulting from the sale of receivables are recorded in the consolidated income statement under item 100. Profit/loss from disposal/repurchase.

The positive income components represented by the interest income and similar revenues relating to securities are entered on an accrual basis, based on the effective interest rate, in the income statement items relating to interest.

Profit and loss relating to securities are recognised in the consolidated income statement under item 100. Profit/loss from disposal/repurchase at the time the assets are sold.

Any impairment of securities is recognised in the consolidated income statement under item 130. Net value adjustments/write-backs due to credit risk. If the reasons that led to the evidence of the decline in value are removed, the write-back is included with recognition in the income statement in the same item.

4 - Hedging transactions

With regard to hedging transactions (hedge accounting), the Group avails itself of the option, provided by the introduction of IFRS 9, to continue to apply IAS 39 in full with regard to both specific hedges and macro hedges.

Classification criteria

This item includes derivative contracts designated as effective hedging instruments. In this regard, hedging transactions are designed to neutralise any losses, that may be incurred on a specific item or group of items, linked to a specific risk should the aforementioned risk actually occur.

The types of hedging provided for by IAS 39 are:

- fair value hedge, aimed at hedging against the exposure to the change in fair value of a financial statement entry (asset or liability) attributable to a particular risk. The objective of macro fair value hedges is to reduce fluctuations in fair value, attributable to interest rate risk, by a monetary amount arising from a portfolio of financial assets or liabilities;
- cash flow hedge, aimed at hedging against the exposure to the change in future cash flows attributable to a particular risk related to a highly probable present or future financial statement entry;
- hedging instruments of a net investment in a foreign company for which the assets were or are managed in a non-euro country or currency.

Only instruments involving a counterparty outside the Cassa Centrale Group may be designated as hedging instruments.

Recognition criteria

The hedging derivative financial instruments are initially entered at fair value and classified in the balance sheet asset or liability item, depending on whether, as at the end of the reporting period, they show a positive or negative fair value.

The hedging transaction is attributable to a strategy predefined by risk management and must be consistent with the adopted risk management policies; it is designated as a hedge if there is formalised documentation of the relationship between the hedged instrument and the hedging instrument, including high initial and prospective effectiveness throughout its life-cycle.

The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Thus the effectiveness is measured by comparison between these changes.

The hedging is assumed as highly effective when the expected and effective changes in fair value or the cash flows of the hedging financial instrument neutralise almost completely the changes in the hedged element, within the limits set by the interval 80%-125%.

The assessment of the effectiveness is performed at each year-end and interim period using:

- perspective tests, which justify the application of the hedge accounting, since they show its expected effectiveness;
- retrospective tests, which show the level of effectiveness of the hedging reached in the period they refer to.

If the checks do not confirm that the hedging is highly effective, the accounting of the hedging transactions, according to the above, is interrupted and the hedging derivative contract is reclassified among the trading instruments, while the financial instrument subject to hedging goes back to being measured according to the criterion of the original pertinence class and, in case of cash flow hedge, any reserve is reclassified in the income statement along the residual duration of the instrument.

The hedging links also cease when the derivative expires or is sold or exercised and the hedged element is sold or expires or is repaid.

Measurement criteria

After initial recognition, hedging derivatives are measured at fair value. The calculation of the fair value of the derivatives is based on the prices inferred from regulated markets or supplied by operators, on option measurement models or future cash flow discounting models.

For further details on how fair value is determined, please refer to paragraph “A.4 - Information on fair value” of this part A.

Derecognition criteria

The hedging derivatives are derecognised when the right to receive the cash flows from the asset/liability has expired, or where the derivative is sold, or when the conditions for continuing to book the financial instrument under the hedging derivatives no longer apply.

Criteria for the recognition of the income components

Fair value hedge

In the case of a fair value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This offsetting actually takes place through the recognition in the income statement of changes in value, referring both to the hedged item and the hedging instrument. Any difference represents the ineffectiveness of the hedge and is reflected in the income statement in terms of net effect. In the case of macro fair value hedges, changes in fair value with reference to the hedged risk of the hedged assets and liabilities are recognised in the balance sheet, respectively, in the consolidated financial statements item 60. Fair value change of financial assets in hedged portfolios or item 50. Adjustment of the financial liabilities subject to macro-hedging.

If the hedging relationship no longer satisfies the conditions for the application of hedge accounting and the hedging relationship is revoked, the difference between the Book value of the hedged element at the time when the hedge ceases and that which would have been its Book value if the hedge had never existed, is amortised in the income statement along the residual lifespan of the hedged element based on the effective rate of return in case of instruments entered at amortised cost. In the event that it is excessively costly to recalculate the internal rate of return, it is considered acceptable to amortise the delta fair value relating to the hedged risk over the residual life of the instrument in a linear manner or in relation to the residual portions of capital.

If this difference refers to non-interest bearing financial instruments, it is recorded immediately in the income statement. If the hedged element is sold or repaid, the portion of fair value not yet amortised is recognised immediately in the income statement.

Cash flow hedges and hedging instruments of a net investment in a foreign currency

In the case of cash flow hedges, changes in the fair value of the derivative are recognised, limited to the effective portion of the hedge, in an equity reserve. The above changes are recognised in the income statement only when, with reference to the hedged item, there is a change in the cash flows to be offset or if the hedge is ineffective.

When the hedging relationship no longer meets the conditions for the application of hedge accounting, the relationship is terminated and all losses and gains recognised in the equity reserve up to that date remain suspended within it and reversed to the income statement when the flows relating to the risk originally hedged occur.

5 – Equity investments

Classification criteria

This item includes interests held in associates and jointly controlled companies.

The following definitions in particular apply:

- associate: equity investments in companies for which, despite the conditions of control not being satisfied, the Group, directly or indirectly, is able to exercise a significant influence as it has the power to participate in determining the financial and management policies of the investing company.

Such influence is presumed (relative presumption) to exist for companies in which the Group owns at least 20.00% of the voting rights of the investee company;

- jointly controlled company (joint venture): an equity interest in a company that is achieved through a contractual agreement that collectively grants all parties or a group of parties control of the agreement.

Recognition criteria

Equity investments are initially entered at cost, including the directly attributable ancillary charges.

Measurement criteria

Investments in associates and investments in jointly controlled companies are valued using the equity method. This means that, after initial recognition, the Book value is subsequently increased or decreased to record the Group's share of the profits and losses of the investee companies realised after the acquisition date, as a contra-entry to consolidated income statement item 250. Profit (loss) on equity investments.

If there is objective evidence of impairment, an estimate is made of the recoverable amount of the same investment, considering the current value of the future cash flows the same may generate, including the final disposal value of the investment. If the recoverable amount of the asset is lower than its Book value, the impairment loss is recognised in the income statement under item 250. Profit (loss) on equity investments in the consolidated financial statements.

Derecognition criteria

Equity investments are derecognised when the right to receive the cash flows from the asset has expired, or where the equity investment is sold by substantially transferring all the risks and benefits connected to it.

Criteria for the recognition of the income components

Dividends from investee companies are recorded under the consolidated income statement item 70. Dividend and similar income. The latter are recognised in the income statement only when (par. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity;
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

In the Consolidated Financial Statements, dividends received are deducted from the Book value of the investee company.

Any value adjustments/write-backs connected to the valuation of the equity investments as well as profits or losses deriving from the disposal are recognised under item 250. Profit (loss) on equity investments in the consolidated financial statements.

6 - Tangible assets

Classification criteria

This item mainly includes land, properties for business use (IAS 16) and properties held for investment purposes (IAS 40), the plants, vehicles, furniture, furnishings and equipment of any type for long-lasting use.

Property for business use is defined as those tangible assets that are functional to the pursuit of the corporate purpose (including those held for use in the provision of services or for administrative purposes). On the other hand, property held for investment purposes includes property held for the purpose of receiving rental fees and/or for the appreciation of the invested capital.

The item also includes tangible assets classified under IAS 2 Inventories, which refer both to assets arising from the enforcement of guarantees or the purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not qualify for classification in the previous categories, and to the real estate portfolio including buildable areas of land, properties under construction, completed properties for sale and real estate development initiatives, held with a view to disposal.

Included are rights of use acquired through lease and relating to the use of a tangible asset (for lessees), assets under operating leases (for lessors), and improvements and incremental expenses incurred on third party assets, provided they relate to identifiable and separable tangible assets.

Recognition criteria

The tangible assets are initially entered at purchase or construction cost, including any ancillary charges directly attributable to the purchase and commissioning of the asset.

The unscheduled maintenance expenses and the costs of an increasing nature that imply increased future benefits being generated by the asset, if these can be identified and separated, are attributed to the assets they refer to and depreciated in relation to the residual possibility of using the same. If these improvements cannot be identified and separated, they are recorded in the consolidated financial statements under 'Other Assets' and subsequently depreciated based on the length of the contracts they refer to for the third-party assets, or along the residual life of the asset, if owned.

The expenses for repairs, maintenance or other actions to ensure the ordinary operation of the assets are instead recognised in the income statement of the year when they are incurred.

According to IFRS 16, leases are accounted for on the basis of the right of use model for which, at the initial date, the lessee has a financial obligation to make payments due to the lessor to offset its right to use the underlying asset during the lease term. When the asset is made available to the lessee for use (start date), the lessee recognises both the liability and the asset consisting of the right of use.

Measurement criteria

After initial recognition, the tangible assets, including non-instrumental properties, notwithstanding the specifications below, are entered in the accounts at cost, net of accumulated depreciation and any write-downs for the long-lasting reductions in value, in compliance with the 'cost model'.

Tangible assets are systematically depreciated each year based on their useful life by adopting the straight line method as the depreciation criterion. The following are not subject to depreciation:

- land, whether purchased individually or incorporated in the value of the buildings, since considered to have an undefined useful life. If their value is incorporated in the value of the building, assets which are separate from the building are only the 'free-standing' property assets; the subdivision between the value of the land and a value of the building is based on the appraisal of independent appraisers;
- works of art, the useful life of which may not be estimated, also since their value normally increases over time;
- real estate investments measured at fair value in compliance with accounting standard IAS 40;
- inventories of tangible assets, in accordance with IAS 2;
- tangible assets classified as held for disposal in accordance with IFRS 5.

The depreciation process starts when the asset is available for use. For the assets acquired during the year, the depreciation is calculated on a daily basis starting from the date of using the asset.

A write-down for value impairment is recorded for an amount corresponding to the excess in the Book value compared to the recoverable amount. The recoverable amount of an asset is equal to the higher of the fair value, net of any sales costs, and the related value of using the asset, meant as the current value of the future flows originating from the asset. Any adjustments are recognised in the income statement.

If the reasons leading to recording the loss cease to apply, a write-back is accounted for, which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

Tangible assets recognised in accordance with IAS 2 are valued at the lower of cost and net realisable value, it being understood that the Book value of the asset is compared with its recoverable amount if there is any indication that the asset may have suffered an impairment. Any adjustments are recognised in the income statement.

With reference to the asset consisting of the right of use, accounted for in accordance with IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment; in this case the asset is subsequently depreciated and subject to impairment testing if indicators of impairment emerge.

Derecognition criteria

Tangible assets are eliminated from the balance sheet at the time of disposal or when they are permanently withdrawn from use and, as a consequence, no future economic benefits are expected which derive from their sale or use.

Capital gains and losses deriving from the release or disposal of the tangible assets are determined as the difference between the net sale payment and the Book value of the asset; they are recorded in the income statement at the same date when they are eliminated from the accounts.

Criteria for the recognition of the income components

Depreciation, value adjustments and write-backs of tangible assets are recorded in the income statement, in consolidated financial statements item 210. Net value adjustments/write-backs to tangible assets.

In the first year the depreciation is recorded proportionally to the effective period of using the asset.

The assets subject to depreciation are adjusted for possible impairment losses each time events or changes in situations indicate that the Book value might not be recoverable. These impairment losses are recognised in the income statement, as are any reversals to be recognised if the reasons for the impairment no longer apply.

In the consolidated income statement item 280. Profit (loss) from disposal of investments, the positive or negative balance between the profits and losses on investments is recognised.

7 - Intangible assets

Classification criteria

Accounting standard IAS 38 defines intangible assets as non-monetary assets without physical substance owned for use in a multi-year or undefined period, which meet the following characteristics:

- identifiability;
- the company holds the control;
- it is probable that the expected future economic benefits attributable to the asset will flow into the company;
- the cost of the asset may be reliably measured.

In the absence of one of these characteristics, the expense to acquire or generate the same internally is recorded as a cost in the year when it was incurred.

Intangible assets include, in particular, the application software with multi-year use and the other identifiable intangible assets that originate from legal or contractual rights.

Intangible assets also include goodwill, which represents the positive difference between the purchase cost and the fair value of the assets and liabilities of the acquired company.

Recognition criteria

Intangible assets are entered at cost, adjusted for any ancillary costs incurred to arrange the use of the asset, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the same asset may be determined reliably. Otherwise the cost of the tangible asset is recorded in the income statement in the year when it was incurred.

Measurement criteria

After initial recognition, intangible assets with a "definite" useful life are recognised at cost, net of the accumulated amortisation and impairment losses.

The amortisation process starts when the asset is available for use, or when it is in the place and conditions suitable to be able to work in the set manner.

Amortisation is carried out with the straight line method, in a way to reflect the multi-year use of the assets based on the estimated useful life. In the first year the depreciation is recorded proportionally to the effective period of using the asset. Amortisation ends from the date when the asset is eliminated from the accounts.

At each year-end, given the presence of evidence of impairment losses, an estimate is made of the recoverable amount of the asset. The amount of the impairment, recorded in the income statement, is equal to the difference between the Book value of the asset and its recoverable amount.

Derecognition criteria

Intangible assets are eliminated from the balance sheet at the time of their disposal or when future economic benefits are not expected. Capital gains and losses from the release or disposal of an intangible asset are calculated as the difference between the net sale payment and the Book value of the asset and entered in the income statement.

Criteria for the recognition of the income components

In the first year the depreciation is recorded proportionally to the effective period of using the asset.

In the consolidated income statement item 220. Net value adjustments/write-backs to intangible assets, the positive or negative balance between the value adjustments, amortisation and write-backs relating to the intangible assets is indicated. In the consolidated income statement item 280. Profit (Loss) from disposal of investments, the positive or negative balance between the profits and losses on investments is recognised.

8 – Non-current assets and groups of assets held for disposal

Classification criteria

This item includes the non-current assets held for sale and the associated groups of assets and liabilities held for disposal, according to the provisions of IFRS 5.

More specifically, assets and groups of assets are classified in this item whose Book value will be mainly recovered with a sale rather than their continuous use.

For the recovery of a non-current asset or a group held for disposal through a sale to materialise, two conditions must be met:

- the asset must be available for immediate sale in its current condition, subject to conditions, which are usual and customary, for the sale of such assets (or groups held for disposal);
- the sale of the non-current asset (or group held for disposal) must be highly probable.

Since the sale is highly probable, Management at a suitable level must be committed to an asset disposal programme, and activities must be started to identify a purchaser and complete the programme. In addition, the asset must be actively exchanged in the market and put up for sale, at a reasonable price compared to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the sale plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets and asset groups held for disposal and discontinued operations and related liabilities are shown under specific items of consolidated assets 120. Non-current assets and groups of assets held for disposal and consolidated liabilities 70. Liabilities associated to assets held for disposal.

Recognition criteria

The non-current assets and groups of assets held for disposal are initially recognised at the lower between the Book value and the fair value net of costs to sell. With the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9), IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

Measurement criteria

In the measurements subsequent to initial recognition, non-current assets and groups of non-current assets held for disposal continue to be valued at the lower of their Book value and their fair value net of costs to sell, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

In cases where assets held for disposal are depreciable, the depreciation process is interrupted from the time when classification as non-current assets held for disposal takes place.

Derecognition criteria

The non-current assets and groups of assets held for disposal are eliminated from the balance sheet at the time of disposal.

If an asset (or group held for disposal) classified as held for sale loses the criteria for inclusion in accordance with accounting standard IFRS 5, the asset (or group held for disposal) must no longer be classified as held for sale.

It is necessary to assess a non-current asset that ceases to be classified as held for sale (or ceases to be part of a group held for disposal and classified as held for sale) at the lower between:

- the accounting value before the asset (or group held for disposal) was classified as held for sale, adjusted for all the amortisation, write-downs or write-backs that would have otherwise been recorded if the asset (or group held for disposal) had not been classified as held for sale;
- its recoverable amount at the date of the subsequent decision to not sell.

The items include the current and deferred tax assets and current and deferred tax liabilities recognised in application of IAS 12.

Income taxes relating to discontinued operations are calculated in compliance with current taxation regulations and are recognised in the income statement on an accrual basis, in line with the recognition in the accounts of the costs and revenues that generated them, except for those relating to the entries charged or credited directly in the equity, for which the recognition of the related taxation takes place, for consistency, in the equity.

Criteria for the recognition of the income components

Income and expenses, valuation results and profit/loss on sale (net of the tax effect) attributable to groups of assets held for disposal or recognised as such during the year are shown in the relevant consolidated income statement item 320. Profit (loss) after tax from discontinued operations.

9 - Current and deferred taxes

Current taxes

Current tax assets and liabilities are recorded at the value due or recoverable against the tax profit (loss) by applying the rates and the current taxation regulations. Current taxes that are entirely or partially unpaid at the reference date are posted under ‘Current tax liabilities’ of the consolidated balance sheet.

In the event of overpayment, which gave rise to a recoverable receivable, this is accounted for among the ‘Current tax assets’ of the consolidated balance sheet.

In accordance with IAS 12, the Group compensates current tax assets and liabilities if, and only if, it:

- has an enforceable right to offset the amounts recognised;
- intends to settle for the net residual, or realise the asset and simultaneously settle the liability.

Deferred taxes

Deferred tax assets and liabilities are booked by using the so-called balance sheet liability method, taking into account the temporary differences between the Book value of an asset or a liability and its value recognised for tax purposes. They are calculated using the applicable tax rates according to current laws, in the year when the deferred tax asset will be realised or the deferred tax liability will be settled.

Tax assets are recorded only if it is deemed probable that in the future a taxable income will be realised, against which this asset may be used.

In particular, tax regulations may lead to differences between taxable income and statutory income that, if temporary, only cause a temporal mismatch that implies the advance or deferment of the time of taxation compared to the period of accrual, thus determining a difference between the carrying amount of an asset or a liability in the balance sheet and its value recognised for tax purposes. These differences are distinguished between 'deductible temporary differences' and 'taxable temporary differences'.

Deferred tax assets

Deductible temporary differences indicate a future reduction in taxation, against a prepayment of tax compared to the economic-statutory accrual. They generate deferred tax assets since they will determine a lower tax burden in the future, on the condition that in the following years, taxable profits are realised in a sufficient measure to cover the realisation of the taxes paid in advance.

Deferred tax assets are recorded for all the deductible temporary differences if it is probable that a taxable income will be realised against which the deductible temporary differences may be used. However the probability of recovering advance taxes relative to goodwill, other intangible assets and adjustments to receivables is to be considered automatically fulfilled pursuant to the provisions of the law that provide for their transformation into a tax credit in the event of a statutory and/or tax loss.

The transformation enters into effect from the date of the approval of the shareholders' meeting of the separate financial statements of the entities in which the loss is recognised.

The origin of the difference between the higher fiscal income and the statutory one is mainly due to negative income components fiscally deductible in years that are subsequent to those of recognition in the financial statements.

Deferred tax liabilities

Taxable temporary differences indicate a future increase in taxation and consequently generate deferred tax liabilities, since these differences give rise to taxable amounts in the following years to those when they are attributed to the statutory income statement, determining a deferment of the taxation compared to the economic-statutory accrual.

Deferred tax liabilities are recorded for all the taxable temporary differences with the exception of the deferred tax reserves since transactions that determine the taxation are not envisaged.

The origin of the difference between the lower fiscal income and the statutory one is due to:

- positive income components taxable in years after those when they were entered in the accounts;
- deductible negative income components in years prior to the one when they will be entered in the accounts according to statutory criteria.

Assets and liabilities entered for advance and deferred taxes are systematically measured to take into account any amendments taking place in the regulations or in the rates.

Advance taxes and deferred taxes are accounted for at capital level with open balances and without offsetting and are booked in consolidated balance sheet item 110. Tax assets, sub-item "b) deferred" and 60. Tax liabilities, sub-item "b) deferred".

If the deferred tax assets and liabilities refer to components which concerned the income statement, the contra-entry is represented by income tax. In case the advance and deferred taxes concern transactions which directly regard the equity without influencing the income statement (such as the valuation of financial instruments measured at fair value through other comprehensive income), they are recorded as a contra-entry to equity, affecting the specific reserve when applicable.

10 - Provisions for risks and charges

Classification criteria

In compliance with the provisions of IAS 37, the provisions for risks and charges include the provisions relating to current (legal or implicit) obligations originating from a past event, for which the use of economic resources is probable to fulfil the same obligation, as long as a reliable estimate of the related amount can be made.

Recognition criteria

Therefore, this item includes the following:

- provision for credit risk relative to commitments and financial guarantees given: the value of the total provisions for credit risk is recognised in respect of the commitments to disburse funds and financial guarantees given which are subject to the impairment rules of IFRS 9 (see paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees given and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15;
- provision for other commitments and guarantees given: the value of the total provisions in respect of other commitments and other guarantees given which are not subject to the impairment rules of IFRS 9 is recognised (see IFRS 9, paragraph 2.1, letters e) and g));
- provisions for post-employment benefits includes the provisions in respect of benefits provided to the employee after terminating the employment relationship in the form of defined contribution plans or defined benefit plans;
- other provisions for risks and charges: these include other provisions for risks and charges established in compliance with the provisions of the international accounting standards (e.g. personnel expenses, tax disputes).

Measurement criteria

The amount recorded as allocation represents the best estimate possible of the charge requested to fulfil the existing obligation at the reference date.

Where the time element is significant, the provisions are discounted by using current market rates.

The allocated funds are periodically reviewed and adjusted, if necessary, to reflect the best current estimate. If, following the review, the charge becomes unlikely to be incurred, the provision is cancelled. With regard to provisions for employee benefits, please refer to paragraph “15.2 - Provision for severance indemnity and seniority bonuses” below.

Derecognition criteria

If it is unlikely that the use of resources to produce economic benefits to fulfil the obligation will be necessary, the provision must be cancelled. A provision must be used only for those expenses for which it was originally entered.

Criteria for the recognition of the income components

The provision is recognised in the income statement, in consolidated financial statements item 200. Net allocations to provisions for risks and charges.

The item includes the positive or negative balance between the allocations and any re-attributions to the income statement of funds deemed redundant.

The net allocations also include the decreases in funds for the discounting effect as well as the corresponding increases due to the passing of time (accrual of the interest implicit in discounting).

11- Financial liabilities measured at amortised cost

Classification criteria

Financial liabilities measured at amortised cost include amounts due to banks and customers, whatever their technical form (deposits, current accounts, loans, leases), other than Financial liabilities held for trading and Financial liabilities designated at fair value.

This item also includes securities issued for funding purposes (e.g. certificates of deposit, bonds) measured at amortised cost. Securities that, as at the reference date, are expired but still not repaid are included.

Recognition criteria

The initial recognition of these financial liabilities takes place upon receiving the sums collected or issuing the debt securities. The value at which they are entered corresponds to the related fair value, normally equal to the amount collected or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not repaid by the creditor counterparty. Internal costs of an administrative nature are excluded.

The fair value of the financial liabilities, possibly issued at different conditions from market conditions, is subject to a suitable estimate and the difference compared to the amount collected is, where appropriate, directly recognised in the income statement.

Measurement criteria

Following initial recognition, carried out at fair value, on the date of signing of the contract, the financial liabilities are measured at the amortised cost, using the effective interest rate method.

Excluded are the short-term liabilities, where the time factor is negligible, which remain recorded at their collected value, and whose costs and income directly attributable to the transaction are entered in the relevant items of the income statement.

Derecognition criteria

The financial liabilities are derecognised from the financial statements when settled or expired, or when securities issued by the Group are reacquired, with a consequent redefinition of the debt entered for debt securities in issue.

Criteria for the recognition of the income components

The negative income components represented by the interest expense are entered on an accrual basis in the items in the income statement relating to interest.

Any difference between the value of repurchasing own securities and the corresponding Book value of the liability is entered in the income statement, under the consolidated financial statements item 100. Profit (loss) from disposal/repurchase of: c) Financial liabilities.

12 - Financial liabilities held for trading

Classification criteria

Subject to recognition in this item are the financial liabilities, whatever their technical form (debt securities, loans, etc.) classified in the trading book.

The item includes, where present, the negative value of the trading derivative contracts. Derivatives connected to the fair value option are also included in this category (as defined in IFRS 9, section 4.2.2) which are operationally related to the assets and liabilities measured at fair value which on the reporting date have a negative fair value, except for derivatives which are designated as effective hedging instruments and recognised in a separate liability item in the balance sheet. If the fair value of a derivative subsequently becomes positive, it shall be recognised among financial assets measured at fair value through profit or loss.

Recognition criteria

The derivative financial instruments are entered at the subscription date and measured at fair value through profit or loss.

Measurement criteria

Subsequently to the initial recognition, the financial liabilities are measured at fair value through profit or loss.

For details on how fair value is determined, please refer to the following paragraph “A.4 - Information on fair value” of this part A.

Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the relevant cash flows expire or when the financial liability is transferred with the substantial transfer of all the risks and rewards deriving from its ownership.

Criteria for the recognition of the income components

Profits and losses deriving from changes in fair value and/or from the disposal of financial liabilities held for trading are recognised in the income statement under item 80. Net result from trading.

13 - Financial liabilities designated at fair value

Classification criteria

Classified in this item are those financial liabilities designated at fair value with valuation results entered in the income statement as a result of the exercise of the fair value option provided by IFRS 9, i.e. when:

- an inconsistency in the valuation or recognition is eliminated or significantly reduced (sometimes defined as an accounting mismatch), which would otherwise result from the measurement of assets or liabilities or the recognition of the associated profits and losses on a different basis;
- there is an implicit derivative;
- a group of financial liabilities or financial assets and liabilities is managed and its return is designated at fair value according to a documented risk management or investment strategy and the information relating to the group is provided internally on said basis to executives with strategic responsibilities.

Recognition criteria

Financial liabilities designated at fair value are initially recognised at fair value on the issue date, which normally corresponds to the amount collected without considering the transaction costs or income directly attributable to the same instrument, which are instead attributed to the income statement.

Measurement criteria

Liabilities are designated at fair value. The income components are reported according to the provisions of IFRS 9, as set out below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve (Statement of consolidated comprehensive income);
- the remaining changes in fair value are recognised in the income statement, under consolidated financial statements item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

For details on how fair value is determined, please refer to the following paragraph “A.4 - Information on fair value” of this part A.

Derecognition criteria

The financial liabilities designated at fair value are derecognised from the financial statements when they have expired or are extinct.

Derecognition also takes place in case of repurchasing previously issued securities. The difference between the Book value of the liability and the amount paid to purchase is recorded in the income statement.

The re-placement on the market of own securities subsequently to their repurchase is considered as a new issue with entry of the new placement price, without effects on the income statement.

Criteria for the recognition of the income components

The cost for interest on debt instruments is classified among the Interest expense and similar charges of the consolidated income statement.

The income components relating to this financial statements item are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve (Statement of consolidated comprehensive income);
- the remaining changes in fair value are recognised in the income statement, under consolidated financial statements item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

14 - Foreign exchange transactions

Classification criteria

Among the assets and liabilities in foreign currencies, in addition to those explicitly expressed in a currency other than the Euro, are also those to which financial indexing clauses apply, connected to the Euro exchange rate with a certain currency or a given basket of currencies.

For the purpose of the conversion method to be used, the assets and liabilities in foreign currencies are subdivided into monetary items (classified among the current items) and non-monetary items (classified among the non-current items).

The monetary elements consist of cash at hand and in the assets and liabilities to be received or paid, in cash amounts that are fixed or to be determined. In non-monetary elements, the right to receive or the obligation to deliver a cash amount that is fixed or to be determined is absent.

Recognition criteria

Transactions in foreign currencies are recorded, at the time of initial recognition, in a currency account, by applying the exchange rate in force at the transaction date to the amount in a foreign currency.

Measurement criteria

At the time of closing the financial statements or the interim period, the elements originally denominated in foreign currencies are valued as follows:

- the monetary items are converted at the exchange rate at year-end;
- the non-monetary items measured at the historical cost are converted at the exchange rate in force at the transaction date;
- the non-monetary items carried at fair value are converted at the spot exchange rate at year-end.

Criteria for the recognition of the income components

The exchange rate differences found between the transaction date and the related payment date, on the monetary elements, are booked in the income statement in the year when they arise, together with those which derive from the conversion of monetary elements at different rates from the initial conversion rates or the conversion at the previous year-end.

When a profit or loss relating to a non-monetary element is recorded in the Equity, the exchange rate difference relating to this element is also recorded in the Equity.

When a profit or loss is recorded in the income statement, the related exchange rate difference is also recorded in the income statement.

15 - Other information

15.1 Sales and repurchase contracts (repos)

Securities sold and subject to a repurchase agreement are classified as committed financial instruments when the purchaser has the right to resell or re-commit the underlying asset by contract or agreement; the liability of the counterparty is included in the liabilities to other banks, other deposits or customer deposits.

The securities purchased in relation to a resale contract are accounted for as loans or advances to other banks or customers.

The difference between the sales price and the purchase price is booked as interest and recorded on an accrual basis along the lifespan of the transaction.

15.2 Provision for severance indemnity and seniority bonuses

Provision for severance indemnity is similar to a post-employment benefit of the defined benefit plan type the value of which IAS 19 requires to be determined using actuarial methodologies.

Consequently, the valuation at the end of the year is made on the basis of the benefits accrued using the projected unit credit method.

This method provides for a projection of future outflows based on historical, statistical and probability analysis as well as by virtue of adopting the appropriate basic demographic techniques.

It makes it possible to calculate the severance indemnity accrued on a certain date in actuarial terms, distributing the expense for all the years of expected residual permanence of the existing employees and no longer as an expense to be settled in the event that the company ceases its operations on the reference date.

The valuation of the employee severance indemnity is carried out by an independent actuary pursuant to the method indicated above.

Following the entry into effect of the supplementary pension reform, pursuant to Legislative Decree no. 252/2005, the portions of the provision for severance indemnity accrued to 31 December 2006 will remain in the company, while the portions that accrue from 1 January 2007 have been, at the option of the employee, applied to supplementary pension plans or the INPS fund.

The latter were therefore recognised in the income statement based on the contributions due in each year; the obligation to the supplementary fund or INPS has not been discounted, due to a maturity of less than 12 months.

Based on IAS 19, the severance indemnity paid to the Pension Fund Treasury (INPS) is considered as a defined contribution plan, as is the amount paid into the supplementary fund.

The portions accrued and paid into the supplementary pension funds are recognised in the consolidated income statement sub-item 190. a) personnel costs.

These portions are configured as a defined contribution plan since the obligation of the company towards the employee ends with the payment of the accrued amounts. Therefore, for these cases, only the portion of the debt can be recorded under the liabilities (among 'Other liabilities') for payments still to be made to the INPS or the supplementary funds, on the reference date.

IAS 19 requires all actuarial gains and losses accrued on the reference date to be immediately recognised in the "Statement of consolidated comprehensive income".

The 'other long-term benefits' described by IAS 19 include the seniority bonuses to employees. These benefits must be valued, in compliance with IAS 19, with the same methodology used to determine the provision for severance indemnity, as these are compatible.

The liability for the seniority bonus is recorded under the provisions for risks and charges of the balance sheet.

The allocation, as the reattribution to the income statement of any excesses of the specific fund (due for example to changes to the actuarial assumptions) are recognised in the income statement among the "Personnel costs".

15.3 Recognition of revenues and costs

Revenues are recognised when control of the goods or services is transferred to the customer at an amount that represents the amount of the consideration to which the customer is deemed to be entitled.

Revenues are recorded through a process of analysis that involves the following steps:

- identification of the contract, defined as an agreement in which the parties have undertaken to fulfil their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sales prices of the individual obligation;
- recognition of revenues when (or as) the performance obligation is fulfilled by transferring the promised good or service to the customer.

That said, the recognition of revenues may occur:

- at a given time, when the entity meets its performance obligation by transferring the promised good or service to the customer; or
- over a period of time, as the entity meets its performance obligation by transferring the promised good or service to the customer.

With reference to point b) above, a performance obligation is satisfied over a period of time if at least one of the following conditions is met:

- the customer controls the asset involved in the contract at the moment in which it is created or enhanced;
- the customer simultaneously receives or consumes the benefits provided by the entity's performance as the entity performs;
- the company's performance creates a personalised asset for the customer and the company has a payment right for the services completed at the date of transfer of the asset.

If none of the above criteria are met, then the revenue is recognised at a given moment.

The indicators of the transfer of control are:

- the obligation to pay;
- the legal title of the right to the consideration accrued;
- the physical possession of the asset;
- the transfer of risks and benefits related to ownership;
- the acceptance of the asset.

With regards to revenues realised over a period of time, the Group adopts a time-based accounting method. In relation to the above, the main approaches adopted by the Group are summarised below:

- the interest is recognised on a temporal basis, based on the contractual interest rate or the effective rate in the case of applying the amortised cost;
- the overdue interest, possibly set contractually, is booked in the income statement only at the time of its actual collection;
- the dividends are recorded in the income statement in the period in which their distribution is resolved, which coincides with the period when they are collected;
- the fees and commissions for revenue from services are entered, based on the existence of contractual agreements, in the period when the same services were rendered.

The revenues from the sale of non-financial assets are recorded at the time of finalising the sale, unless most of the risks and benefits associated with the asset have been maintained.

The costs are booked to the income statement according to the accrual principle; the costs relating to obtaining and fulfilling of the contracts with the customer are recognised in the income statement in the periods in which the associated revenues are recognised.

15.4 Improvements to third-party assets

The restoration costs on third party properties are capitalised in consideration of the fact that, throughout the duration of the lease, the using company has the control of the goods and may gain future economic benefits from them. The aforementioned costs are classified among the 'Other assets' and are amortised for a period not exceeding the duration of the lease.

15.5 Methods of recognition of impairment losses

Impairment of financial assets

Financial assets other than those measured at fair value through profit or loss, in accordance with IFRS 9, are subject to an assessment - to be carried out at the end of each reporting period - to verify whether there are any indicators that these assets may be impaired (known as impairment indicators).

If the above indicators exist, the financial assets in question are considered impaired (stage 3) and value adjustments equal to the expected losses over their entire residual life must be recorded against them.

For financial assets for which there are no impairment indicators (stage 1 and stage 2), it is necessary to verify whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition and apply, consequently, the criteria underlying the IFRS 9 impairment model.

The IFRS 9 impairment model

The scope of application of the IFRS 9 impairment model adopted by the Group, on which the requirements for the calculation of allocations are based, includes financial instruments such as debt securities, loans, trade receivables, assets deriving from contracts and receivables originating from lease transactions, measured at amortised cost or fair value through other comprehensive income, as well as off-balance sheet exposures (financial guarantees and commitments to disburse funds).

The aforementioned impairment model is characterised by a forward looking approach and in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. This estimate will also need to be continuously adjusted to take account of the credit risk of the counterparty. In order to prepare this estimate, the impairment model must not only consider past and present data, but also information relating to future events.

For credit exposures falling within the scope of application of the impairment model, the accounting standard provides for the allocation of the individual positions in one of the 3 stages listed below:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk or which can be identified as 'low credit risk';
- in stage 2, positions that, at the reference date, present a significant increase or that do not present the characteristics to be identified as 'low credit risk';
- in stage 3, non-performing positions.

More specifically, the Group made provision for the allocation of the individual credit, on-balance and off-balance sheet positions, in one of the three stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the following point;
- in stage 2, the positions, which at the reference date, showed a significant increase in credit risk:
    - positions which, at the valuation date, are classified to 'watch list', i.e. 'performing under observation';
    - positions which, as at the valuation date, show an increase in PD compared to that at origination, which exceeds certain thresholds calculated using quantile regression methods;
    - presence of a 'forborne performing' attribute;
    - presence of past due amounts and/or overrun by more than 30 days;
    - positions (without 'lifetime PD' at the disbursement date) that, at the measurement date, do not present the characteristics to be identified as 'low credit risk' (as described below);

- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and impaired exposures.

Performing positions that possess the following characteristics at the measurement date are considered 'low credit risk':

- absence of 'lifetime PD' at the disbursement date;
- Low risk class (class 5 for the Private segment, class 3 for Small Economic Operators and class 4 for Small Businesses and Companies).

Positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above.

The estimate of expected loss using the Expected Credit Loss (ECL) methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss is calculated on a time horizon of one year;
- stage 2, the expected loss is calculated by considering all the losses that it is presumed will be incurred during the entire life of the financial asset (lifetime expected loss);
- stage 3, the expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical. In addition, where appropriate, forward looking elements will be introduced to the measurement of the aforementioned positions represented, in particular, by the inclusion of different scenarios (e.g. sale), weighted for the relevant probability of occurrence. More specifically, as part of the estimate of the recovery value of the positions (in particular those classified as non-performing), the inclusion of a transfer scenario, as an alternative to the internal management scenario, normally involves the recognition of greater value adjustments connected with the application of weighted sale prices for the relative probability of occurrence of the transfer scenario.

With specific reference to loans to banks, the Group has adopted a model for determining the significant increase in credit risk that differs slightly from that applied to loans to customers, although the stage allocation logic adopted for loans to banks have been defined as consistently as possible with those implemented for loans to customers.

More specifically, with reference to loans to banks, the low credit risk ratios are performing ratios which at the valuation date have the following characteristics:

- absence of 'lifetime PD' at the disbursement date;
- PD Point in Time lower than 0.3%.

Interbank positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above. Now, therefore, for loans to banks, the Group adopts the IFRS 9 impairment model developed on an ad hoc basis for the specific counterparty type and, therefore, different from the model used for loans to customers.

Also for loans to banks, the estimate of expected loss using the Expected Credit Loss (ECL) methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1: expected loss is calculated on a time horizon of 12 months;

- stage 2: expected loss is calculated on a time period that incorporates the entire duration of the position until maturity (so-called LEL, Lifetime Expected Loss);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss is analytical.

The probability of default and exposure at default (hereinafter also PD and EAD) risk parameters are calculated by the impairment model.

The loss given default (hereinafter also "LGD") parameter is prudentially set at the regulatory level of 45% valid in the IRB Foundation model, for portfolios composed of risk assets other than subordinated and guaranteed instruments.

With reference to the portfolio of securities, the use of the approach for loans is confirmed, i.e. allocation of securities into one of the three stages set forth by IFRS 9, which correspond to the three different expected loss calculation methodologies.

In stage 1, expected loss is measured within a time horizon of one year, therefore with a probability of default at 12 months.

In the stage 1 of creditworthiness, securities were placed:

- at the moment of purchase, regardless of their risk;
- which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase;
- which have experienced a significant decrease in credit risk.

In stage 2, the ECL is calculated by using the probability of lifetime default. This stage will include those securities that possess the following characteristics:

- at the measurement date, the instrument presents an increase in credit risk with respect to the purchase date as such to request the recognition of an expected loss until maturity;
- instruments that fall under stage 3 on the basis of a significant decrease in risk.

The third and final stage includes exposures for which the ECL is calculated using a probability of default of 100%.

The decision to place instruments in stage 1 or in stage 2 is connected with the quantification of the thresholds that identify a significant increase in the credit risk of the individual tranche subject to valuation. These thresholds are calculated from the characteristics of the portfolio. As regards stage 3, an analysis is conducted as to whether the increase in risk was high enough, from the moment of initial recognition, to consider the assets 'impaired', i.e. whether events were verified as such to negatively impact future cash flows. As outlined previously, an incremental loss must be recognised from stage 1 to stage 3. In more detail:

- the 12-month ECL represents the expected value of the loss estimated on an annual basis;
- the lifetime ECL is the estimate of expected loss until maturity of the security;
- the estimate parameters of the ECL are the probability of default, the 'Loss Given Default' and the 'Exposure at Default' of the individual tranche (PD, LGD, EAD).

Analytical impairment of receivables in stage 3

With reference to the analytical valuation of loans, the model used by the Group to determine allocations for impaired loans (stage 3) measured at amortised cost or at fair value through other comprehensive income requires, depending on their characteristics, the use of a specific analytical valuation or a flat-rate analytical valuation.

The specific analytical valuation method is designed to determine the correct quantification of the allocations for each position, considering both the characteristics of the individual position being valued and the characteristics of the counterparty to which the same is registered.

The purpose of the flat-rate analytical valuation is to determine the correct quantification of allocations for each position and is carried out by estimating risk parameters defined by a statistical model, in line with the provisions for the collective assessment of performing exposures with reference to stage 2 credit exposures.

The flat-rate analytical valuation shall apply to credit exposures with the following characteristics:

- impaired past due and/or overrun exposures;
- impaired off-balance sheet exposures (e.g. endorsement exposures, available margins on credit);
- on-balance exposures classified as unlikely to pay that do not exceed an amount threshold defined at the individual debtor level (so-called size threshold);
- on-balance exposures classified as non-performing that do not exceed the size threshold.

The specific analytical valuation applies to credit exposures that have the following characteristics:

- on-balance exposures classified as unlikely to pay that exceed the size threshold;
- on-balance exposures classified as non-performing that exceed the size threshold.

For the purposes of applying the size threshold, the overall credit exposure is taken as a reference at the level of the individual debtor, thus determining, alternatively, a flat-rate or specific analytical valuation for all cash relationships in the name of the same debtor. The size threshold for counterparties classified as unlikely to pay and non-performing is EUR 100,000.

The assessment of expected losses, in particular with regard to non-performing exposures, shall be carried out taking into account the probability that different credit realisation scenarios will occur, such as the assignment of the exposure or, conversely, internal management.

With regard to the specific analytical valuation of recoverable amount (valuation component), the Group adopts two alternative approaches that reflect the characteristics and riskiness of individual credit exposures:

- going concern approach, which applies only to business counterparties, operating in sectors other than real estate, that have objective prospects of going concern that are assumed when:
    - the debtor's future operating cash flows are pertinent and can be reliably estimated from documentable sources, such as:
        - updated, complete and regular official financial statements;

    - the business plan, the use of which for estimating cash flows is subject to (i) verification of the reliability and feasibility of the assumptions underlying the plan and (ii) full compliance with the plan, if it is already in progress;
    - the plan provided for in relation to agreements pursuant to the Bankruptcy Law such as, for example, pursuant to Article 67 letter d), Article 182 bis and septies, Article 186 bis, Article 160 et seq., it being understood that as long as the plans have only been submitted and not sworn in by the external professional appointed, the participating banks must carry out the same checks as those provided for with reference to the business plans;
  - the debtor's future operating cash flows are adequate to repay the financial debt to all creditors.

- gone concern approach, which applies obligatorily to credit exposures in the name of individuals and for companies with a view to business cessation or where it is not possible to estimate operating cash flows.

The discounting of the recoverable amount (financial component), applied for non-performing loans and unlikely to pay, is based on the determination of the discount rate and the recovery time.

Impairment of equity investments

At each reporting date, investments in associates or jointly controlled companies are subject to an impairment test to verify whether there is objective evidence that the Book value of the assets in question is not fully recoverable. If there is any indication of this, the entity must estimate the asset's recoverable amount that, therefore, is tested for impairment.

The presence of impairment indicators (such as the presence of lower than expected economic performance of the investee company, significant changes in the environment or in the market where the company operates or in market interest rates, etc.) leads to the recognition of an impairment loss to the extent that the recoverable amount of the investment is lower than its carrying amount.

The recoverable amount is represented by the higher of the fair value, net of costs to sell and the value in use of the equity investment. As a consequence, the need to estimate both values does not apply if one of them has been valued above the Book value.

For the valuation methods used to determine fair value, reference should be made to paragraph "A.4 - Information on fair value" of this part A.

The value in use of the investment is the present value of the expected cash flows from the asset. This quantity responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use therefore presupposes the estimate of the cash flows expected from the use of the assets or their final disposal expressed in terms of present value through the use of appropriate discount rates.

When an equity investment does not generate cash flows that are largely independent from other assets, it is subject to an impairment test not independently, but at the level of the CGU. Therefore, when assets attributable to a subsidiary are included in a CGU larger than the investment itself, the impairment test can only be carried out at the latter level and not at the level of the individual investee company for which a value in use cannot be correctly estimated.

If the outcome of the impairment shows that the recoverable amount is higher than the Book value of the equity investment, no value adjustment is recognised; otherwise, an impairment loss is recognised in Consolidated Income Statement item 250. Profit (loss) on equity investments.

Should the recoverable amount subsequently be higher than the new Book value because it can be demonstrated that the elements that led to the write-down are no longer present, a write-back is permitted up to the amount of the previously recorded adjustment.

Impairment of other fixed assets

Tangible assets

IAS 36 establishes that, at least once a year, the company must verify whether the tangible assets held show one or more indicators of impairment. If such indicators are found, the enterprise must carry out a valuation (impairment test) in order to detect any impairment loss.

The impairment test does not apply to the tangible assets that constitute:

- real estate investments measured at fair value (IAS 40);
- inventories (IAS 2);
- assets within the scope of IFRS 5.

The impairment indicators to be considered are those defined by paragraph 12 of IAS 36. In this regard, impairment indicators specific to tangible assets may occur, for example, in the presence of obsolescence that prevents normal use of the same such as fire, collapse, unusability and other structural defects.

Although IAS 36 is applicable to individual assets, it is often very difficult or, in some cases, impossible to calculate the value in use of an individual tangible asset. For example, it is not always possible to attribute specific incoming or outgoing cash flows to a property that hosts the Management (so-called corporate asset) or to a plant or machinery. In these cases, IAS 36 states that the CGU, i.e. the smallest grouping of assets that generates independent cash flows, must be identified and tested at this higher level (rather than on the individual asset). This is precisely because it is often a group of assets - and not a single asset - that generates cash flow and for this reason it is not possible to calculate the value in use of the individual asset.

Without prejudice to the above, the impairment test involves the need to compare the recoverable amount (which in turn is the higher of value in use and fair value net of costs to sell) of the tangible asset or the CGU with the relative Book value.

If and only if the recoverable amount of an asset or of the CGU is lower than its Book value, the latter must be reduced to the recoverable amount, configuring an impairment loss.

Intangible assets

Pursuant to IAS 36, the Group is required to perform an impairment test at least once a year, irrespective of the presence of impairment indicators, on the following assets:

- intangible assets with an indefinite useful life (including goodwill);
- intangible assets not yet available for use (including those in progress).

Other intangible assets (e.g. those with a defined useful life such as core deposits acquired in a business combination) must be subject to an impairment test only if there is an indicator of impairment.

In this regard, the impairment indicators to be considered for intangible assets are those defined by paragraph 12 of IAS 36. Specific impairment indicators for intangible assets (and in particular for goodwill) may occur, for example, in the event of actual results significantly below budget forecasts (which suggests a downward revision of the projections used for the test) or in the event of an increase in the discount rate or a reduction in the long-term growth rate.

Intangible assets with a definite useful life, such as any value of the asset management portfolio acquired as part of business combinations, in the presence of impairment indicators are subject to a new assessment process to verify the recoverability of the values recorded in the financial statements. The recoverable amount is determined on the basis of the value in use, i.e. the present value, estimated using a rate representative of the time value of money and the risks specific to the asset, the profit margins generated by the relationships existing at the date of the valuation over a time horizon expressing the expected residual duration of the same.

Intangible assets with an indefinite useful life, represented mainly by goodwill, as mentioned above, are tested annually for impairment. As there are no independent cash flows, the impairment test is carried out for the above mentioned assets with reference to the Cash Generating Unit (CGU) to which the values have been attributed.

The CGU represents the smallest identifiable group of assets generating cash inflows (revenues) that are largely independent of the flows generated by other assets or groups of assets. It identifies the lowest possible level of aggregation of assets provided that it is, at that level, possible to identify cash inflows that are objectively independent and autonomous from other assets.

Once the CGUs have been identified, it is necessary to determine their recoverable amount, which will be compared with their Book value in order to quantify any impairment. The recoverable amount is defined as the greater of:

- value in use;
- the fair value less costs to sell.

IAS 36 at para. 19 states that, if one of the two values (value in use or fair value less costs to sell) is higher than the book value of the CGU, it is not necessary to estimate the other.

Value in use represents the present value of future cash flows expected to arise from a CGU. The value in use, therefore, responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use requires an estimate of the expected cash inflows and outflows from the CGU and the appropriate discount rate depending on the level of risk of these flows.

Fair value is the amount obtainable from the sale of an asset or Cash Generating Unit (CGU) in a free transaction between knowledgeable and independent counterparties. Costs to sell include those directly associated with the potential sale (e.g. legal fees).

A CGU is written down when its Book value is higher than its recoverable amount. In essence, an asset or CGU needs to be written down because it is impaired, either because the cash flows that will be generated from the use of the asset are not sufficient to recover the book value of the asset, or because the asset would be sold for less than its book value.

15.6 Business combinations

A business combination consists of the bringing together of companies or company activities into a single entity required to prepare financial statements.

A business combination may give rise to an investment link between the Parent Company (acquirer) and subsidiary (acquiree). A business combination may also make provision for the purchase of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions).

Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method which envisages the following phases:

- identification of the purchaser;
- determination of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities assumed, including therein any contingent liabilities.

In particular, the cost of a business combination is determined as the sum of the fair value, at the date of the exchange, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued, in exchange for control of the acquiree augmented by any cost directly attributable to the business combination.

The acquisition date is the date on which control of the business acquired is effectively obtained. When the acquisition is carried out via a single exchange, the exchange date coincides with the acquisition date.

When the business combination is achieved through several exchange transactions:

- the cost of the combination is the total cost of the individual transactions;
- the exchange date is the date of each exchange transaction (i.e. the date on which each investment is recognised in the financial statements of the acquiring company), while the acquisition date is the date on which control of the business acquired is obtained.

The cost of a business combination is allocated by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at the associated fair values at the acquisition date.

The identifiable assets, liabilities and contingent liabilities of the acquiree are recognised separately at the acquisition date only if, at said date, they satisfy the following criteria:

- in the event of an asset other than an intangible asset, it is likely that any future related economic benefits flow to the purchaser and it is possible to reliably measure its fair value;
- in the event of a liability other than a contingent liability, it is likely that, to extinguish the obligation, the use of resources aimed at generating economic benefits will be necessary and it is possible to reliably measure its fair value;
- in the event of an intangible asset or a contingent liability, the relevant fair value can be reliably measured.

The positive difference between the cost of the business aggregation and the purchaser's interest at the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

Following initial recognition, the goodwill acquired in a business combination is measured at the relevant cost, and is subject to an impairment test at least annually. In the event of a negative difference, a new measurement is performed. This negative difference, if confirmed, is booked immediately as revenue in the income statement.

15.7 Accruals and deferrals

Accruals and deferrals that include expenses and income pertaining to the period accrued on assets and liabilities are booked to the financial statements as an adjustment to the assets and liabilities to which they refer.

15.8 Own shares

Any own shares held are deducted from equity. Similarly, the original cost of the same and the profits or losses arising from their subsequent sale are recognised as movements in equity. Similarly, shares issued by the Parent Company and subscribed by the Affiliated Banks as part of the sole consolidating entity are also deducted from Group's equity.

15.9 Payments based on shares

This case does not apply to the Group, as it does not have a so-called 'stock option plan' in place on Group-issued shares.

15.10 Transfer of the "Tax bonus" tax credit - Law no. 77 of 17 July 2020

As known, Law no. 77 of 17 July 2020, converting, with amendments, to the Relaunch Decree law, has strengthened tax deductions for seismic and energy upgrade interventions on national real estate assets, granting taxpayers the possibility of opting for the conversion of the tax deduction into a tax credit that can be transferred to third parties, mainly to credit institutions and suppliers.

Since the conversion into law of the Relaunch Decree, the tax deductions arising from construction works have undergone significant changes, both in terms of the procedure for exercising the option of sale or discount on the invoice as well as in terms of the time period within which the expenses are incurred.

With the recent conversion into law of Decree Law no. 11 of 16 February 2023 which, with a view to combating fraud in the construction sector, abolished the possibility granted to the taxpayer to transfer the credit to third parties, there will be a progressive reduction of transfers to credit institutions and suppliers, which will remain limited to exceptions of specific cases provided for by regulations.

In relation to the accounting classification to be adopted in the financial statements of the assignee, there is no single reference framework for the particular and new characteristic of the instrument in question. In particular, the present case:

- does not fall within the scope of IAS 12 "Income taxes" as it cannot be assimilated to taxes that affect the ability of the company to produce income;

- does not fall within the scope of the definition of government grants according to IAS 20 “Accounting for government grants and disclosure of government assistance” as the ownership of the receivable from the tax authorities arises only after payment of a consideration to the transferor;
- is not attributable to the provisions of IFRS 9 “Financial instruments” as the tax credits purchased do not originate from a contract between the assignee and the Italian State;
- is not attributable to IAS 38 “Intangible assets”, as the tax credits in question can be considered monetary assets, allowing the payment of tax payables usually settled in cash.

The tax credit in question therefore represents a case not explicitly dealt with by an IAS/IFRS accounting standard, and as such requires reference to the provisions of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” and in particular the need for the reporting entity to define an accounting treatment that reflects the economic substance and not merely the form of the transaction and that is neutral, prudent and complete.

The approach followed, with particular reference to the application of the accounting standard IFRS9, is the one identified both by the Italian Accounting Body (OIC) and by the Bank of Italy/CONSOB/IVASS Document no. 9 (“Accounting treatment of tax credits related to the Cura Italia and Rilancio Decree Laws acquired following their transfer by direct beneficiaries or previous purchasers”). Tax credits are, in fact, substantially similar to a financial asset in that they can be used to offset a debt usually paid in cash (tax debts), as well as being exchanged for other financial assets. The condition to be met is that the same tax credits may be framed in a business model of the entity. In the case of the Cassa Centrale Group, the hold-to-collect business model was chosen, as the intention is to hold these receivables until maturity.

In this sense, the following can be established:

- at the time of initial recognition, the fair value of the tax credit is equal to the purchase price of the receivables included in the transaction;
- in the fair value hierarchy envisaged by IFRS 13, the fair value level is similar to level 3, as there are currently no active markets or comparable transactions;
- the purchase price of tax receivables is affected by both the time value of money and the ability to use it within the relative time limit;
- the subsequent accounting of financial assets takes place at amortised cost, through the use of an effective interest rate determined at the origin, so that the discounted cash flows associated with the expected future offsetting, estimated over the expected duration of the receivable tax, equal the purchase price of the same receivables;
- using the amortised cost method, the cash flow estimates are periodically reviewed and the gross book value of the financial asset is adjusted to reflect the actual and restated cash flows. In making these adjustments, the new cash flows are discounted at the original effective interest rate. This accounting therefore makes it possible to recognise the income during the life of said tax credit, as well as to immediately recognise any losses of the transaction;
- if the estimates regarding the use of the tax credit are revised through offsetting, the gross book value of the tax credit is adjusted to reflect the estimated, actual and restated uses. This also includes the breakdown into ten annual instalments of the residual credits arising from the transfer or invoice discount relating to the deductions due for certain building works;

- taking into account the special characteristics of these tax credits held with the aim of using them until they are completely offset, within the time period allowed, with the payments of debts payable through F24, the reference business model, as mentioned above, was conventionally identified as hold to collect (HTC). This consideration is always checked if the purchases of the transferee Bank are within the limits of the Group ceiling. If, according to the Bank, the individual ceiling has been exceeded, on the basis of the transfer orders collected from its customers, and in order to preserve the established commercial relationships, it is possible to transfer tax credits to selected counterparties within or outside the Group;
- SPPI test: The mechanism of compensation in fifths ensures that the test is passed because each fifth offset is assimilated to a constant cash flow, which includes a principal and an implicit interest rate (French amortisation), where the interest rate is determined on the basis of an internal rate of return of the transaction determined at the origin and no longer modified.

A.3 – Information on transfers between portfolios of financial assets

The Group has not performed any transfer between the portfolios of the financial instruments during the current year. Thus the compilation of the envisaged tables is omitted.

A.4 – Information on fair value

Information of a qualitative nature

The accounting standard IFRS 13 defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The “Fair value policy” of the Cassa Centrale Group has defined the principles and methods for determining the fair value of financial instruments and the criteria for determining the so-called “fair value hierarchy”.

A fair value measurement assumes that the sale of the asset or the transfer of the liability takes place:

- in the main market for the asset or liability;
- in the absence of a main market, in the most advantageous market for the asset or liability.

In the absence of a main market, all reasonably available information is taken into consideration in order to identify an active market among the available markets where the fair value of an asset/liability can be measured: in general, a market is active in relation to the number of contributors and the type of the same (dealer, market maker), the frequency of price updating and deviation, the presence of an acceptable bid-offer spread. These prices are immediately executable and binding and express the actual and regular levels of exchange on the valuation date.

In order to identify these markets, the Group has equipped itself with tools to monitor whether or not a market can be considered active, in particular with regard to bonds, shares and funds.

In this respect, in general, a financial instrument is considered to be quoted on an active market if prices are readily and regularly available, are immediately executable and binding and represent actual market transactions that occur regularly in normal trading on a regulated market or Multilateral Trading Facilities (MTFs).

The presence of official prices in an active market is the best evidence of fair value; these prices therefore represent the prices to be used in priority for fair value measurements.

In the absence of an active market, fair value is determined using prices recorded on non-active markets, valuations provided by info providers or techniques based on internal valuation models which are described in the Group's internal regulations.

When using such models, the use of relevant observable inputs shall be maximised where possible and the use of non-observable inputs shall be minimised. Observable inputs refer to prices formed within a market and used by market participants in determining the exchange price of the financial instrument being valued. This includes prices of the same asset/liability in a non-active market, parameters supported and confirmed by market data and valuation estimates based on daily observable inputs.

The non-observable inputs, on the other hand, are those not available on the market, processed on the basis of assumptions that the operators/assessors would use in determining the fair value for the same instrument or similar instruments of the same type.

IFRS 13 defines a fair value hierarchy that classifies the inputs of the valuation techniques adopted to measure fair value into three distinct levels. In particular, there are three levels of fair value:

- Level 1: fair value is determined on the basis of quoted prices observed on active markets. The Group has equipped itself with tools to identify and monitor whether or not a market can be considered active with regard to bonds, shares and funds. A financial instrument is considered to be listed on an active market if prices are readily and regularly available, are immediately executable and binding and represent actual market transactions that occur regularly in normal trading on a regulated market or Multilateral Trading Facilities (MTF). For example, the following are classified at this level of fair value:
  - bonds listed on Bloomberg MTF and valued with composite prices or, limited to Italian government securities, with MOT reference price;
  - shares and ETFs listed on markets where in the last five sessions the volumes traded are not zero and the prices recorded are not identical;
  - UCITS mutual funds, i.e. undertakings for collective investment in transferable securities.
- Level 2: fair value is determined on the basis of valuation techniques that envisage:
  - reference to market values that do not reflect the stringent active market requirements envisaged for Level 1;
  - valuation models using inputs observable on active markets. More specifically, with regard to financial instruments for which it is not possible to identify a fair value in active markets, the Group refers to prices in markets where the stringent requirements of the active market are not met or to valuation models - also developed by info providers - aimed at estimating the price at which a regular sale or transfer of a liability between market participants would take place on the valuation date. These models for determining fair value (e.g. discounting cash flow model, option pricing models) include the representative risk factors that condition the valuation of a financial instrument (cost of money, credit risk, volatility, exchange rates, etc.) and that are observed in active markets such as:
    - the prices of similar financial assets/liabilities;
    - interest rates and yield curves observable at commonly quoted intervals;
    - implied volatility;
    - credit spread;
    - inputs corroborated by the market based on observable market data.

The fair value thus determined is assigned a level of 2. Some examples of securities classified at this level are:

- non-governmental bonds for which a price is available on a non-active market;
- securities for which the valuation is provided by a third party provider using inputs observable on active markets;
- securities for which valuation is provided using internal models based on inputs observable on active markets (e.g. bonds measured at fair value option);
- shares that are not listed on an active market;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties measured mainly through observable market data.

- Level 3: the estimate of fair value is carried out using valuation techniques that make significant use of inputs that are not observable on the market and assumptions made by operators using historical evidence or statistical assumptions. Where present, as examples, the following are classified at this level:

  - unlisted minority equity investments;
  - insurance investment products;
  - unlisted non-UCITS funds;
  - junior securitisation securities;
  - unlisted Additional Tier 1 bonds.

The classification of fair value is a figure that may vary over the life of a financial instrument. Consequently, it is necessary to verify on an ongoing basis the significance and observability of market data in order to proceed with any change in the level of fair value attributed to an instrument.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

In the absence of an active market, fair value is determined using valuation techniques appropriate to the circumstances. Below is an illustration of the main valuation techniques adopted for each type of financial instrument, where an internal valuation model is used to determine fair value.

The internal valuation models are reviewed periodically to ensure their full and constant reliability and are updated to the most up-to-date techniques used on the market.

Unlisted bonds not contributed by info providers issued by Italian banks

The procedure for estimating the fair value of bonds is based on a discounted cash flow model.

The yield curve used in the discounting is constructed from liquid bonds, with the same seniority and currency of the instrument being valued, issued by companies belonging to the same sector and with a similar rating class.

As part of the fair value measurement of bonds issued by the issuer, the estimate of fair value takes into account changes in the issuer's creditworthiness. In particular, for securities issued by Affiliated Banks of the Cassa Centrale Banca Cooperative Banking Group or other cooperative credit banks, the rating class is determined on the basis of the rating assigned to the senior unsecured/senior preferred liabilities of the related Parent Company. Changes in the rating may also lead to changes in the fair value calculated according to the characteristics of the security and the discount curve used based on the level of seniority of the bond.

Given the predominant use of observable inputs, the fair value is classified at level 2, expect in some cases where the fair value is set at level 3 since the inputs used are not observable due to the special characteristics of the issue (senior non-preferred or Tier 2 subordinate securities exchanged between companies of the bank group, for example).

Derivatives

The fair value of OTC derivatives, for which there is no price quoted on regulated markets, is determined using different quantitative models depending on the type of instrument. In detail, for non-optional instruments the valuation techniques adopted belong to the discount cash flow model category (e.g. interest rate swaps, FX swaps). For instruments of an optional rate nature, the Black model is used.

The models are supplied using market-observable inputs such as rate curves, exchange rates and volatility.

With regards to the determination of the fair value of OTC derivatives in balance sheet assets, IFRS 13 confirmed the rule of applying the credit valuation adjustment - CVA. With regard to financial liabilities represented by OTC derivatives, IFRS 13 introduces a debt valuation adjustment (DVA), i.e. a fair value adjustment to reflect its own default risk on such instruments.

The Group therefore considered it reasonable not to recognise a correction in the fair value of derivatives for CVA and DVA in the cases in which agreements had been made and remained operative for collateralisation of the positions in derivatives with the following characteristics:

- a bilateral exchange of guarantees with a high frequency (daily or at the most weekly);
- the type of guarantee provided in cash or highly liquid government securities with a high credit rating, subject to an appropriate spread;
- absence of a threshold of the fair value of the derivative under which an exchange of guarantees is not required or setting the level to such a threshold which is adequate to allow for effective and significant mitigation of the counterparty risk;
- MTA - minimum transfer amount (that is the difference between the fair value of the contract and the value of the guarantee) under which there is no adjustment of the collateralisation of the positions, identified contractually at a level that allows for essential mitigation of the counterparty risk.

Unlisted minority equity investments

The main valuation methods adopted by the Group, in accordance with the provisions of IFRS 13, in the valuation of unlisted minority equity investments are set out below:

- market methodologies (market approach): these are based on the idea of comparability with other market participants assuming that the value of an asset can be determined by comparing it to similar assets for which market prices are available. In particular, in practice, two reference sources of market prices are taken into account: stock market prices in active markets and observable information from merger transactions, acquisition or sale of share packages (direct transaction method, transaction multiples, market multiples);
- income approach: these are based on the assumption that future cash flows (e.g. cash flows or dividends) are convertible into a single (discounted) current value. In particular, the main methodologies that fall into this category include i) discounted cash flow (DCF); ii) dividend discount model (DDM); iii) appraisal value;

- adjusted net asset value or ANAV: this method is based on the principle of expressing, at current values, the individual elements of the assets (represented, essentially, by equity investments, whether controlling or not) and liabilities with the emergence also of any items not recorded in the financial statements. This method is normally used to determine the economic value of holding companies and investment companies whose value is closely related to the portfolio of equity investments held.

In accordance with the provisions of IFRS 13, the Group verifies, depending on the specific case, whether it is necessary to apply certain adjustments to the economic value resulting from the application of the aforementioned valuation methods to determine the fair value of the investment under analysis (e.g. liquidity discount, control premium, minority discount).

The choice of valuation approach is left to the judgement of the valuer as long as it favours, compatibly with the available information, methodologies that maximise the use of observable inputs on the market and minimise the use of non-observable inputs.

Lastly, it should be noted that the Group uses the net asset value or cost method (as a proxy for fair value) for minority interests below certain materiality thresholds for which no fair value measurement based on the aforementioned methods is available, based on specific parameters defined within the Fair Value Policy approved by the Board of Directors.

Unlisted mutual investment funds

Mutual investment funds such as unlisted real estate funds, private equity funds and alternative investment funds (hereinafter also referred to as 'AIFs') are characterised by a portfolio of assets generally valued with subjective inputs and provide for the redemption of the subscribed portion only at a certain maturity.

For this reason, the net asset value (NAV) used as a fair value estimation technique is considered to be level 3.

Insurance investment products

The valuation of these assets provides for the discounting of expected future cash flows from the investment. In this regard, the estimate of cash flows is based on the use of risk-free financial scenarios in which a Monte-Carlo simulative approach is used for the projection of future returns from the separate holding. The input data of the functional model for the estimation of flows consist of:

- historical information on the performance of the separate holdings involved;
- risk-free rates;
- the average asset allocation of the Italian separate holdings taken from market data (source: ANIA) at the last available survey compared to the valuation date.

Cash flow projections are made using a financial-actuarial model that incorporates the data of the policyholder, the financial structure of the insurance investment product (minimum guaranteed rates, management fees), demographic assumptions and financial data in order to consider the value of the financial options included in the insurance investment product. These cash flows are finally discounted using the same risk-free curve specific to the individual scenario.

Loans and receivables

The fair value measurement of loans mainly takes place in cases where the relationship fails the SPPI test (as set forth in IFRS 9) or in cases of hedge accounting or application of the fair value option.

The valuation method consists of discounting the contractual cash flows net of the expected loss calculated in accordance with the provisions of the IFRS 9 model used to estimate value adjustments.

With reference to loans to customers and banks, recorded under financial assets measured at amortised cost, the fair value of which is provided for disclosure purposes, it should be noted that the fair value of short-term or revocable loans has been conventionally assumed to be equal to the carrying amount.

With regard to non-performing positions - except for situations in which, given the presence of objective elements deriving from valuations on portfolios and/or specific positions expressed by third parties, the values deriving from such valuations are used - the book value has been assumed as an approximation of fair value.

Unlisted Additional Tier 1 (AT1) subordinated bank securities issued by Affiliated Banks

The procedure for estimating the fair value of Additional Tier 1 securities is based on a discounted cash flow model. The yield curve used in discounting is constructed from liquid bonds, taking into account the seniority of the instrument, the sector and the rating class of the issuer. Taking into account the presence, within the model, of assumptions on the evolution of future cash flows, the fair value thus determined is classified at level 3.

A.4.2 Processes and sensitivities of the valuations

The Group generally carries out a sensitivity analysis of non-observable inputs, through a stress test on non-observable inputs that are significant for the evaluation of the different types of financial instruments belonging to level 3 of the fair value hierarchy.

On the basis of this analysis, potential changes in fair value are determined, by type of instrument, attributable to plausible changes in non-observable inputs. The sensitivity analysis was developed for the financial instruments for which the valuation techniques adopted made it possible to carry out this exercise.

That said, financial instruments under assets with a fair value level 3 represent a residual portion of approximately 3% of the total portfolio of financial designated at fair value. They consist mainly of unlisted minority equity investments and insurance investment products (typically life insurance policies).

With reference to insurance investment products, as highlighted above, these are valued on the basis of a calculation model that provides for the discounting of future cash flows expected from the same investment, taking into account financial, demographic and contractual assumptions.

For the above instruments, considering that the financial and demographic assumptions are derived from observable market data (e.g. Italian risk-free interest rate maturity structure with volatility adjustment, ISTAT mortality table, etc.), the sensitivity analysis was carried out with reference to the non-observable inputs underlying the contractual assumptions (relatively less relevant for valuation purposes).

In particular, the sensitivity analysis concerned the spread (obtained by weighting the historical yields of the reference separate holding) added to the Euro swap rate in order to determine the functional capitalisation rate to calculate, starting from the last insured capital communicated by the insurance companies, the insured capital at the valuation date. The above analysis was carried out on a sample of instruments of this type and showed little significant effects on the fair value of the insurance investments resulting from the change in the non-observable inputs under examination, also due to the aforementioned circumstance that the non-observable inputs underlying the contractual assumptions are in relative terms less relevant for valuation purposes.

With reference to the other fair value level 3 instruments, the sensitivity analysis is not produced because the effects deriving from the change in the non-observable inputs are considered not relevant.

A.4.3 Fair value hierarchy

For a description of the fair value hierarchy levels envisaged by the Group, please refer to paragraph "A.4 - Information on fair value".

With reference to assets and liabilities measured at fair value, classification at the correct level is carried out with reference to the rules and methods set out in internal regulations.

Any transfers to a different level of hierarchy are identified on a monthly basis. The transition from level 3 to level 2 occurs when the relevant parameters used as input to the valuation technique are, at the reference date, observable on the market. The transition from level 2 to level 1 takes place when the presence of an active market, as defined by IFRS 13, has been successfully verified. The transition from level 2 to level 3 occurs when, at the reference date, several of the significant parameters in determining fair value are not directly observable on the market.

A.4.4 Other information

The Group does not hold groups of financial assets and liabilities based on its net exposure to market risks or credit risk.

The Group, with reference to derivatives concluded with financial counterparties with which it stipulated framework netting agreements, availed itself of the possibility to measure the fair value at overall portfolio exposure level in order to take account of the offsetting of counterparty risk.

Information of a quantitative nature

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

	30/06/2023			31/12/2022		
FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets measured at fair value through profit or loss	134	12	217	146	12	315
a) financial assets held for trading	-	8	-	-	7	-
b) financial assets designated at fair value	-	-	1	-	-	1
other financial assets mandatorily measured at fair value	134	4	216	146	5	314
2. Financial assets measured at fair value through other comprehensive income	10,173	14	119	10,788	20	111
3. Hedging derivatives	-	112	-	-	125	-
4. Tangible assets	-	-	14	-	-	14
5. Intangible assets	-	-	-	-	-	-
Total	**10,307**	**138**	**350**	**10,934**	**157**	**440**
1. Financial liabilities held for trading	-	5	-	-	7	-
2. Financial liabilities designated at fair value	-	1	-	-	1	-
3. Hedging derivatives	-	1	-	-	1	-
Total	**-**	**7**	**-**	**-**	**9**	**-**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

During the year, there were no significant transfers of assets and liabilities between level 1 and level 2 as defined by IFRS 13, para. 93, letter c). 93 letter c).

A.4.5.2 Period 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	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. OPENING BALANCES	**315**	**-**	**1**	**314**	**111**	**-**	**14**	**-**
2. INCREASES	**21**	**-**	**-**	**21**	**13**	**-**	**-**	**-**
2.1. Purchases	17	-	-	17	6	-	-	-
2.2. Profit attributed to:	3	-	-	3	4	-	-	-
2.2.1. Income Statement	3	-	-	3	-	-	-	-
- of which capital gains	2	-	-	2	-	-	-	-
2.2.2. Equity	-	X	X	X	4	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	1	-	-	1	3	-	-	-
3. DECREASES	**119**	**-**	**-**	**119**	**5**	**-**	**-**	**-**
3.1. Sales	1	-	-	1	3	-	-	-
3.2. Repayments	110	-	-	110	-	-	-	-
3.3. Losses attributed to:	6	-	-	6	2	-	-	-
3.3.1. Income Statement	6	-	-	6	-	-	-	-
- of which capital losses	4	-	-	4	-	-	-	-
3.3.2. Equity	-	X	X	X	2	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	2	-	-	2	-	-	-	-
4. CLOSING BALANCES	**217**	**-**	**1**	**216**	**119**	**-**	**14**	**-**

Item “3.2 Repayments”, relating to other financial assets mandatorily measured at fair value, includes life insurance policy repayments issued by insurance companies of about EUR 97 million.

A.4.5.3 Period changes in liabilities measured at fair value on a recurring basis (level 3)

At the end of the reporting period, the Group does not hold any liabilities designated at fair value on a recurring basis classified to level 3.

A.4.5.4 Assets and liabilities which are not designated at fair value or which are designated at fair value on non-recurring basis: breakdown by fair value levels

ASSETS AND LIABILITIES WHICH ARE NOT MEASURED AT FAIR VALUE OR WHICH ARE MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	30/06/2023				31/12/2022			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	75,300	24,438	314	49,659	76,376	25,171	332	48,991
2. Tangible assets held for investment purposes	96	-	-	109	100	-	-	109
3. Non-current assets and groups of assets held for disposal	1	-	-	1	1	-	-	1
Total	**75,397**	**24,438**	**314**	**49,769**	**76,477**	**25,171**	**332**	**49,101**
1. Financial liabilities measured at amortised cost	79,560	511	561	78,488	83,588	-	761	82,824
2. Liabilities associated to assets held for disposal	-	-	-	-	-	-	-	-
Total	**79,560**	**511**	**561**	**78,488**	**83,588**	**-**	**761**	**82,824**

KEY:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.5 – Information on day one profit/loss

The Group did not carry out any transactions for which, at the moment of first-time recognition of a financial instrument, a difference emerges between the purchase value and the value of the instrument obtained using internal valuation techniques.

PART B – Information on the consolidated balance sheet

ASSETS

Section 2 - Financial assets measured at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: breakdown by category

ITEMS/VALUES	Total 30/06/2023			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. Equities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repos	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**
B. DERIVATIVE INSTRUMENTS						
1. Financial derivatives	-	8	-	-	7	-
1.1 trading	-	8	-	-	7	-
1.2 linked to fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-

ITEMS/VALUES	Total 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
2.2 linked to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**-**	**8**	**-**	**-**	**7**	**-**
Total (A+B)	**-**	**8**	**-**	**-**	**7**	**-**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

As at 30 June 2023, as for the comparative period, this item includes the derivative instruments classified in the trading book.

2.3 Financial assets designated at fair value: breakdown by category

ITEMS/VALUES	Total 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. DEBT SECURITIES	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. LOANS	**-**	**-**	**1**	**-**	**-**	**1**
2.1 Structured	-	-	-	-	-	-
2.2 Other	-	-	1	-	-	1
Total	**-**	**-**	**1**	**-**	**-**	**1**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

2.5 Other financial assets mandatorily measured at fair value: breakdown by category

ITEMS/VALUES	Total 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. DEBT SECURITIES	**1**	**4**	**2**	**1**	**5**	**3**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1	4	2	1	5	3
2. EQUITIES	**16**	**-**	**-**	**14**	**-**	**-**
3. UCITS UNITS	**117**	**-**	**74**	**131**	**-**	**79**
4. LOANS	**-**	**-**	**140**	**-**	**-**	**232**
4.1 Repos	-	-	-	-	-	-
4.2 Other	-	-	140	-	-	232
Total	**134**	**4**	**216**	**146**	**5**	**314**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The sub-item "1.2. Other debt securities" includes junior and mezzanine securities related to securitisation transactions for approximately EUR 2 million classified in fair value level 3.

Loans include approximately EUR 86 million in life insurance policies issued by insurance companies, linked to the return on a separate holding, and obligatorily measured at fair value following the failure of the SPPI test.

The item 'UCITS units' is composed of the following main categories of funds:

- bonds for approximately EUR 77 million, about EUR 18 million of which are classified at fair value level 3;
- stocks for approximately EUR 17 million;
- balanced for approximately EUR 40 million;
- real estate of approximately EUR 28 million, of which about EUR 27 million classified at fair value level 3;
- NPL of approximately EUR 26 million classified at fair value level 3;
- private equity of approximately EUR 3 million classified at fair value level 3.

Section 3 - Financial assets measured at fair value through other comprehensive income - Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by category

ITEMS/VALUES	Total 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. DEBT SECURITIES	**10,165**	**13**	**-**	**10,780**	**19**	**1**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	10,165	13	-	10,780	19	1
2. EQUITIES	**8**	**1**	**119**	**8**	**1**	**110**
3. LOANS	**-**	**-**	**-**	**-**	**-**	**-**
Total	**10,173**	**14**	**119**	**10,788**	**20**	**111**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item "1. Debt securities" is mainly made up of Government Securities.

The item "2. Equity securities" Level 3 includes Bank of Italy shares held by a number of affiliated banks for a value of around EUR 24 million.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and writedowns

	Gross value					Writedowns				Total partial write-offs *
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
Debt securities	10,178	2	2	-	-	2	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 30/06/2023	**10,178**	**2**	**2**	**-**	**-**	**2**	**-**	**-**	**-**	**-**
Total 31/12/2022	**10,796**	**2**	**6**	**-**	**-**	**2**	**-**	**-**	**-**	**-**

*Value to be displayed for information purposes

The division by stage of risk of financial assets measured at fair value through other comprehensive income is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E - "Information on risks and related hedging policies".

3.3a Loans measured at fair value through other comprehensive income subject to COVID-19 support measures: gross value and writedowns

The table does not contain information and therefore was not filled in.

Section 4 - Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: breakdown by category of loans to banks

TYPE OF TRANSACTIONS/ VALUES	Total 30/06/2023						Total 31/12/2022					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3
A. LOANS TO CENTRAL BANKS	**604**	**-**	**-**	**-**	**-**	**604**	**527**	**-**	**-**	**-**	**-**	**527**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserve	604	-	-	X	X	X	527	-	-	X	X	X
3. Repos	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	-	-	-	X	X	X
B. LOANS TO BANKS	**901**	**-**	**-**	**319**	**278**	**246**	**918**	**-**	**-**	**317**	**285**	**244**
1. Loans	**236**	**-**	**-**	**-**	**-**	**236**	**234**	**-**	**-**	**-**	**-**	**234**
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	12	-	-	X	X	X	2	-	-	X	X	X
1.3. Other loans:	224	-	-	X	X	X	232	-	-	X	X	X
- Repos receivables	-	-	-	X	X	X	-	-	-	X	X	X
- Financing for leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	224	-	-	X	X	X	232	-	-	X	X	X
2. Debt securities	**665**	**-**	**-**	**319**	**278**	**10**	**684**	**-**	**-**	**317**	**285**	**10**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	665	-	-	319	278	10	684	-	-	317	285	10
Total	**1,505**	**-**	**-**	**319**	**278**	**850**	**1,445**	**-**	**-**	**317**	**285**	**771**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The balance of item "2.2 Other debt securities" includes the subscription, by the Cassa Centrale Group, of the subordinated loan previously issued by Banca Carige and now attributable to the issuer BPER Banca, following the merger by incorporation in 2022, for a nominal value of EUR 100 million and an annual yield of 8.25%.

4.2 Financial assets measured at amortised cost: breakdown by category of loans to customers

TYPE OF TRANSACTIONS/ VALUES	Total 30/06/2023						Total 31/12/2022					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3
1. LOANS	**47,375**	**434**	**-**	**-**	**-**	**48,569**	**47,314**	**455**	**-**	**-**	**-**	**47,944**
1.1. Current accounts	3,742	38	-	X	X	X	3,646	39	-	X	X	X
1.2. Repos receivables	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgage loans	38,010	357	-	X	X	X	38,049	375	-	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	1,137	5	-	X	X	X	1,094	5	-	X	X	X
1.5. Financing for leases	788	10	-	X	X	X	763	13	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	3,698	24	-	X	X	X	3,762	23	-	X	X	X
2. DEBT SECURITIES	**25,986**	**-**	**-**	**24,119**	**36**	**240**	**27,162**	**-**	**-**	**24,854**	**47**	**276**
1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2. Other debt securities	25,986	-	-	24,119	36	240	27,162	-	-	24,854	47	276
Total	**73,361**	**434**	**-**	**24,119**	**36**	**48,809**	**74,476**	**455**	**-**	**24,854**	**47**	**48,220**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans to customers are shown net of value adjustments from write-downs. Impaired assets include the impaired loans, unlikely to pay and past due exposures according to Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates. Details of these exposures, the amounts and the breakdown of the value adjustments, are shown in Part E of the Explanatory Notes - Credit quality. The fair value of short-term or revocable receivables was conventionally assumed to be equal to the book value.

For impaired positions, the fair value was deemed to be equal to the net book value, on the basis of the considerations set out in Part A, Section A.4 - Information on fair value, to which reference is made.

The item “2.2. Other debt securities” includes senior securities relating to securitisation transactions for approximately EUR 221 million classified at fair value level 3.

Loans to customers include loans from third-party funds under administration with risk borne by the Group amounting to approximately EUR 190 million.

Performing exposures to customers consisted mainly of mortgage loans, which amounted to EUR 38,010 million and accounted for approximately 80% of total loans to customers, current accounts receivable of EUR 3,742 million and other loans of EUR 3,698 million.

4.4 Financial assets measured at amortised cost: gross value and writedowns

	Gross value					Writedowns				Total partial write-offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
Debt securities	26,645	215	56	1	-	6	44	1	-	-
Loans	42,004	-	6,764	2,390	-	160	393	1,956	-	271
Total 30/06/2023	**68,649**	**215**	**6,820**	**2,391**	**-**	**166**	**437**	**1,957**	**-**	**271**
Total 31/12/2022	**69,554**	**258**	**7,072**	**2,495**	**-**	**217**	**488**	**2,040**	**-**	**276**

*Value to be displayed for information purposes

The division by stage of risk of financial assets measured at amortised cost is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information, please refer to Part A – Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E – "Information on risks and related hedging policies".

4.4a Loans measured at amortised cost subject to COVID-19 support measures: gross value and writedowns

	Gross value					Writedowns				Total partial write-offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
1. EBA-compliant moratoria loans	4	-	-	-	-	-	-	-	-	-
2. Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne	-	-	-	-	-	-	-	-	-	-
3. Other loans with COVID-19-related forbearance measures	-	-	1	-	-	-	-	-	-	-
4. Newly originated loans	4,299	-	921	209	-	16	43	110	-	-
Total 30/06/2023	**4,303**	**-**	**922**	**209**	**-**	**16**	**43**	**110**	**-**	**-**
Total 31/12/2022	**4,803**	**-**	**1,050**	**156**	**-**	**18**	**51**	**81**	**-**	**-**

*Value to be displayed for information purposes

The loans included in the first three items of the table refer for a total value of approximately EUR 4 million to loans subject to the COVID-19 EBA Compliant moratorium at the date of granting with a repayment schedule still suspended as at 30 June 2023.

The newly originated loans represented under item no. 4 constitute new liquidity granted through public guarantee mechanisms.

Section 7 – Equity investments – Item 70

This section includes the equity investments in companies under joint control or subject to a significant influence (IAS 28 and IFRS 11).

At the end of the reporting period, the value of the equity investments amounted to EUR 57 million, relating:

- to “significant” equity investments totalling EUR 30 million (as represented in the following table 7.2);
- to insignificant equity investments totalling EUR 27 million

The scope of ‘significant equity investments’ was determined by considering the materiality of the book value of the investment and the share of the investee’s assets with respect to the homogeneous balances relating to the current financial statements.

7.1 Equity investments: information on type of relationship

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
A. JOINTLY CONTROLLED COMPANIES						
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	Bolzano	Bolzano	7	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	50.00	50.00
FRONTE PARCO IMMOBILIARE S.r.l.	Bologna	Bologna	7	BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	50.00	50.00
B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE						
LE CUPOLE S.r.l.	Manerbio (BS)	Manerbio (BS)	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	22.00	22.00
FINANZIARIA TRENTINA DELLA COOPERAZIONE S.p.	Trento	Trento	4	CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA, VALLE DI CEMBRA E ALTA VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	8.49	8.49
				CASSA RURALE ALTO GARDA - ROVERETO BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.22	7.22
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.18	7.18
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	4.08	4.08
				CASSA RURALE VAL DI NON - ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.78	3.78
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.27	3.27
				LA CASSA RURALE – CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - COOPERATIVE COMPANY	3.14	3.14
				CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.12	3.12
				CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.88	2.88
				OTHER MINORITY INTERESTS	4.35	4.35
				TOTAL	47.51	47.51
PARTECIPAZIONI COOPERATIVE S.r.l.	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	13.92	13.92
				CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA, VALLE DI CEMBRA E ALTA VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.89	7.89

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
				CASSA RURALE ALTO GARDA - ROVERETO BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.80	5.80
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.10	5.10
				CASSA RURALE VAL DI NON - ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.18	4.18
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.09	2.09
				OTHER MINORITY INTERESTS	6.49	6.49
				TOTAL	47.79	47.79
SERENA S.r.l.	Manzano (UD)	Manzano (UD)	4	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	29.05	29.05
RITTNERHORN SEILBAHNEN AG	Renon (BZ)	Renon (BZ)	4	CASSA RURALE RENON - COOPERATIVE COMPANY	23.97	23.97
SCOUTING S.p.A.	Bellaria - Igea Marina (RN)	Bellaria - Igea Marina (RN)	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	8.26	8.26
				ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY	6.29	6.29
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.29	6.29
				BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.88	4.88
				BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.65	4.65
				TOTAL	30.37	30.37
CABEL HOLDING S.p.A.	Empoli (FI)	Empoli (FI)	4	CASTAGNETO BANCA 1910 - CREDITO COOPERATIVO - COOPERATIVE COMPANY	19.50	19.50
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	7.66	7.66
				BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.01	2.01
				TOTAL	29.17	29.17
SENIO ENERGIA S.r.l.	Faenza (RA)	Faenza (RA)	4	BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY	22.22	22.22
RENDENA GOLF S.p.A.	Bocenago (TN)	Bocenago (TN)	4	LA CASSA RURALE – CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - COOPERATIVE COMPANY	24.76	24.76

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		% Votes available
				Investing company	% Share	
SERVIZI E FINANZA FVG S.r.l.	Udine	Udine	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO SOCIETÀ PER AZIONI	27.19	27.19
CONNESSIONI - IMPRESA SOCIALE S.r.l.	Brescia	Brescia	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	30.00	30.00
DISTRETTO RURALE TERRE BASILIANE DEL CILENTO S.C.a.r.L	Futani (SA)	Futani (SA)	4	BANCA DI CREDITO COOPERATIVO DI AQUARA - COOPERATIVE COMPANY	20.69	20.69

*Relationship type:

1 - majority of voting rights in the ordinary shareholders' meeting

2 - dominant influence in the ordinary shareholders' meeting

3 - agreements with other shareholders

4 - company subject to a significant influence

5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree no. 87/92"

6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree no. 87/92"

7 - joint ventures

8 - Other type of Relationship.

For the criteria and methods of determination of the consolidation scope and the reasons for which there is recourse to joint control or significant influence, please refer to Part A - Accounting policies of these Explanatory notes.

7.2 Significant equity investments: book value, fair value and dividends received

NAME	Book value	Fair value	Dividends received
A. JOINTLY CONTROLLED COMPANIES			
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	9	-	-
B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE			
CABEL HOLDING S.p.A.	8	-	-
FINANZIARIA TRENTINA DELLA COOPERAZIONE S.p.	7	-	-
ASSICURA S.r.l.	6	-	-
Total	**30**	**-**	**-**

It should be noted that Assicura S.r.l. is a controlling interest consolidated using the equity method due to materiality limits.

Section 9 – Tangible assets – Item 90

9.1 Tangible assets for business use: breakdown of the assets measured at cost

ASSETS/VALUES	Total 30/06/2023	Total 31/12/2022
1. ASSETS OWNED	**953**	**956**
a) land	148	146
b) buildings	657	667
c) furniture	55	55
d) electronic systems	32	30
e) other	61	58
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**137**	**123**
a) land	3	3
b) buildings	125	114
c) furniture	-	-
d) electronic systems	6	3
e) other	3	3
Total	**1,090**	**1,079**
of which: obtained through the enforcement of guarantees received	6	6

9.2 Tangible assets held for investment purposes: breakdown of the assets measured at cost

ASSETS/VALUES	Total 30/06/2023				Total 31/12/2022			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. ASSETS OWNED	**96**	**-**	**-**	**109**	**99**	**-**	**-**	**108**
a) land	28	-	-	31	30	-	-	33
b) buildings	68	-	-	78	69	-	-	75
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	1	-	-	1
Total	**96**	**-**	**-**	**109**	**100**	**-**	**-**	**109**
of which: obtained through the enforcement of guarantees received	34	-	-	38	35	-	-	36

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

9.3 Tangible assets for business use: breakdown of the revalued assets

ASSETS/VALUES	Total 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. ASSETS OWNED	**-**	**-**	**2**	**-**	**-**	**2**
a) land	-	-	1	-	-	1
b) buildings	-	-	1	-	-	1
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**2**	**-**	**-**	**2**
of which: obtained through the enforcement of guarantees received	-	-	-	-	-	-

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

9.4 Tangible assets held for investment purposes: breakdown of the assets designated at fair value

ASSETS/VALUES	Total 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. ASSETS OWNED	**-**	**-**	**12**	**-**	**-**	**12**
a) land	-	-	2	-	-	2
b) buildings	-	-	10	-	-	10
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**12**	**-**	**-**	**12**
of which: obtained through the enforcement of guarantees received	-	-	1	-	-	1

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

9.5 Inventories of tangible assets disciplined by IAS 2: breakdown

ASSETS/VALUES	Total 30/06/2023	Total 31/12/2022
1. INVENTORIES OF ASSETS OBTAINED THROUGH THE ENFORCEMENT OF GUARANTEES RECEIVED	**39**	**39**
a) land	32	32
b) buildings	7	7
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
2. OTHER INVENTORIES OF TANGIBLE ASSETS	**-**	**2**
Total	**39**	**41**
of which: measured at fair value net of costs to sell	-	-

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

ASSETS/VALUES	Total 30/06/2023		Total 31/12/2022	
	Definite useful life	Indefinite useful life	Definite useful life	Indefinite useful life
A.1 GOODWILL	**X**	**27**	**X**	**27**
A.1.1 pertaining to the Group	X	27	X	27
A.1.2. pertaining to minority interests	X	-	X	-
A.2 OTHER INTANGIBLE ASSETS	**59**	**-**	**53**	**-**
of which: software	36	-	29	-
A.2.1 Assets measured at cost:	59	-	53	-
a) Intangible assets generated internally	1	-	1	-
b) Other assets	58	-	52	-
A.2.2 Assets designated at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**59**	**27**	**53**	**27**

In compliance with the relevant accounting regulations:

- all the intangible assets are measured at cost;
- no amortisation has been calculated for intangible assets with an indefinite useful life.

Disclosure on impairment test on goodwill

Identification of Cash Generating Units (CGUs)

According to IAS 36, if, as in the case of goodwill, it is not possible to determine directly the recoverable amount of the specific asset recorded in the financial statements (because the asset itself does not produce autonomous cash flows), the recoverable amount of the cash generating unit (CGU) to which the asset belongs must be determined.

The CGU is defined by IAS 36 as “the smallest identifiable group of assets that generates cash inflows largely independent of cash inflows from other assets, or groups of assets”.

In order to identify the cash generating units to which to assign the assets to be tested for impairment, it is necessary that the identified CGUs generate cash inflows that are largely independent of those deriving from other identified units. In this sense, with a view to identifying the CGUs, the internal organisation and the management and control methods of the business are extremely important.

In relation to the above, the following CGUs have been identified for the purpose of impairment testing of the Cassa Centrale Group's consolidated goodwill:

- **Asset management**, which includes the asset management services currently provided by the Luxembourg-based company NEAM;
- **Insurance**, which includes the offer of insurance services to customers and corresponds to the sum of the subsidiaries Assicura Agenzia S.r.l. and Assicura Broker S.r.l. (hereinafter also "Assicura").

Considerations on the condensed consolidated half-yearly financial statements as at 30 June 2023

As provided for by IAS 36 Impairment of Assets, goodwill is subject to impairment testing at least once a year.

When preparing the financial statements as at 30 June 2023, the Cassa Centrale Group carried out the analysis of trigger events on equity investments, goodwill and intangible assets with a definite useful life.

In short, the analysis did not identify trigger events such to require an impairment test for the consolidated half-yearly financial statements at 30 June 2023.

Therefore, the impairment test will be carried out with the 2023 annual financial statements, 12 months after the previous impairment test, in compliance with the maximum time horizon provided for by the international accounting standards.

Section 11 – Tax assets and tax liabilities – Item 110 of assets and item 60 of liabilities

11.1 Deferred tax assets: breakdown

THROUGH THE INCOME STATEMENT	30/06/2023		
	IRES	IRAP	Total
Loans	302	43	345
Tangible fixed assets	12	1	13
Provisions for risks and charges	72	10	82
Tax losses	7	-	7
Administrative expenses	-	-	-
Other items	17	3	20
Total	**410**	**57**	**467**

THROUGH EQUITY	30/06/2023		
	IRES	IRAP	Total
Negative reserves for HTCS financial assets	90	18	108
Severance indemnity	-	-	-
Other items	-	-	-
Total	**90**	**18**	**108**

The item "Loans" in the table above shows Deferred Tax Assets (or "DTA") mainly relating to:

- write-downs and losses on loans to customers not yet deducted from taxable income pursuant to paragraph 3 of Article 106 of the Consolidated Income Tax Act (TUIR) and Article 6, paragraph 1, letter c-bis) of IRAP Decree no. 446/1997 that may be converted into a tax credit, regardless of the future profitability of the company, both in the event of statutory loss and IRES tax loss or negative IRAP value of production pursuant to Law no. 214 of 22 December 2011 (known as "Qualified DTAs") of EUR 325 million. Art. 42, section 1 of Decree-Law no. 17 of 1 March 2022 converted by Law no. 34 of 27 April 2022 restructured the multi-year plan for the recovery of value adjustments on loans already not deducted as at 31 December 2015. This plan is also associated with the discharge of the related registered DTAs;
- adjustments from the expected credit loss (ECL) model in IFRS 9 FTA on loans to customers that cannot be converted into a tax credit and can therefore only be recognised in the presence of probable and sufficient future taxable income of EUR 20 million (Article 1, paragraphs 1067-1069, Law no. 145 of 30 December 2018). Advance taxes, where recognised, correspond to the future benefit relating to the deductibility in subsequent years of the reserve for first-time application of IFRS 9 relating to expected losses recognised on loans to customers.

The "other items" in the table above include deferred tax assets arising from misalignments between statutory and tax items arising from IFRS 3 business combinations for EUR 7 million.

It should be noted that, with specific reference to the aforementioned qualified DTAs on write-downs and losses on loans to customers and goodwill, the maintenance of their convertibility into tax credits is subject to the payment of the fee, where due, pursuant to Law Decree no. 59 of 3 May 2016, amended and converted into law by Law no. 15 of 17 February 2017.

In addition, it should be noted that the tax regulations relating to the convertibility of advance taxes relating to adjustments to loans, goodwill and intangible assets into tax credits, in giving “certainty” to the recovery of qualified DTAs, affect the “probability test” provided for by IAS 12, making it automatically satisfied for this particular type.

Deferred tax assets as a contra-entry to equity refer to negative valuations of financial assets measured at fair value through other comprehensive income. These changes have a contra-entry in the valuation reserve for financial assets measured at fair value through other comprehensive income.

Information on the deferred tax assets probability test

According to paragraph 5 of IAS 12, deferred tax assets are defined as the amount of income taxes for the year that may be recovered in future years with regard to the following scenarios:

- deductible temporary differences;
- carry-over of unused tax losses (and also of ACE);
- carry-over of unused tax credits.

With particular reference to “temporary differences”, these are defined as differences that are formed transiently between the book value of assets (liabilities) and their tax value. These are defined as “deductible” when they generate amounts that can be deducted in determining future taxable income in connection with the realisation of assets (settlement of liabilities).

In the presence of a deductible temporary difference, paragraph 24 of IAS 12 provides for the recognition in the financial statements of a deferred tax asset - equal to the product of the deductible temporary difference and the expected tax rate in the year in which it will be paid - only if and to the extent that it is probable that there will be future taxable income against which the deductible temporary differences can be used (known as probability test). In fact, the economic benefit of reducing future tax payments is only achievable if the taxable income is a large amount (IAS 12, para. 27).

Having said this, the Group has deferred tax assets (DTA) of EUR 575 million in its balance sheet, of which 467 million recognised as a contra-entry to the income statement. Of these, EUR 325 million fall within the scope of Law no. 214/2011 and, therefore, for that already described, are considered “qualified” DTA (and therefore of certain recoverability).

With regard to the remaining portion of DTAs that cannot be converted into tax credits recognised as a contra-entry to the income statement, amounting to EUR 142 million, there are no critical elements based on the evidence resulting from the probability test.

11.2 Deferred tax liabilities: breakdown

THROUGH THE INCOME STATEMENT	30/06/2023		
	IRES	IRAP	Total
Tangible fixed assets	1	-	1
Capital gains by instalments	-	-	-
Other items	8	-	8
Total	**9**	**-**	**9**

THROUGH EQUITY	30/06/2023		
	IRES	IRAP	Total
Positive reserves for HTCS financial assets	3	1	4
Other items	-	-	-
Total	**3**	**1**	**4**

Deferred tax liabilities as a contra-entry to the income statement mainly relate to:

- misalignments between statutory and tax items arising from the application of business combinations pursuant to IFRS 3 carried out in previous years;
- revaluations of tangible fixed assets made during the transition to international accounting standards.

Deferred taxes as a contra-entry to equity refer to revaluations of financial assets measured at fair value through other comprehensive income. These changes have a contra-entry in the valuation reserve for financial assets measured at fair value through other comprehensive income.

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown by category of due to banks

TYPE OF TRANSACTIONS/VALUES	Total 30/06/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. DUE TO CENTRAL BANKS	**12,075**	**X**	**X**	**X**	**15,350**	**X**	**X**	**X**
2. DUE TO BANKS	**790**	**X**	**X**	**X**	**1,041**	**X**	**X**	**X**
2.1 Current accounts and deposits on demand	395	X	X	X	412	X	X	X
2.2 Fixed-term deposits	50	X	X	X	49	X	X	X
2.3 Loans	333	X	X	X	555	X	X	X
2.3.1 Repos payables	330	X	X	X	476	X	X	X
2.3.2 Others	3	X	X	X	79	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	13	X	X	X
2.5 Payables for leases	11	X	X	X	11	X	X	X
2.6 Other payables	1	X	X	X	1	X	X	X
Total	**12,865**	**-**	**-**	**12,865**	**16,391**	**-**	**-**	**16,391**

KEY:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The fair value valuation of the financial liabilities measured at amortised cost, included only for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more details, please refer to Part A - Accounting policies, A.4 - Information on fair value in these Explanatory Notes.

The item "1. DUE TO CENTRAL BANKS" mainly consists of funding transactions with the ECB, characterised by different maturities and with rates applied to the individual credit lines equal to those established by the ECB. A reduction in the item was outlined following the maturity of part of the TLTRO operations. For detailed information on TLTRO III loan transactions, please refer to Part A, Section 5 - Other Aspects of these Explanatory Notes.

1.2 Financial liabilities measured at amortised cost: breakdown by category of due to customers

TYPE OF TRANSACTIONS/VALUES	Total 30/06/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and deposits on demand	56,478	X	X	X	60,310	X	X	X
2. Fixed-term deposits	2,543	X	X	X	1,575	X	X	X
3. Loans	2,275	X	X	X	1,480	X	X	X
3.1 Repos payables	2,021	X	X	X	1,292	X	X	X
3.2 Other	254	X	X	X	188	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Payables for leases	121	X	X	X	109	X	X	X
6. Other payables	633	X	X	X	640	X	X	X
Total	**62,050**	**-**	**-**	**62,050**	**64,114**	**-**	**-**	**64,114**

KEY:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The progressive increase in interest rates has led to a decrease in the item "1 Current accounts and deposits on demand" partly offset by a simultaneous increase in medium/long-term forms of funding, represented by the item "2 Fixed-term deposits".

The sub-item "3.1 Repo payables" refers mainly to transactions carried out by the Parent Company with Cassa Compensazione e Garanzia for approximately EUR 1,999 million, in partial replacement of the ECB maturing/redeeming refinancing operations.

The sub-item "6. Other payables" mainly includes credit card and cheque debts.

1.3 Financial liabilities measured at amortised cost: breakdown by category of debt securities in issue

TYPE OF SECURITIES/VALUES	Total 30/06/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. SECURITIES								
1. bonds	1,072	511	561	-	764	-	761	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,072	511	561	-	764	-	761	-
2. other securities	3,573	-	-	3,573	2,319	-	-	2,319
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	3,573	-	-	3,573	2,319	-	-	2,319
Total	**4,645**	**511**	**561**	**3,573**	**3,083**	**-**	**761**	**2,319**

KEY:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

This item includes issued securities measured at amortised cost. Securities that at the end of the reporting period are expired but still not repaid are included. The portion of own issue debt securities not yet placed with third parties is excluded.

The fair value valuation of the debt securities in issue in the table above, presented solely for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more details, please refer to Part A - Accounting policies, A.4 - Information on fair value in the Explanatory Notes.

The sub-item "A.1.2 Bonds - other" contains securities issued to comply with the minimum requirement of eligible liabilities (MREL), for a value at the end of the reporting period equal to around EUR 718 million. During the half-year, the entry of additional securities attributable to the aforementioned case amounted to EUR 509 million, an increase partially offset by the reduction mainly due to fixed-rate bonds repaid on maturity.

The sub-item A.2.2 "Securities - other" mainly includes certificates of deposit, a type of funding that increased during the half-year as a result of the increase in market rates.

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by category

TYPE OF TRANSACTIONS/ VALUES	Total 30/06/2023					Total 31/12/2022				
	NV	Fair value			Fair Value*	NV	Fair value			Fair Value*
		L1	L2	L3			L1	L2	L3	
A. CASH LIABILITIES										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. DERIVATIVE INSTRUMENTS										
1. Financial derivatives	X	-	5	-	X	X	-	7	-	X
1.1 Trading	X	-	5	-	X	X	-	7	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**-**	**5**	**-**	**X**	**X**	**-**	**7**	**-**	**X**
Total (A+B)	**X**	**-**	**5**	**-**	**X**	**X**	**-**	**7**	**-**	**X**

KEY:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated excluding the changes in value due to change in creditworthiness of the issuer with respect to the date of issue

Section 3 – Financial liabilities designated at fair value – Item 30

3.1 Financial liabilities designated at fair value: breakdown by category

TYPE OF TRANSACTIONS/ VALUES	Total 30/06/2023					Total 31/12/2022				
	NV	Fair value			Fair Value*	NV	Fair value			Fair Value*
		L1	L2	L3			L1	L2	L3	
1. DUE TO BANKS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:					-					
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
2. DUE TO CUSTOMERS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:					-					
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
3. DEBT SECURITIES	**1**	**-**	**1**	**-**	**1**	**1**	**-**	**1**	**-**	**1**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	1	-	1	-	X	1	-	1	-	X
Total	**1**	**-**	**1**	**-**	**1**	**1**	**-**	**1**	**-**	**1**

KEY:

NV = nominal value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated excluding the changes in value due to change in creditworthiness of the issuer with respect to the date of issue

This item includes the financial liabilities for which the so-called Fair Value Option has been exercised. In this regard, it should be noted that the aforementioned Fair Value Option was exercised mainly in relation to debt instruments containing an implicit derivative for which it was considered that the fair value measurement of the entire instrument was less costly than the separate measurement and presentation in the financial statements of the main instrument and derivative.

The illustration of the criteria to determine the fair value is reported in Part A - Accounting policies.

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

ITEMS/COMPONENTS	Total 30/06/2023	Total 31/12/2022
1. Provision for credit risk relative to commitments and financial guarantees given	**137**	141
2. Provision for other commitments and guarantees given	**-**	-
3. Post-employment benefits	**-**	-
4. Other provisions for risks and charges	**253**	231
4.1 Legal and tax disputes	35	38
4.2 Personnel expenses	100	97
4.3 other	118	96
Total	**390**	**372**

The item "1. Provision for credit risk relative to commitments and financial guarantees given" includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees given which are subject to the impairment rules of IFRS 9 (paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees given and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15 (see IFRS 9, paragraph 4.2.1, letters c) and d)).

Development of significant legal disputes

On 16 January 2020, the financial holding company Malacalza Investimenti S.r.l. (hereinafter also "Malacalza Investimenti") brought a civil action against Carige, FITD, SVI and Cassa Centrale Banca, contesting the validity of the resolution to increase the share capital by EUR 700 million approved by the Shareholders of Banca Carige in the Shareholders' Meeting of 20 September 2019 and submitting a claim for damages of over EUR 480 million (subsequently increased to approximately EUR 539 million), on account of the alleged hyperdilutive nature of the resolution (reducing Malacalza Investimenti's shareholding from 27.555% to 2.016%).

The contested invalidity of the shareholders' meeting resolution (which can no longer be annulled as it has already been executed, with the subscription by Cassa Centrale Banca of the capital increase and the acquisition of an 8.34% shareholding) was based on the allegedly unlawful exclusion of the option right, failure to comply with the principle of accounting parity and the determination of the issue price of the new shares in breach of the criteria laid down by company law.

The same defendants, including Cassa Centrale Banca, were then sued in two further disputes by the shareholder Vittorio Malacalza and 42 other shareholders of Carige, with a claim for a further approximate total of EUR 11.4 million, plus revaluation and interest (subsequently reduced to approximately EUR 11.1 million), based on assumptions and arguments coinciding with those put forward by Malacalza Investimenti.

The three lawsuits, which were joined in a single proceeding, were settled with a judgement published on 26 November 2021.

The Court of Genoa rejected the claims for damages brought by Malacalza Investimenti S.r.l., Vittorio Malacalza and the other 42 shareholders and determined the validity of the resolution because (i) there was no violation of the principle of accounting parity, (ii) the exclusion of the shareholders' option right took place in the presence of a significant corporate interest, and (iii) the issue price of the new shares was determined in accordance with the criteria set out in the company's regulations.

The losing parties were ordered to pay the legal costs in favour of the defendants.

Malacalza Investimenti S.r.l., Malacalza Vittorio and only 5 small shareholders out of the initial 42 appealed against the judgement (with a reduction of the claims for damages, as regards the latter, from approximately EUR 8.4 million to EUR 84 thousand).

Cassa Centrale Banca appeared in the three lawsuits pending before the Court of Appeal, which were subsequently combined. The proceeding is under discussion.

As a result of the assessments carried out with the support of solicitors and considering the risk of losing the case, Cassa Centrale Banca decided not to make provisions for risks and expenses in line with the provisions of the IAS 37 international accounting standard.

10.3 Provision for credit risk relative to commitments and financial guarantees given

	Provision for credit risk relative to commitments and financial guarantees given				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
Commitments to disburse funds	48	31	21	-	100
Financial guarantees given	1	1	35	-	37
Total	**49**	**32**	**56**	**-**	**137**

As shown above, this table includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees given which are subject to the impairment rules of IFRS 9, including therein the financial guarantees given and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15.

The breakdown of these provisions by risk stage is applied in accordance with the provisions of the IFRS 9 impairment model. For more detailed information, see Part A - Accounting policies, paragraph "15.5 Methods of recognition of impairment losses" and Part E - Information on risks and related hedging policies.

Section 13 - GROUP equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Capital" and "Own shares": breakdown

As described in Part A - Accounting Policies, Section 3 - Scope and methods of consolidation, in application of Law no. 145 of 30 December 2018 (so-called Budget Law 2019) the Parent Company Cassa Centrale Banca and the Affiliated Banks under the Cohesion Contract constitute a single consolidating entity.

In the composition of the Group's equity, the share capital is consequently made up of the Parent Company's share capital and the share capital of the Affiliated Banks.

The share capital of the Parent Company, equal to EUR 952,031,808, comprises 18,158,304 ordinary shares and 150,000 preference shares, both with a nominal value of EUR 52.

At the end of the reporting period, the capital of the Affiliated Banks belonging to the Cassa Centrale Group amounted to approximately EUR 324 million. The share capital of the Affiliated Banks is, according to their Articles of Association, variable, and consists of shares that can be issued, in principle, without limit.

As at 30 June 2023, the own shares in circulation amounted to approximately EUR 867 million and are mainly attributable to the shares of Cassa Centrale Banca held by the Affiliated Banks belonging to the Group.

13.2 Capital – Number of parent company shares: annual changes

ITEMS/TYPES	Ordinary	Other
A. Shares at start of year	**18,158,304**	**150,000**
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-
A.1 Own shares (-)	-	-
A.2 Outstanding shares: opening balances	18,158,304	150,000
B. Increases	**-**	**-**
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- bond conversions	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Company transfers	-	-
C.4 Other changes	-	-
D. Number of shares outstanding: closing balances	**18,158,304**	**150,000**
D.1 Own shares (+)	-	-
D.2 Shares at year-end	18,158,304	150,000
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-

Other information

1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given				Total 30/06/2023	Total 31/12/2022
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
1. COMMITMENTS TO DISBURSE FUNDS	**12,057**	**834**	**96**	**-**	**12,987**	**12,838**
a) Central Banks	-	-	-	-	-	-
b) Public administrations	200	4	-	-	204	257
c) Banks	536	191	-	-	727	721
d) Other financial corporations	339	36	-	-	375	168
e) Non-financial corporations	9,126	537	85	-	9,748	9,681
f) Households	1,856	66	11	-	1,933	2,011
2. FINANCIAL GUARANTEES GIVEN	**1,391**	**96**	**46**	**-**	**1,533**	**1,473**
a) Central Banks	-	-	-	-	-	-
b) Public administrations	5	-	-	-	5	5
c) Banks	20	1	-	-	21	30
d) Other financial corporations	32	-	1	-	33	33
e) Non-financial corporations	954	85	41	-	1,080	1,058
f) Households	380	10	4	-	394	347

This table shows the commitments to disburse funds and the financial guarantees given which are subject to the impairment rules of IFRS 9. Commitments to disburse funds and financial guarantees given that are considered derivatives are excluded, as are commitments to disburse funds and financial guarantees given that are measured at fair value.

“Commitments to disburse funds” are commitments that may give rise to credit risks that are subject to the write-down rules of IFRS 9 (e.g. margins available on credit lines granted to customers or banks).

PART C – Information on the consolidated income statement

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar revenues: breakdown

ITEMS/TECHNICAL FORMS	Debt securities	Loans	Other transactions	Total 30/06/2023	Total 30/06/2022
1. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**1**	**-**	**1**	**2**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	1	-	1	2
2. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**129**	**-**	**X**	**129**	**75**
3. FINANCIAL ASSETS MEASURED AT AMORTISED COST	**395**	**1,016**	**-**	**1,411**	**852**
3.1 Loans to banks	9	20	X	29	7
3.2 Loans to customers	386	996	X	1,382	845
4. HEDGING DERIVATIVES	**X**	**X**	**6**	**6**	**(1)**
5. OTHER ASSETS	**X**	**X**	**30**	**30**	**13**
6. FINANCIAL LIABILITIES	**X**	**X**	**X**	**7**	**72**
Total	**524**	**1,017**	**36**	**1,584**	**1,013**
of which: interest income on impaired financial assets	-	32	-	32	22
of which: interest income on financial leases	X	18	X	18	8

The increase in item 3.2 “Financial assets measured at amortised cost - Loans to customers” is mainly linked to the generalised increase in returns of variable rate financial instruments.

Items “2. Financial assets measured at fair value through other comprehensive income” and “3. Financial assets measured at amortised cost” include approximately 192 million in interest deriving from inflation-linked securities.

Item “5. Other assets” includes revenues from the purchase of tax credits.

Item “6. Financial liabilities” comprises interest income accrued on funding transactions which at 30 June 2023, to a residual extent, were still characterised by negative returns. Unlike previous years, as at 30 June 2023, interest is predominantly recorded in item 20 Interest expenses and similar charges by virtue of the increases relating to the refinancing rates established by the European Central Bank, as subsequently reported. For detailed information on TLTRO III loan transactions, please refer to Part A - Accounting Policies, Section 5 - Other Aspects of these Explanatory Notes.

The line “of which: interest income from impaired financial assets” shows interest determined on the basis of the effective interest rate, including interest due to the passage of time. This interest relates exclusively to loans to customers. Interest income also includes interest from securities used in repo transactions.

1.3 Interest expenses and similar charges paid: breakdown

ITEMS/TECHNICAL FORMS	Payables	Securities	Other transactions	Total 30/06/2023	Total 30/06/2022
1. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**(363)**	**(45)**	**X**	**(408)**	**(57)**
1.1 Due to central banks	(194)	X	X	(194)	-
1.2 Due to banks	(12)	X	X	(12)	(1)
1.3 Due to customers	(157)	X	X	(157)	(40)
1.4 Debt securities in issue	X	(45)	X	(45)	(16)
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**	-	-	**(3)**
6. FINANCIAL ASSETS	**X**	**X**	**X**	**(2)**	**(10)**
Total	**(363)**	**(45)**	-	**(410)**	**(70)**
of which: interest expense on payables for leases	(1)	X	X	(1)	(1)

Items “1.2 Due to banks” and “1.3 Due to customers” also include interest on repos, even if carried out against securities recorded as assets.

The increase in the item “Due to central banks” reflects the increase in interest rates applied to TLTRO III loan transactions, communicated by the European Central Bank in the first half of 2023. For detailed information on these loan transactions, please refer to Part A - Accounting Policies, Section 5 - Other Aspects of these Explanatory Notes.

Section 2 – Fees and Commissions – Items 40 and 50

2.1 Fees and commissions income: breakdown

TYPE OF SERVICES/VALUES	Total 30/06/2023	Total 30/06/2022
a) Financial instruments	70	63
1. Placement of securities	-	-
1.1 With direct underwriting and/or on a firm commitment basis	-	-
1.2 Without a firm commitment basis	-	-
2. Order receipt and transmission and execution of orders on behalf of customers	13	9
2.1 Order receipt and transmission of one or more financial instruments	13	9
2.2. Execution of orders on behalf of customers	-	-
3. Other fees and commissions connected with activities related to financial instruments	57	54
of which: dealing for own account	-	-
of which: individual portfolio management	37	35
b) Corporate Finance	-	-
1. Advice on mergers and acquisitions	-	-
2. Treasury services	-	-
3. Other fees and commissions related to corporate finance services	-	-
c) Investment advisory activities	-	1
d) Offsetting and settlement	-	-
e) Collective portfolio management	36	32
f) Custody and administration	3	2
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	3	2
g) Central administrative services for collective portfolio management	-	-
h) Trust business	-	-
i) Payment services	199	185
1. Current accounts	73	68
2. Credit cards	12	12
3. Debit and other payment cards	33	31
4. Bank transfers and other payment orders	25	23
5. Other fees and commissions related to payment services	56	51

TYPE OF SERVICES/VALUES	Total 30/06/2023	Total 30/06/2022
j) Breakdown of third party services	49	46
1. Collective portfolio management	-	-
2. Insurance products	44	42
3. Other products	5	4
of which: individual portfolio management	-	-
k) Structured finance	-	-
l) Servicing activities for securitisation operations	-	-
m) Commitments to issue funds	-	-
n) Financial guarantees given	8	8
of which: credit derivatives	-	-
o) Financing transactions	59	59
of which: for factoring operations	-	-
p) Foreign currency trading	1	1
q) Commodities	-	-
r) Other fees and commissions income	22	21
of which: activities for the management of multilateral trading systems	-	-
of which: for the management of organised trading systems	-	-
Total	**447**	**418**

At the end of the reporting period, the Group does not have significant amounts of fees and commissions income (other than the amounts included in the calculation of the effective interest rate) from financial assets not measured at fair value through profit or loss in accordance with IFRS 7, paragraph 20, letter c(i).

It should also be noted that the Group does not have significant amounts relating to revenues recognised during the year included in the opening balance of liabilities arising from contracts (IFRS 15, paragraph 116 b)).

2.2 Fees and commissions expenses: breakdown

SERVICES/VALUES	Total 30/06/2023	Total 30/06/2022
a) Financial instruments	(6)	(6)
of which: trading of financial instruments	(1)	(1)
of which: placement of financial instruments	-	-
of which: individual portfolio management	(5)	(5)
- Own	(5)	(5)
- Delegated to third parties	-	-
b) Offsetting and settlement	-	-
c) Collective portfolio management	-	-
1. Own	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(9)	(8)
e) Collection and payment services	(39)	(29)
of which: credit cards, debit cards and other payment cards	(36)	(11)
f) Servicing activities for securitisation operations	-	(1)
g) Commitments to receive funds	-	-
h) Financial guarantees received	(1)	-
of which: credit derivatives	-	-
i) Out-of-branch offer of financial instruments, products and services	(4)	(4)
l) Foreign currency trading	-	-
m) Other fees and commissions expenses	(3)	(9)
Total	**(62)**	**(57)**

At the end of the reporting period, the Group does not have significant amounts of fees and commissions expense s (other than the amounts included in the calculation of the effective interest rate) arising from financial liabilities not measured at fair value through profit or loss (IFRS 7, paragraph 20, letter c (i)).

Section 3 – Dividends and similar income – Item 70

3.1 Dividend and similar income: breakdown

ITEMS/INCOME	Total 30/06/2023		Total 30/06/2022	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	1	-	1
C. Financial assets measured at fair value through other comprehensive income	2	-	2	-
D. Equity investments	-	-	-	-
Total	**2**	**1**	**2**	**1**

Section 4 – Net result from trading – Item 80

4.1 Net result from trading: breakdown

TRANSACTIONS/INCOME COMPONENTS	Capital gains	Profit on sale	Capital losses	Loss on sale	Net income
1. FINANCIAL ASSETS HELD FOR TRADING	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Equities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. FINANCIAL LIABILITIES HELD FOR TRADING	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. FINANCIAL ASSETS AND LIABILITIES: EXCHANGE RATE DIFFERENCES	**X**	**X**	**X**	**X**	**2**
4. DERIVATIVE INSTRUMENTS	**4**	**1**	**(7)**	**(1)**	**(3)**
4.1 Financial derivatives:	4	1	(7)	(1)	(3)
- On debt securities and interest rates	4	1	(7)	(1)	(3)
- On equities and stock market indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	**4**	**1**	**(7)**	**(1)**	**(1)**

Section 5 – Net profit (loss) on hedge accounting – Item 90

5.1 Net profit (loss) on hedge accounting: breakdown

INCOME COMPONENTS/VALUES	Total 30/06/2023	Total 30/06/2022
A. INCOME RELATED TO:		
A.1 Fair value hedging derivatives	-	102
A.2 Hedged financial assets (fair value)	12	1
A.3 Hedged financial liabilities (fair value)	-	1
A.4 Cash flow hedge derivatives	1	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging (A)	**13**	**104**
B. EXPENSES RELATED TO:		
B.1 Fair value hedging derivatives	(10)	(1)
B.2 Hedged financial assets (fair value)	(1)	(104)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedge derivatives	-	5
B.5 Foreign currency assets and liabilities	-	-
Total expenses from hedging (B)	**(11)**	**(100)**
C. NET RESULT FROM HEDGING (A - B)	**2**	**4**
of which: result of net positions hedging	-	-

The Group avails itself of the possibility, provided for in the introduction of IFRS 9, to continue to apply in full the provisions of IAS 39 on hedge accounting (in the carved out version approved by the European Commission) for each type of hedge. As a consequence, in the table above, the row “of which: result of net positions hedging” provided for those who apply IFRS 9 also for hedging, is not valued.

Section 6 - Profit (Loss) from disposal/repurchase - Item 100

6.1 Profit (loss) from disposal/repurchase: breakdown

ITEMS/INCOME COMPONENTS	Total 30/06/2023			Total 30/06/2022		
	Profit	Loss	Net income	Profit	Loss	Net income
A. FINANCIAL ASSETS						
1. Financial assets measured at amortised cost	30	(88)	(58)	66	(10)	56
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	30	(88)	(58)	66	(10)	56
2. Financial assets measured at fair value through other comprehensive income	4	(53)	(49)	41	(26)	15
2.1 Debt securities	4	(53)	(49)	41	(26)	15
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**34**	**(141)**	**(107)**	**107**	**(36)**	**71**
B. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

Section 7 - Net result of other financial assets and liabilities measured at fair value through profit or loss - Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

This table does not contain information deemed significant and therefore was not filled in.

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

TRANSACTIONS/INCOME COMPONENTS	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B) - (C+D)]
1. FINANCIAL ASSETS	**10**	**4**	**(12)**	**-**	**2**
1.1 Debt securities	-	-	(1)	-	(1)
1.2 Equities	2	1	-	-	3
1.3 UCITS units	4	2	(6)	-	-
1.4 Loans	4	1	(5)	-	-
2. FINANCIAL ASSETS: EXCHANGE RATE DIFFERENCES	**X**	**X**	**X**	**X**	**-**
Total	**10**	**4**	**(12)**	**-**	**2**

Trading profit (loss) and capital gains (losses) from valuations are reported with balances opened by type of financial instrument.

This item includes capital gains and losses that are derived from the fair value measurement of financial assets/liabilities that are classified in the portfolio under item 20.c of Assets.

Section 8 - Net value adjustments/write-backs due to credit risk - Item 130

8.1 Net value adjustments due to credit risk relative to financial assets measured at amortised cost: breakdown

TRANSACTIONS/ INCOME COMPONENTS	Value adjustments (1)						Write-backs (2)				Total 30/06/2023	Total 30/06/2022
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
			Write-offs	Other	Write-offs	Other						
A. LOANS TO BANKS	**(5)**	**-**	**-**	**-**	**-**	**-**	**7**	**-**	**-**	**-**	**2**	**8**
- Loans	(2)	-	-	-	-	-	3	-	-	-	1	(2)
- Debt securities	(3)	-	-	-	-	-	4	-	-	-	1	10
B. LOANS TO CUSTOMERS	**(49)**	**(132)**	**(2)**	**(397)**	**-**	**-**	**108**	**200**	**343**	**-**	**71**	**(69)**
- Loans	(48)	(132)	(2)	(397)	-	-	107	200	343	-	71	(67)
- Debt securities	(1)	-	-	-	-	-	1	-	-	-	-	(2)
Total	**(54)**	**(132)**	**(2)**	**(397)**	**-**	**-**	**115**	**200**	**343**	**-**	**73**	**(61)**

Value adjustments, reported under the column "Stage 3 - Other", relate to analytical write-downs of loans, while those reported under the column "Stage 3 - Write offs" arise from redemption events. As requested by the Bank of Italy and given the continuing economic crisis, the Group carried out total write-downs on the financial assets that are consistent with the current and forecast developments of risk in loan portfolios. In addition, the presence of guarantees collected by the Affiliated Banks - as a guarantee of exposure - allows for additional guarantees for the recoverability of receivables. The write-backs, in the column 'stages 1 and 2', correspond to the adjustments to performing positions.

At 30 June 2023, loans to customers showed net write-backs of EUR 71 million, recording a strong improvement compared to the EUR 67 million of net adjustments recorded at 30 June 2022.

Please refer to Part A of these Explanatory Notes, in paragraph "Classification and measurement of loans to customers based on the general impairment model IFRS 9" of Section 5 - Other aspects, for further information on the measurement of loans model.

For more detailed information pertaining to movements in net adjustments to loans, refer to Part E of these Explanatory Notes.

8.1a Net value adjustments for credit risk relating to financial assets measured at amortised cost subject to COVID-19 support measures: breakdown

TRANSACTIONS/ INCOME COMPONENTS	Net value adjustments						Total 30/06/2023	Total 30/06/2022
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired			
			Write-offs	Other	Write-offs	Other		
1. EBA-compliant moratoria loans	-	-	-	-	-	-	-	-
2. Loans subject to outstanding moratorium measures no longer compliant with the GL and not considered forborne	-	-	-	-	-	-	-	-
3. Other loans with COVID-19-related forbearance measures	-	-	-	-	-	-	-	1
4. Newly originated loans	2	7	-	(25)	-	-	(16)	(12)
Total 30/06/2023	**2**	**7**	**-**	**(25)**	**-**	**-**	**(16)**	**X**
Total 30/06/2022	**-**	**(1)**	**-**	**(10)**	**-**	**-**	**X**	**(11)**

8.2 Net value adjustments due to credit risk relative to financial assets measured at fair value through other comprehensive income: breakdown

TRANSACTIONS/ INCOME COMPONENTS	Value adjustments (1)						Write-backs (2)				Total 30/06/2023	Total 30/06/2022
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
			Write-offs	Other	Write-offs	Other						
A. DEBT SECURITIES	**(1)**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**(1)**
B. LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(1)**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**(1)**

Section 12 – Administrative expenses – Item 190

12.1 Personnel expenses: breakdown

TYPE OF EXPENSES/VALUES	Total 30/06/2023	Total 30/06/2022
1) EMPLOYEES	**(459)**	**(417)**
a) salaries and wages	(320)	(295)
b) social security contributions	(81)	(74)
c) severance indemnity	(16)	(15)
d) pension contributions	-	(2)
e) provision for severance indemnity	(4)	(3)
f) allocation to post-employment benefits:	-	-
- with defined contribution	-	-
- with defined benefit	-	-
g) payments to external supplementary post-employment benefits:	(15)	(12)
- with defined contribution	(15)	(12)
- with defined benefit	-	-
h) costs deriving from payment agreements based on own equity instruments	-	-
i) other employee benefits	(23)	(16)
2) OTHER OPERATING PERSONNEL	**(4)**	**(3)**
3) DIRECTORS AND AUDITORS	**(16)**	**(16)**
4) RETIRED PERSONNEL	**-**	**-**
Total	**(479)**	**(436)**

12.5 Other administrative expenses: breakdown

ITEMS	Total 30/06/2023	Total 30/06/2022
ICT expenses	**(56)**	**(38)**
Outsourced ICT expenses	(21)	*(14)*
ICT expenses other than outsourced ICT expenses	(35)	(24)
Taxes and levies (other)	**(73)**	**(73)**
Expenses for professional and consulting services	**(68)**	**(51)**
Advertising and entertainment expenses	**(11)**	**(9)**
Expenses related to debt collection	**(8)**	**(9)**
Litigation expenses not covered by allocations	**-**	**-**
Expenses for real estate	**(14)**	**(11)**
Lease fees	**-**	**-**
Other administrative expenses - Other	**(174)**	**(179)**
of which: cash contributions to resolution funds and deposit guarantee systems	(74)	*(72)*
Total administrative expenses	**(404)**	**(370)**

At June 2023, the item "Other administrative expenses" totalled EUR 404 million, an increase of around EUR 34 million compared to June 2022, mainly attributable to the increase in IT and professional expenses to support the Group's needs. In particular, ICT expenses and expenses for professional and consulting services increased by approximately EUR 18 and 17 million respectively.

Section 13 - Net allocations to provisions for risks and charges - Item 200

13.1 Net allocations for credit risk relative to commitments to disburse funds and financial guarantees given: breakdown

ITEMS	30/06/2023			30/06/2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	Allocations			Allocations		
COMMITMENTS TO DISBURSE FUNDS						
Commitments to disburse funds	(4)	(5)	(17)	(8)	(2)	(15)
FINANCIAL GUARANTEES GIVEN						
Financial guarantee contracts	-	(1)	(7)	(2)	(1)	(10)
Total allocations (-)	**(4)**	**(6)**	**(24)**	**(10)**	**(3)**	**(25)**
	Reallocations			Reallocations		
COMMITMENTS TO DISBURSE FUNDS						
Commitments to disburse funds	11	2	16	4	4	18
FINANCIAL GUARANTEES GIVEN						
Financial guarantee contracts	-	-	7	2	1	8
Total reallocations (+)	**11**	**2**	**23**	**6**	**5**	**26**
	Net allocation			Net allocation		
Total	**7**	**(4)**	**(1)**	**(4)**	**2**	**1**

13.3 Net allocations to other provisions for risks and charges: breakdown

ITEMS	30/06/2023			30/06/2022		
	Allocations	Reallocations	Net total	Allocations	Reallocations	Net total
ALLOCATIONS AND REALLOCATIONS TO OTHER PROVISIONS FOR RISKS AND CHARGES						
1. for risks on revocatory actions	(1)	-	(1)	(1)	-	(1)
2. for charity	-	-	-	-	-	-
3. for personnel risks and charges	-	-	-	-	-	-
4. for legal and tax disputes	(3)	3	-	(5)	3	(2)
5. for other risks and charges	(1)	-	(1)	(6)	3	(3)
Total	**(5)**	**3**	**(2)**	**(12)**	**6**	**(6)**

Section 14 - Net value adjustments/write-backs to tangible assets - Item 210

At the end of the reporting period, net value adjustments on tangible assets amounted to EUR 52 million and were unchanged compared to the first half of 2022.

Section 15 - Net value adjustments/write-backs to intangible assets - Item 220

At the end of the reporting period, net value adjustments on intangible assets amounted to EUR 7 million, compared to EUR 9 million recorded in the first half of 2022.

Section 16 - Other operating income/expenses - Item 230

16.1 Other operating expenses: breakdown

ITEMS	Total 30/06/2023	Total 30/06/2022
Amortisation of improvements to non-separable third-party assets	(3)	(2)
Expenses for treasury contracts with General Governments	-	-
Expenses for transactions and indemnities	(1)	-
Non-existent items and contingencies not ascribable to own items	(2)	(3)
Bonuses and rounding down	-	-
Other operating expenses - other	(1)	(4)
Total other operating expenses	**(7)**	**(9)**

16.2 Other operating income: breakdown

ITEMS	Total 30/06/2023	Total 30/06/2022
Recovery of taxes	65	64
Charges to third parties for costs on deposits and current accounts	1	2
Recovery of insurance premiums	1	1
Receivable rents and payments	1	1
Recovery of other expenses	9	7
Non-existent items and contingencies not ascribable to own items	3	6
Badwill from Purchase Price Allocation	-	-
Bonuses and rounding up	-	-
Other operating income - other	23	25
Total other operating income	**103**	**106**

At the end of the reporting period, the Group does not have significant amounts relating to revenues recognised during the year included in the opening balance of liabilities arising from contracts (IFRS 15 para. 116 b)) and revenues recognised during the year arising from obligations fulfilled in previous years (IFRS 15 para. 116 c)).

It should be noted that the following are not of significance for the Group:

- income from sublease of assets consisting of the right of use (IFRS 16, para. 53, letter f));
- income related to variable finance lease payments not included in the measurement of the net investment in the lease (IFRS 16, para. 90 letter a), iii));
- operating lease income arising from variable payments that are not dependent on an index or rate (IFRS 16, para. 90 letter b)).

Section 17 - Profit/(Loss) on equity investments - Item 250

17.1 Profit (loss) on equity investments: breakdown

INCOME COMPONENT/SECTORS	Total 30/06/2023	Total 30/06/2022
1) JOINTLY-CONTROLLED COMPANIES		
A. INCOME	**-**	**1**
1. Revaluations	-	1
2. Gains from disposal	-	-
3. Write-backs	-	-
4. Other Income	-	-
B. EXPENSES	**-**	**-**
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses from disposal	-	-
4. Other expenses	-	-
Net income	**-**	**1**
2) COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE		
A. INCOME	**3**	**1**
1. Revaluations	3	1
2. Gains from disposal	-	-
3. Write-backs	-	-
4. Other Income	-	-
B. EXPENSES	**(4)**	**(1)**
1. Write-downs	(4)	(1)
2. Impairment losses	-	-
3. Losses from disposal	-	-
4. Other expenses	-	-
Net income	**(1)**	**-**
Total	**(1)**	**1**

Section 25 – Earnings per share

25.1 Average number of ordinary shares with diluted capital

The information relating to this section is not reported in view of the particular characteristics of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group.

PART E – Information on risks and related hedging policies

INTRODUCTION

The Group pays particular attention to risk management and governance and operates by ensuring the constant evolution of its organisational/procedural controls and methodological solutions used for measuring and monitoring. These activities are carried out with tools aimed at supporting effectively and efficiently the governance of risks process, also in response to changes in the reference operational and regulatory environment. As required by the regulations on the reform of cooperative credit, the outsourcing of control functions at the Parent Company by the Affiliated Banks of the Cooperative Banking Group is operational. It is therefore the task of the Parent Company to define the guidelines for risk measurement and management.

The risk management strategy is based on a holistic view of business risks and considers both the macroeconomic scenario and the individual risk profile, stimulating the growth of the risk control culture and reinforcing a transparent and accurate representation of risks.

The risk assumption strategies are summarised in the Risk Appetite Framework (hereinafter also referred to as "RAF") adopted by the Board of Directors of the Parent Company, i.e. the reference framework that defines - consistently with the maximum risk that can be assumed, the business model and the strategic plan - the risk appetite, the tolerance thresholds, the risk limits, the risk management policies, the reference processes necessary to define and implement them. The RAF, introduced to ensure that risk-taking activities are in line with shareholders' expectations and comply with the overall regulatory and prudential framework of reference, is defined in light of the company's overall risk position and the economic/financial situation.

The framework is developed by the Parent Company and is divided into the following main areas:

- organisational, through (i) the definition of the tasks of the corporate bodies and functions involved in the RAF; (ii) the updating of organisational and governance documents with regard to the main risk profiles (credit and counterparty, concentration, interest rate, market, liquidity, operational) and references for the management of the related interrelationships (risk management policies, risk management process, internal processes for determining and assessing capital adequacy so-called ICAAP-ILAAP, strategic and operational planning, internal control system, incentive system, major operations, etc.) within a framework of overall consistency; (iii) the definition of the relevant information flows;
- methodological, through (i) the definition of indicators, of operational references for their evaluation and the setting of inherent thresholds; (ii) the declination of the objectives and indicators identified in the system of operational limits;
- application, through the reconnaissance of the areas of intervention on the application supports for risk management and supervisory processes (risk measurement, supervisory reporting, ICAAP-ILAAP, simulation/forecasting, alerting activities, reporting, etc.) and the definition of the functional requirements for the related development.

The framework defines both the general principles in terms of the company's risk appetite and the controls adopted with regard to the overall risk profile and the main specific risks.

The general principles that guide the Group's risk-taking strategy are set out below:

- the company's business model is focused on the traditional business of a commercial credit group, with a particular focus on financing small and medium-sized enterprises and households;
- the objective of the company's strategy is not to eliminate risks but to fully understand them in order to ensure their conscious assumption and management in order to guarantee the long-term solidity and continuity of the company;
- limited risk appetite; capital adequacy, income stability, solid liquidity position, attention to maintaining a positive corporate reputation, strong control over the main specific risks to which the company is exposed represent key elements on which the entire company's operations are based;
- formal and substantial compliance with the rules with the aim of not incurring sanctions and maintaining a solid relationship of trust with all company's stakeholders.

The RAF represents, therefore, the overall framework within which the overall management of the risks assumed is placed and the general principles of risk propensity are defined and the consequent articulation of the controls against the overall corporate risk and the main specific risks.

The overall risk profile is monitored by a structure of limits based on the need to ensure compliance with the required minimum levels of solvency, liquidity and profitability, even under stressful conditions.

In particular, overall risk management aims to maintain adequate levels of:

- capitalisation, with reference to Pillar I and Pillar II risks, through the monitoring of the Common Equity Tier 1 ratio, the Tier 1 ratio, the Total Capital ratio and the financial leverage indicator;
- liquidity, such as to cope with periods of tension, even prolonged ones, on the various funding supply markets with reference to both the short-term situation and the structural situation, by monitoring the limits inherent in the Liquidity Coverage ratio, stable funding, loan-collection gap;
- profitability, through the monitoring of indicators such as cost-income and ROA.

The definition of the RAF and the resulting operational limits on the main specific risks mentioned above, the use of risk assessment tools within the credit management processes and the reference control and monitoring of operational and compliance risks, capital adequacy assessment measures and risk capital measures for the assessment of company performance, are the cornerstones of the operational declination of the risk strategy defined by the Board of Directors.

In the same context, reporting to corporate bodies is defined, which aims to provide on a periodic basis summary information on the evolution of the banking Group's risk profile, taking into account the defined risk appetite. The relative system is designed to support the preparation of a holistic representation of the risk profiles to which the Group is exposed.

The definition of the RAF is based on an articulated and complex process, coordinated by the Parent Company. This process is developed in coherence with the ICAAP-ILAAP process and represents the framework within which the annual budget and the business plan are developed, ensuring coherence between risk taking strategies and policies on the one hand, and planning and budgeting processes on the other.

Specific policies and regulations common to the Group issued by the Parent Company have been adopted to strengthen the overall risk management and governance system.

The risk governance model, i.e. the set of corporate governance and management and control mechanisms aimed at tackling the risks to which the Group is exposed, is part of the broader framework of the company's internal control system, which is addressed by the Parent Company as part of the outsourcing contract, defined in accordance with the prudential supervisory provisions for banks set out in Bank of Italy Circular no. 285/2013 (Part One, Title IV, Chapter 3).

Consistently with these references, all company risks are monitored within the framework of an organisational model based on the full separation of control functions from production functions, which integrates control methodologies and processes at different levels, all of which converge with the objectives of continuously detecting, measuring and verifying the risks typical of company activities, safeguarding the integrity of company assets, protecting against losses, guaranteeing the reliability and integrity of information, and verifying the correct performance of activities in compliance with internal and external regulations.

The internal control system consists of all the rules, functions, structures, resources, processes and procedures that aim to ensure, in compliance with sound and prudent management, the achievement of the following objectives:

- verification of the implementation of company strategies and policies;
- containment of the risk within the limits defined in the adopted RAF;
- safeguarding the value of assets and protection against losses;
- effectiveness and efficiency of operating processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Group may be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- compliance of operations with the law and supervisory regulations, as well as with internal policies, regulations and procedures.

The internal control system therefore involves the entire corporate organisation (administrative bodies, structures, hierarchical levels, personnel).

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In line with the provisions issued by the Bank of Italy, the model adopted by the Group outlines the main responsibilities of the governance and control bodies in order to ensure the overall effectiveness and efficiency of the internal control system.

A joint examination of the supervisory regulations and the Articles of Association shows that the strategic supervision function and the management function are founded within the organic and integrated action of the Board of Directors. In the Parent Company there is the figure of the Chief Executive Officer who also incorporates the functions of the General Manager. The Chief Executive Officer is appointed by the Board of Directors by conferring certain powers and responsibilities pursuant to Article 2381, second paragraph of the Italian Civil Code. For the functions assigned to the Chief Executive Officer, reference should be made to Article 34.2 of Cassa Centrale Banca's Articles of Association.

The strategic supervision function is expressed in the guidance of the corporate management through the preparation of the strategic plan, within which the Risk Appetite Framework (RAF) is inserted through the approval of the ICAAP-ILAAP and the budget. This function is carried out by ensuring consistency between the internal control system and the Group's organisation within the cooperative credit "business model". It should be noted that only a consolidated ICAAP-ILAAP report is formally required by the Supervisory Authority and no longer individual documents; the contributions of the individual Group companies are taken into account in the preparation of the report.

The management function, to be understood as the set of decisions that a corporate body takes for the implementation of the guidelines resolved in the exercise of the strategic supervision function, is the responsibility of the Board of Directors with the technical contribution of the Chief Executive Officer for the Parent Company, who takes part in the meetings of the Board of Directors, or of the General Management within the Cooperative Credit Banks. This function is mainly carried out in the following ways:

- resolutions passed by the Board of Directors, also on the proposal of the Chief Executive Officer/General Management, in compliance with the provisions of the Articles of Association;
- resolutions of the Executive Committee, normally on the proposal of the Chief Executive Officer/General Management, in the delegated areas;
- decisions of the Chief Executive Officer/General Management and the corporate structure in the delegated areas.

In accordance with the Articles of Association, the Chief Executive Officer/General Management is then responsible for implementing the resolutions of the Board of Directors and the Executive Committee and has the task of supervising the organisational functioning, the performance of operations and the functioning of services, ensuring that the Group is managed as a single entity.

The Chief Executive Officer, as head of personnel, ensures constant attention to the training of employees, also acting as a lever to spread the culture and techniques of risk management and control. He/she also involves the governing body for the approval of training plans and supports it in identifying training methods and content from time to time useful for the development of the directors themselves.

The Board of Statutory Auditors represents the body with control functions and, as it is responsible for corporate control, supervises the correct application of the law and the Articles of Association and, specifically, the adequacy of the internal control system and the effectiveness of the work of the corporate control functions, also making use of the information flows that they carry out.

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The provisions in relation to the internal control system, information system and business continuity accentuate the need for a prior definition of the reference framework for carrying out banking activities in terms of risk appetite, setting a frame of reference that banking groups must apply consistently to operational contexts, size and degree of complexity. This reference framework is defined in the RAF, i.e. the system of risk objectives, and it involves the ex ante setting of the risk/return objectives that the Group intends to achieve. The process is directed by the Parent Company, in order to ensure the necessary consistency of application at consolidated level.

The main purpose of the RAF is to ensure that the intermediary's activity develops within the risk appetite limits set by the corporate bodies.

The RAF is an obligatory reference point for the implementation, within the strategic plan, of a reasoning that leads to establishing the Group's propensity to risk and that translates into risk management policies, expressed through the definition of quantitative parameters and qualitative indications consistent with it.

This reference framework is delivered through the development of the strategic plan from an RAF perspective, with which the budget, ICAAP and operational planning are linked.

The Risk Appetite Framework (RAF) and the related risk governance policies, summarised in the strategic plan, are consistently implemented in risk management, which takes the form of an implementation method that integrates approach phases (summarised in the so-called risk management process) and operational phases for the execution of the set objectives.

It involves both the Board of Directors (for resolutions falling within its remit) and Corporate Management, who - also with the support of the heads of the operational functions involved from time to time and the second-level control function contacts for the powers for which they are responsible - prepare the proposals to be submitted to the Board of Directors, draw up their own provisions and organically oversee the operational risk management activities.

Consequently, risk management is configured as a set of limits, delegations, rules, procedures, resources and first- and second-level line controls as well as operational activities through which risk management policies are implemented.

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The supervisory regulations require banking groups to have adequate systems of risk detection, measurement and control, or an adequate internal control system as defined above.

The controls involve the entire structure, starting from the corporate bodies and the Management and are then articulated in:

- line controls, the main objective of which is to verify the correctness of operations with respect to external/self-regulation rules;
- second-level controls (Risk Management, Compliance and Anti-Money Laundering), aimed at implementing controls on risk management, the correct application of legislation and the management of the risk of money laundering and terrorist financing;
- third level controls (Internal Audit), aimed at identifying anomalous trends in procedures and regulations and assessing the functionality of the overall internal control system.

The Internal Audit Department, which oversees the third level of control, checks the other control systems, activating periodic sessions aimed at monitoring risk variables.

Section 1 - Risks of the consolidated accounts

In this section, information is provided with reference to the companies included in the consolidated accounts.

Information of a quantitative nature

A. Credit quality

A.1 Impaired and performing credit exposures: amounts, value adjustments, trend and economic distribution

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

PORTFOLIOS/QUALITY	Non-performing	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	56	316	62	663	74,203	**75,300**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	10,178	**10,178**
3. Financial assets designated at fair value	-	-	-	-	1	**1**
4. Other financial assets mandatorily measured at fair value	-	-	-	-	147	**147**
5. Financial assets held for disposal	-	-	-	-	-	**-**
Total 30/06/2023	**56**	**316**	**62**	**663**	**84,529**	**85,626**
Total 31/12/2022	**66**	**351**	**38**	**500**	**86,463**	**87,418**

With regard to forborne exposures, reference should be made to Section 2, Table A.1.5.

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

PORTFOLIOS/QUALITY	Impaired				Performing			Total (net exposure)
	Gross exposure	Writedowns	Net exposure	Total partial write-offs	Gross exposure	Writedowns	Net exposure	
1. Financial assets measured at amortised cost	2,391	1,957	434	271	75,469	603	74,866	75,300
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	10,180	2	10,178	10,178
3. Financial assets designated at fair value	-	-	-	-	X	X	1	1
4. Other financial assets mandatorily measured at fair value	1	1	-	-	X	X	147	147
5. Financial assets held for disposal	-	-	-	-	-	-	-	-
Total 30/06/2023	**2,392**	**1,958**	**434**	**271**	**85,649**	**605**	**85,192**	**85,626**
Total 31/12/2022	**2,496**	**2,041**	**455**	**276**	**87,428**	**707**	**86,963**	**87,418**

PORTFOLIOS/QUALITY	Assets of evident low credit quality		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	8
2. Hedging derivatives	-	-	112
Total 30/06/2023	**-**	**-**	**120**
Total 31/12/2022	**-**	**-**	**132**

Section 2 - Risks of prudential consolidation

In this section, transactions with other companies, which are excluded from the prudential scope but included in the consolidation period, are not eliminated. These figures conventionally include, in proportion to the interest held, the assets and liabilities of the banking, financial and instrumental companies jointly controlled and consolidated proportionally for supervisory purposes.

1.1 CREDIT RISK

Information of a qualitative nature

1. General aspects

The objectives and strategies of the Group's lending activities are geared towards the pursuit of an efficient relationship between the characteristics of the distribution model typical of cooperative credit, based on mutuality and localism, and effective monitoring of credit risk. The Group's lending activities are also integrated into the organisational model of the Cassa Centrale Group, which aims to ensure the application of uniform rules and criteria in the assumption and management of credit risk through progressive standardisation of instruments. To this end, the Group is subject to the guidance and coordination role of the Parent Company Cassa Centrale Banca, in particular for the specific areas highlighted in this section. These objectives and strategies are mainly targeted at:

- the achievement of a loan growth target that is sustainable and consistent with the defined risk appetite;
- an efficient selection of individual counterparties, through a complete and accurate analysis of their ability to meet their contractual commitments, aimed at containing credit risk;
- the diversification of credit risk, by identifying loans of limited amounts as the Group's natural operating area, as well as limiting the concentration of exposures to groups of connected customers or individual lines of business;
- the verification of the persistence of the creditworthiness of the financed clients as well as the performance monitoring of the individual reports carried out, with the help of the information system, both on regular positions as well as and especially on positions with anomalies and/or irregularities.

The commercial policy on credit facilities is oriented to the financial support of the local economy and is characterised by a high propensity to entertain trust and personal relationships with households, craft workers and small-medium enterprises in their territory of reference, as well as a particular operational vocation in favour of customer-shareholders. Moreover, no less important is the support function performed by the Group in favour of certain categories of economic and social operators who, due to their legal structure, their purely local scope of action or the reduced profitability they can bring to the Group, tend to be excluded from access to ordinary bank credit.

The significant share of lending represented by residential mortgages, offered according to different types of products, is evidence of the Group's particular focus on the household sector.

The micro and small businesses and the craft segment is another sector of particular importance for the Group. In this context, the Group's strategies are aimed at establishing medium-long term credit and service relationships through the offer of targeted products and services and personal and collaborative relationships with the same customers. The conventions or partnership agreements reached with the provincial Credit Guarantee Consortia or with other subjects working in support of the development of the local economic fabric are also included in this perspective.

The granting of credit is mainly directed towards the lines of business most consistent with the Group's credit policies and the positive economic dynamics that historically and currently characterise the territory in which the Group operates.

2. POLICIES FOR MANAGING CREDIT RISK

2.1 Organisational factors

In carrying out its activities, the Group is exposed to the risk that receivables, for whatever reason, are not honoured by third party debtors at maturity and, therefore, losses must be recorded in the financial statements.

This risk is mainly found in the traditional activity of granting secured or unsecured loans recorded in the financial statements, as well as in similar transactions not recorded in the financial statements (mainly available margins on overdrafts, or endorsement credits) and the potential causes of default lie largely in the financial difficulties of the counterparty and to a lesser extent in reasons independent of the financial condition of the counterparty, such as country risk or operating risks. Activities other than traditional lending also further expose the Group to credit risk (e.g. subscription of non-speculative OTC derivative contracts).

The Group Regulation on the granting of loans uniformly defines the process for granting and managing performing loans, allowing the individual Affiliated Banks to autonomously determine the operational units required to perform the different stages of the process. This decision, deemed necessary in view of the decentralisation that characterises the Cassa Centrale Group, aims to enhance the unique characteristics of the different banks, both in terms of their commercial approach to the region and in terms of effective risk management.

In any case, and in compliance with regulatory provisions on Internal Audits, a clear division of roles and responsibilities is established between the commercial component, the functions responsible for identifying and managing positions classifiable as NPEs, and the Control Functions, including the Risk Management Department.

The geographical distribution of the Group as at 30 June 2023 is characterised by the presence of 14 territorial branches of the Parent Company and 68 Affiliated Banks with approximately 1,478 branches located throughout Italy.

The Credit Department is the body of the Parent Company responsible for governing the entire performing loan process (granting and auditing; management and monitoring), as well as the coordination and development of loans.

The allocation of tasks and responsibilities within this Department aims - to the extent that is feasible - to separate activities that are in conflict of interest, particularly through an opportune ranking of authorisation profiles in the IT field.

The NPL Department of the Parent Company is the central body with the following functions:

- coordination of the management of the group's non-performing loan portfolio by defining, implementing and monitoring the group's NPE strategy;
- definition of management processes of impaired loans;

- governance of the monitoring process of the entire loan portfolio, in order to promptly intercept the deterioration of credit quality and ensure the correct classification of customers between performing and non-performing loans.

In light of the provisions on the internal control system (contained in Circular no. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted an organisational structure that is functional to achieving an efficient and effective credit risk management and control process consistent with the framework addressed by the Parent Company.

In addition to line controls, as first level activities, the functions outsourced to the Parent Company in charge of second-level and third-level controls with the collaboration of their respective contact persons are responsible for measuring and monitoring risk trends and for the correctness/adequacy of management and operational processes.

Control activity over credit risk management (as well as financial and operational risks) is carried out by the risk control function (Risk Management Department) - outsourced to the Parent Company - which makes operational use of its internal contacts at Group Banks.

Specifically, the function provides a preventive contribution in the definition of the RAF and related risk management policies, in setting operational limits to the assumption of the various types of risk.

Specifically, the function:

- releases its prior assessment of the Group Governance Rules, including the first-level internal regulations on the credit sector, in order to assess their consistency with the overall risk management and control framework it oversees. Excluded are documents for which the Function, given the nature of the contents and/or changes, does not see any impact on the framework it oversees. The evaluation is issued as described in the Group policy for managing internal regulations;
- carries out second-level checks on credit exposures;
- ensures systematic monitoring of the degree of exposure to risks, the adequacy of the RAF and the consistency between operations and the actual risks assumed by the Group with respect to the risk/return objectives and the related pre-established limits or thresholds;
- contributes to the preparation of the ICAAP report, in particular by verifying the appropriateness of the variables used and consistency with the risk objectives approved under the RAF;
- monitors compliance with regulatory requirements and prudential supervisory ratios, analysing and commenting on their characterisations and dynamics;
- formalises prior opinions on the consistency with the RAF of the most significant transactions, possibly acquiring the opinion of other functions involved;
- contributes to the organisational set up/maintenance and regulates the operational processes (credit, funding, finance, collection/payments, ICT) adopted for the management of the various types of risk, verifying the adequacy and effectiveness of the measures taken to remedy the deficiencies found;
- contributes to the definition/revision of quantitative risk measurement methodologies and, by interacting with the accounting function and referring to the system contributions for the preparation of the financial statements, contributes to a correct classification and evaluation of the company’s activities.

2.2 Management, measurement and control systems

With regard to lending activities, the Credit Department and the NPL Department of the Parent Company ensure the supervision and coordination of the operational phases of the lending process, make decisions within the scope of their powers and carry out the controls for which they are responsible.

The entire credit management, control and classification process is governed by the Group Regulations on the granting of loans, Group Regulations for the classification and valuation of loans, Group Regulations for monitoring and first-level controls on credit risk and Group Regulations for the management of impaired loans, which define criteria and methods for:

- assessment of creditworthiness;
- review of credit lines;
- classification of loans;
- definition of precise, uniform monitoring and control of credit risk;
- management and recovery of loans classified as non-performing;
- determination of provisions on exposures classified as non-performing.

With reference to transactions with associated parties, the Group has adopted specific deliberative procedures aimed at controlling the risk that the proximity of certain parties to the decision-making centres of the same may compromise the impartiality and objectivity of decisions relating to the granting of loans. From this perspective, the Group is also equipped with recognition tools and an IT procedure aimed at supporting the correct and complete registration of associated parties. These references have been supplemented by updating, where deemed necessary, the resolutions, regulations and proxies already in use. The Group Regulation for the management of transactions with associated parties was also adopted.

In compliance with the provisions of the Group Regulations for the granting of loans, the Group Regulations for the classification and valuation of loans, the Group Regulations for monitoring and first-level controls on credit risk and the Group Regulations for the management of impaired loans, specific procedures were put in place for the investigation/deliberation, credit line revision and credit risk monitoring and control phases, classification of loans and definition of recovery strategies for impaired loans. All of the above phases apply qualitative and quantitative criteria to assess the creditworthiness of the counterparty.

Opportunities for enquiry/deliberation and the review of credit lines are regulated by a deliberative process involving the various competent bodies of the Subsidiary Banks or of the Parent Company, in accordance with the levels of delegation provided for in the respective individual Regulations, adopted in line with the Group Regulation on the granting of loans. The Parent Company can intervene on the loan granting practices of individual affiliated Banks in the event that they exceed the maximum credit limits permitted for individual counterparties, set by the Parent Company on a personalised basis for each individual bank, taking into account the own funds and creditworthiness of the same. These phases are supported by IT procedures that allow, at any time, the verification (by all credit management functions) of the status of each position already assigned or being assigned, as well as to reconstruct the process that led to the definition of the creditworthiness of the borrower (through the recording and archiving of the decision-making process and the types of analysis carried out).

During the investigation, for requests for significant amounts of credit facilities, the evaluation, including prospective, is structured on several levels and is based mainly on economic-financial data, as well as on personal knowledge of the counterparty and its guarantors. Different types of investigation/revision have been provided for; some, simplified with the investigation reduced to the essential, reserved for the investigation/revision of exposures of limited amount referring to parties who have a regular performance, others, of ordinary type, for the remaining type of practices.

The IT monitoring procedure adopted by the Group, using internal management information and data acquired from external providers, makes it possible to identify the various signs of anomalies among the customers with credit lines. The constant monitoring of the reports provided by the procedure therefore allows timely intervention in the event of anomalies and to take the appropriate measures to resolve them and/or correctly classify the individual position.

All fiduciary positions are also subject to periodic review, carried out for each individual counterparty/economic group to which they belong by the relevant structures per credit limit.

The credit chain is also monitored at every stage (granting, performance monitoring, classification, NPL management, collateral management, provisioning) by the Risk Management Department through a specific dedicated control framework based on preliminary quarterly risk assessments carried out on a massive scale through specific sets of dedicated key risk indicators, aimed at providing an initial measurement of the potential risk occurred from the individual scope, also taking into account the historical evolution (cross time comparison) of the same and its positioning with respect to the banking group (cross section comparison). This can also be used to detect possible risk drivers of the functional compartment to assess any single name analytical insights on the individual scopes in question to support the evidence of potential risk detected by the aforementioned massive models.

In recent years, the revision of international prudential regulations as well as the evolution in the banking world have further pushed cooperative credit to develop methods and systems to control credit risk. With this in mind, a strong commitment has been maintained in the progressive development of IT tools for monitoring credit risk, which has led to the creation of an advanced system for assessing the creditworthiness of companies and the risk/return profile.

Consistently with the operational and governance specificities of the credit process, the management system has been designed with a view to achieving an adequate integration between quantitative information (Financial Statements, Central Credit Register, Relationship Performance, Socio-Demographic Profile) and qualitative information accumulated by virtue of the peculiar customer relationship and its roots in the territory.

For the purposes of determining the minimum capital requirement for credit risk, the Group adopts the standardised methodology and, in this context, has decided to:

- make use of Rating models, developed on a statistical basis and using credit scoring methodology, for the measurement and evaluation of creditworthiness and related provisions for ordinary and interbank customers [16];
- adopt the standardised methodology for the calculation of the capital requirement for credit risk (Pillar I).

Moreover, with reference to the internal capital adequacy assessment process (ICAAP) provided for in Pillar II of the new prudential regulations and in order to determine internal capital, the Group has opted for the adoption of simplified methodologies.

In addition, stress tests were carried out in accordance with the management methods established by the Parent Company.

With reference to credit risk, stress tests are carried out as follows: in particular, the stress exercise is intended to measure the change in the exposures of the Regulatory portfolios due to the application of an adverse scenario compared to a baseline scenario.

The aggregates subjected to stress analysis are:

[16] The rating models developed are subject to annual review by the Parent Company. During the year, under the supervision of the Risk Management Department of the Parent Company, credit risk models were refined and updated. For more details see paragraph 2.3.

- gross volumes of performing loans to customers;
- rate of deterioration of performing loans to customers and related write-offs;
- coverage ratio of performing and impaired loans to customers;
- fair value of the HTCS securities portfolio.

For the identification of the two market scenarios, reference is made to the information provided by an external provider also based on the main assumptions established by the European Banking Authority for the purpose of the 2018 Stress Test.

With reference to operations on the securities markets, the Finance Departments of the Group's banks carry out valuation and control activities both during the purchase of financial instruments and at subsequent times when the composition of the segment by asset class or IAS/IFRS portfolio is periodically analysed, the level of specific risk or counterparty risk is determined and compliance with the limits and powers assigned is verified.

2.3 Methods of measuring expected losses

IFRS 9 introduced, for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments), a model based on the expected loss concept, replacing the incurred loss approach provided by IAS 39.

The changes introduced by IFRS 9 are characterised by a prospective view which, in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. In particular, unlike IAS 39, it is necessary to recognise, immediately and regardless of the presence or not of a so-called trigger event, the initial amounts of expected future losses on own financial assets, and this estimate should be continuously adjusted also in consideration of the counterparty credit risk. In order to prepare this estimate, the impairment model should not only consider past and present data, but also information relating to future events.

This forward looking approach makes it possible to reduce the impact of the losses and enable loan adjustments to be posted in proportion to the increase in risks, allowing entities to avoid overloading the income statement on the occurrence of loss events and reducing the pro-cyclical effect.

The scope of application of the new model for measuring expected losses on loans and securities subject to impairment adopted refers to financial assets (loans and debt securities), commitments to disburse funds, guarantees and financial assets not subject to measurement through FVTPL. For credit exposures falling within the scope of application [17] of the new model, the accounting standard provides for the allocation of individual relationships to one of three stages based on changes in credit quality, defined on an expected credit loss model at 12 months or full life if a significant increase in risk (lifetime) has occurred. In particular, there are three different categories reflecting the credit quality deterioration model from initial recognition, which make up the stage allocation:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk (SICR) or which can be identified as 'low credit risk';
- in stage 2, positions that, at the reference date, present a significant increase or that do not present the characteristics to be identified as 'low credit risk';
- in stage 3, non-performing positions [18].

[17] The application segments are ordinary customers, interbank segment and securities portfolio.

[18] Non-performing loans relate to: impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

The estimate of expected loss using the Expected Credit Loss (ECL) criteria, for the classifications defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss must be calculated on a time horizon of 12 months [19];
- stage 2, expected loss must be calculated by considering all the losses that are expected to be incurred over the entire life of the financial asset (lifetime expected loss): therefore, with respect to the calculation performed in accordance with IAS 39, there is a shift from the estimate of incurred loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan; in addition, given that IFRS 9 requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it is necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;
- stage 3, the expected loss must be calculated with a lifetime perspective, but unlike stage 2 positions, the calculation of the expected lifetime loss is carried out using an analytical valuation methodology; for certain exposures classified as non-performing or unlikely to pay of less than EUR 100,000, for impaired past due and/or overrun exposures and for off-balance sheet exposures, the calculation of the expected lifetime loss is normally carried out using a flat-rate analytical methodology.

With particular reference to positions classified as non-performing, specific analytical valuations reflect, where appropriate, a probable scenario of realisation of these receivables through the sale of the related exposures, consistent with the Group's strategy for the management of impaired receivables.

Specific risk parameters (PD, LGD and EAD) were defined from an IFRS 9 perspective to be used for impairment calculations (stage allocation and ECL); to improve the coverage of the ratios not originally rated after 2006, the default rates made available by the Bank of Italy were used [20]. It should be underlined that the Group calculates the ECL based on the allocation stage, per individual position, with reference to on-balance and off-balance sheet credit exposures.

For more details, please refer to these Explanatory Notes, Part A "Accounting policies", section 5 "Other aspects" part d) "Risks, uncertainties, impacts and methods of application of the international accounting standards in the current macroeconomic context".

[19] The calculation of the Expected Loss for the purposes of calculating collective bad debt provisions for these exposures takes place on a 12-month point in time basis.

[20] During 2018, the Bank of Italy made available a historical series of default rates starting in 2006, broken down by a number of drivers (region, amount range, economic sector, etc.) and built on a broader definition of non-performing positions only.

Loans to ordinary customers

The steps common to all the approaches identified for the construction of the PD to be used, concern:

- 12-month PD estimate developed on a statistical basis through the construction of a Group model, appropriately segmented according to the type of counterparty and the creditworthiness (in terms of the customer's rating);
- the inclusion of forward-looking scenarios occurs through the application of outputs defined by appropriate "Satellite Models" to the PD Point in Time (so-called PiT) and definition of a set of possible scenarios incorporating current and future macroeconomic conditions;
- the transformation of 12-month PD into lifetime PD, in order to estimate a PD term structure along the entire residual life class of loans.

The steps common to all the approaches identified for the construction of the LGD to be used, concern:

- a Group model, appropriately segmented according to the type of counterparty, the geographical area in which the Group operates, and the type of guarantee, which consists of two parameters: the Danger Rate (DR) and the non-performing LGD (LGS);
- the IFRS 9 Danger Rate parameter (an expression of the probability of "curing" a position to default as well as possible increases in exposure in the migration to worse credit states) is estimated from a set of administrative state transition matrices with an annual observation horizon. These matrices were calculated in relation to a set of counterparties with a segmentation in line with that used for the development of PD models. The DR parameter, like PD, is conditioned to the economic cycle, based on possible future scenarios, so as to incorporate assumptions about future macroeconomic conditions;
- the nominal LGS parameter (complement to one of the recoveries obtained in respect of the exposure of a position classified as non-performing) is calculated as the arithmetic mean of the nominal LGS, segmented by type of guarantee, and then discounted based on the average recovery time observed for clusters of ratios consistent with the nominal non-performing LGD.

The EAD IFRS 9 model adopted differs according to the type of technical macro-form and the type of counterparty. For the estimation of the EAD parameter over the lifetime period of the instalment positions, it is necessary to consider the contractual repayment flows, for each year of the remaining life of the position. A further element that influences the future values of the EAD, i.e. the progressive repayment of the instalment loans on the basis of the contractual amortisation plan, is the prepayment rate (a parameter that collects the events of early and partial termination with respect to the contractual maturity date).

With reference to stage allocation, the Group made provision for the allocation of the individual on-balance and off-balance sheet positions, in one of the three stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the following point;
- in stage 2, positions which, at the reference date, present at least one of the characteristics described below:
    - positions that at the valuation date show an increase in lifetime PD, compared to that at origination, greater than a certain threshold differentiated according to specific drivers such as risk segment, ageing and residual maturity of the position and geographic area. A backstop of 300% is applied to this threshold in line with the guidelines issued by the ECB in the "Dear CEO" letter;
    - positions relating to counterparties that at the valuation date are classified to 'watch list', i.e. 'performing under observation';
    - presence of a 'forborne performing' attribute;

- presence of past due amounts and/or overrun by more than 30 days;
- positions (without lifetime PD at the origination date) that do not have the characteristics to be identified as low credit risk at the valuation date (i.e. that have the following characteristics at the valuation date: rating class as at the reporting date less than or equal to 4 for the Company and Small Business segments, 3 for the Small Economic Operators segment and 5 for the Private segment) [21].

- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and impaired exposures.

Loans between banks or to financial intermediaries

For transactions in the interbank segment, the PD parameter is provided by an external provider that is differentiated on the basis of a rating that defines the creditworthiness of the counterparty; these default probabilities are extrapolated from listed credit spreads or listed bonds. For institutions without quoted credit spreads, the PD parameter is always provided by an external provider, but calculated on the basis of comparable logics based on external information (financial statements, external ratings, economic sector).

The LGD parameter is set prudentially by basing the regulatory level for IRB at 45%.

For EAD, similar logic is applied as for the ordinary customer model.

The Group has provided for the allocation of individual positions to the 3 stages, in the same way as to that provided for loans to customers. The application of the concept of low credit risk is defined on performing positions which at the valuation date have the following characteristics: no lifetime PD at the origination date and PD Point in Time less than 0.3%. Stage 2 is defined on the basis of PD changes between origination and reporting of 200% (as the backstop identified on the basis of the AQR-stress test manuals in the presence of a low default portfolio).

Securities portfolio

The PD parameter is provided by an external provider based on two approaches:

- timeliness: the default probability term structure for each issuer is obtained from quoted credit spreads or quoted bonds;
- comparable: where market data does not allow for the use of specific credit spreads, because they are absent, illiquid or insignificant, the default probability term structure associated with the issuer is obtained using proxy methodology. This methodology provides for the reclassification of the rated issuer to a comparable issuer for which specific credit spreads are available or to a reference cluster for which a representative credit spread can be estimated.

The LGD parameter is assumed to be constant over the entire time period of the financial activity under analysis and is obtained on the basis of four factors: issuer and instrument type, instrument ranking, instrument rating and country of origin of the issuing entity. The minimum level starts from a value of 45%, with subsequent increases to take into account the different degrees of seniority of the securities.

The Group has allocated the individual tranches for the purchase of securities in 3 stages.

[21] The rating model envisages 13 classes and is differentiated on the basis of the counterparty segment.

In the first creditworthiness stage the following are placed: tranches that can be classified as low credit risk (i.e. that have PD as at the reporting date below 0.26%) and those that at the valuation date have not experienced a significant increase in credit risk with respect to the time of purchase.

In the stage 2, tranches are placed, which on the valuation date present an increase in credit risk compared to the date of purchase.

In the third and final stage, tranches are placed, for which the ECL is calculated following the application of a 100% probability (i.e. in default).

Transitory regime

With regard to the economic and equity impacts of IFRS 9, it should be noted that, on first-time adoption of the same, the main impacts arose from the application of the new accounting model of impairment based, as mentioned above, unlike the loss approach of IAS 39, on the concept of expected loss, and from the application of the rules for the transfer of exposures to the various stages of classification.

It should be noted that Cassa Centrale Banca has adhered to the option introduced by Regulation (EU) no. 2395/2017 and partially supplemented by Regulation (EU) no. 873/2020, by which amendments were made to Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (so-called CRR), relating to the introduction of a specific transitional framework, from 2018 to 2024, aimed at mitigating the impact on own funds resulting from the application of the new impairment model based on the measurement of expected credit losses (ECL) introduced by IFRS 9.

The provisions in question have made it possible to reintroduce in the CET1 the impact recorded following the application of the new valuation model introduced by IFRS 9 for financial assets measured at amortised cost or at fair value through other comprehensive income.

This standard allows for dilution until the end of 2024:

- the incremental impact of the write-down on performing and impaired exposures recognised at the date of transition to IFRS 9 following the application of the new impairment model (static A2, SA filter component);
- any further increase in total write-downs relating only to performing exposures, recorded as at 31 December 2019 with respect to the impact measured at the date of transition to the new standard ("dynamic old" A4, SA old filter component);
- any further increase in total write-downs relating only to performing exposures, recorded at each reference date with respect to the amount measured as at 31 December 2019 ("dynamic new" A4, SA filter component).

The adjustment to CET1 related to the "static" and "old dynamic" components may be made in the period between 2018 and 2022, re-including in the CET1 the impact as determined above, to the extent indicated hereunder for each of the 5 years of the transitory period:

- 2018 - 95%;
- 2019 - 85%;
- 2020 - 70%;
- 2021 - 50%;
- 2022 - 25%.

The adjustment to CET1 related to the "dynamic" component can be made in the period between 2020 and 2024, re-including in the CET1 the impact as determined above, to the extent indicated hereunder for each of the 5 years of the transitory period:

- 2020 - 100%;
- 2021 - 100%;
- 2022 - 75%;
- 2023 - 50%;
- 2024 - 25%.

The latter component in particular was introduced by the regulator as part of a package of regulatory provisions to facilitate the provision of bank credit to households and businesses in response to the COVID-19 pandemic, which began in early 2020.

The application of the transitional provisions to CET1 obviously requires, in order to avoid double counting of the prudential benefit, to make a symmetric adjustment in the determination of capital requirements for credit risk by adjusting the exposure values determined in accordance with Article 111, paragraph 1 of the CRR. Starting from June 2020, this adjustment is reflected in the risk-weighted assets through the application of a risk weighting factor of 100% applied to the amount of the sum of the components calculated on the incidence of the adjustment made to the CET1. This approach replaced the application of the original graduation factor, which was determined on the basis of the 1-complement of the impact of the adjustment made to CET1. Finally, where recognised, a symmetrical adjustment must be made against DTAs linked to the higher value adjustments, deducted or weighted at 250%.

Organisational and process impacts

In terms of organisational and process impacts, the approach to impairment introduced by IFRS 9 required a major effort to collect and analyse data; this in particular, in order to identify the exposures that have suffered a significant increase in credit risk with respect to the date of their assumption and, consequently, must be traced back to a measurement of the expected lifetime loss, as well as the support of significant investments for the evolution of the valuation models in use and related operating processes for the incorporation of the risk parameters produced in credit operations.

The introduction of forward-looking logic in accounting valuations also determines the need to revise credit policies, for example, with reference to customer selection parameters (in light of the different sectorial or geographical risk profiles) and collateral (orienting the preference of types exposed to lower volatility and sensitivity to the economic cycle). Similarly, it appeared necessary to adjust the company's rules on the granting of credit (and related delegated powers) taking into account, among other things, the different costs of medium/long-term technical forms in a scenario in which, as mentioned above, any migration to stage 2 entails the transition to an expected lifetime loss.

With regard to credit monitoring processes and controls, some consolidation interventions are also planned, based, inter alia, on the implementation of automated and proactive processes as well as the refinement of early warning and trigger tools that have been introduced by the Group in order to identify the early symptoms of a potential step-up and to activate the resulting initiatives in good time.

Finally, significant interventions concern second-level controls by the Risk Management Department, which is responsible, among other things, under current regulations, for the validation of internal risk measurement systems not used for regulatory purposes and for monitoring the substantial correctness of the indications deriving from the use of these models.

With reference to the main management control processes, in the knowledge that the cost of risk is one of the most important variables in determining current and prospective economic results, particular attention is paid to the necessary consistency of the assumptions underlying the estimates of the multi-annual plan and the annual budget (developed on the basis of expected scenarios relating to macroeconomic and market factors), the ICAAP and RAF and those taken as reference for the determination of accounting provisions.

The project activities coordinated by the relevant technical structures of Cassa Centrale Banca have allowed the improvement of the declination of the methodological solutions for the correct estimation of the risk parameters for the calculation of the ECL and the management of the staging process according to IFRS 9 standards, as well as the development of the underlying technical/instrumental support by the relevant structures. It should be noted that, in relation to the introduction of the new definition of default as well as to some primary contextual elements (i.e. the growing sophistication of the Banking Group, elements deriving from the current macroeconomic environment connected to the evolution of the Russia-Ukraine war, etc.), the Group has launched a project to estimate again all the credit models of the accounting framework (i.e. IFRS 9 and macroeconomic models) as well as management such as monitoring and acceptance (i.e. rating systems) with expected release by June 2024.

The Group has defined the guidelines relating to the adoption of organisational and process solutions aimed at enabling the correct and integrated gradual use of the rating system in the main business processes (during investigation, pricing, monitoring and evaluation), as well as for the implementation of the related monitoring and control system.

In general, with regard to the impacts of the variables and the specific cases that led to a significant increase in credit risk (SICR) and on the measurement of expected losses, please refer to what has already been explained in Part A.

2.4 Techniques for mitigating credit risk

Risk mitigation techniques include those instruments that contribute to reducing the loss that the Group would incur if the counterparty were to default; they include, in particular, guarantees and certain contracts that lead to a reduction in credit risk.

In accordance with the credit objectives and policies defined by the Board of Directors, the credit risk mitigation technique most commonly used by the Group is the acquisition of different types of collateral, personal and financial guarantees.

These forms of guarantee are required depending on the results of the assessment of the creditworthiness of customers and the type of loan requested by the same. As part of the credit granting and management process, the presence of mitigating factors is encouraged against counterparties with a less favourable credit rating or certain types of medium/long-term operations.

With reference to activities within securities markets, given that the composition of the portfolio is oriented towards primary issuers with high creditworthiness, no particular forms of credit risk mitigation are currently required.

The main concentration of collateral (mainly mortgages) is related to loans to customers in the retail and small business sectors (medium and long term).

In recent years, a decisive impetus has been given to the implementation of structural and process configurations suitable to ensure full compliance with the organisational, economic, legal and information requirements of prudential regulations on credit risk mitigation (hereinafter also "CRM") techniques.

The Group has decided to use the following CRM tools:

- financial collateral (pledges) involving cash and a restricted list of financial instruments traded on regulated markets, provided through agreements for the pledging and transfer of ownership and repurchase agreements;
- mortgage collateral, represented by residential and non-residential mortgages;
- personal guarantees represented by sureties, given by authorities authorised to issue state commitments (e.g., SME Guarantee Fund, SACE, ISMEA) by supervised financial intermediaries.

In the first half of 2023, the Group completed an important project to standardise the technical forms of guarantee at all affiliated banks. Launched in 2022, the project led to the definition of a single taxonomy of guarantees, valid and binding for the entire Group, laying the foundation for a uniform definition of the acquisition and management processes of the same.

Financial (pledges) and mortgage collateral

With reference to the acquisition, evaluation and management of the main forms of collateral, the company's policies and procedures ensure that such collateral is always acquired and managed in such a way as to ensure that it is enforceable in all relevant jurisdictions and can be enforced within a reasonable time.

In this context, the Group complies with the following inherent regulatory principles:

- the non-dependence of the value of the property to a significant extent on the creditworthiness of the debtor;
- the independence of the entity appointed to estimate the property at a value not exceeding its market value;
- the presence of an insurance against the risk of damage to the property covered by the guarantee;
- the implementation of adequate monitoring of the value of the property, in order to verify the existence over time of the requirements that allow for less capital absorption on the guaranteed exposures;
- observance of the maximum ratio between the requested credit facility and the value of the real estate pledged as collateral (loan-to-value): 80% for residential properties and 50% for non-residential properties;
- the use of the property and the debtor's ability to repay.

The process of monitoring the value of the property under warranty is carried out using statistical methods. Performing or impaired credit exposures are subject to statistical revaluation every six months.

For significant performing exposures (i.e. amounts in excess of EUR 3 million or 5% of the Group Bank's own funds) the valuation is, in any case, reviewed by an independent expert at least every 3 years.

For impaired exposures, the Group provides for a new appraisal for both residential and non-residential properties at the time of transition to impaired loans and an annual update for positions exceeding specific exposure thresholds.

With regard to financial collateral, the Group, based on the policies and processes for the management of credit risk and operational limits and proxies defined, directs the acquisition of the same exclusively to those financial assets for which the company is able to calculate the fair value on a periodic basis (i.e. whenever there is evidence that there has been a significant decrease in fair value).

The Group has also put in place specific safeguards and procedures to ensure the following aspects relevant to the prudential eligibility of the guarantees in question:

- absence of a material positive correlation between the value of the financial collateral and the creditworthiness of the debtor;
- specific safeguards to guarantee the external separation (between the depositary's assets and the asset under guarantee) and the internal separation (between assets belonging to different parties and deposited with third parties) if the asset under guarantee is held with third parties;
- residual duration of the guarantee not less than that of the exposure.

The monitoring of financial collateral, in the case of pledging of securities, takes place through periodic monitoring of the issuer/issue rating and the fair value assessment of the financial instrument as collateral. The adjustment of guarantees for which the market value is lower than the resolution value net of discount is required.

Personal guarantees

For personal guarantees, the Group uses CRM techniques only for sureties protected by government guarantees as these are issued by authorised issuers (e.g., SME Guarantee Fund, SACE, ISMEA, or other authorities in the EU framework such as BEI, FEI). Moreover, they may provide access to benefits in terms of capital weighting on sureties provided by supervised financial intermediaries.

Netting agreements

The Group adopts bilateral netting agreements for contracts relating to OTC derivatives and long-term settlement transactions concluded with primary counterparties through the Parent Company which, while not giving rise to any novation, provide for the formation of a single obligation, corresponding to the net balance of all the transactions included in the agreement itself, so that, in the event of default by the counterparty due to insolvency, bankruptcy, liquidation or any other circumstance, the Group has the right to receive or the obligation to pay only the net amount of the positive and negative values at current market prices of the individual transactions offset. Regulation (EU) no. 575/2013, with reference to OTC derivatives and long-term settlement transactions, places such agreements within the framework of other bilateral netting agreements between an institution and its counterparty, i.e. written agreements between a bank and a counterparty under which the reciprocal credit and debit positions generated by such contracts are automatically offset so as to establish a single net balance, without any novative effects.

The effect of reducing counterparty risk (and, therefore, lower capital absorption) is recognised provided that the agreement has been communicated to the supervisory authority and the Group complies with the specific requirements set out in the regulations.

In this respect, the Group adopts a net-based counterparty risk management system in accordance with the bilateral offset provision, with no novation effect, present in contracts for OTC derivatives and long-term settlement transactions. It is planned to adopt these instruments also when absorbing capital, bearing in mind that the new contracts all pass through the Parent Company.

The legal right to offset is not legally enforceable at any time but only in the event of insolvency or bankruptcy of the counterparties. As a result, the conditions in paragraph 42 of IAS 32 for offsetting positions in the financial statements are not met as further detailed in IAS 32 in paragraph AG38.

The Group has entered into margining agreements that provide for the daily exchange of margins (guarantees) between the counterparties to the contract on the basis of the valuation of outstanding positions according to market values observed on the reference day (i.e. the working day immediately prior to the valuation day). The value of the collateral transferred from one party to the other takes into account the net value of the outstanding positions, the value of any collateral previously lodged by either party and the security value (minimum transfer level). The system is managed by the Parent Company for exposures to affiliates, while for exposures to institutional market counterparties it is the latter that performs the role of guarantee calculation agent.

3. IMPAIRED CREDIT EXPOSURES

3.1 Management strategies and policies

Impaired financial assets include loans which, following the occurrence of events happening after their disbursement, show objective evidence of possible impairment.

On the basis of the current regulatory framework, supplemented by internal implementing provisions, impaired financial assets are classified according to their critical status into three categories:

- non-performing loans: credit exposures to counterparties in a state of insolvency (even if not judicially established), or in substantially comparable situations, regardless of the existence of any guarantees given to protect the exposures and the loss forecasts made;
- unlikely to pay: credit exposures, other than bad loans, for which it is considered unlikely that, without recourse to protective actions, such as enforcement of guarantees, the debtor will fully meet its credit obligations in principal and/or interest, regardless of the presence of any overdue and unpaid amounts/rates;
- impaired past due and/or overrun: credit exposures, other than those classified as non-performing or unlikely to pay, which are past due and/or overrun. The overall exposure to a debtor shall be recognised as impaired past due and/or overrun, in accordance with Delegated Regulation (EU) no. 171/2018 of the European Commission of 19 October 2017, if the amount of principal, interest or fees unpaid at the date it was due exceeds both of the following thresholds: a) absolute limit of EUR 100 for retail exposures and of EUR 500 for non-retail exposures; b) relative limit of 1% given by the ratio of the total amount past due and/or overrun at group level to the total amount of all credit exposures to the same debtor.

The classification of positions among impaired assets is carried out automatically, upon the occurrence of the binding cases provided for by the reference regulations, or by means of evaluation and deliberation processes on individual counterparties, triggered automatically or manually, upon the identification of certain early warning signs and/or triggers, defined in the Group Regulation for the Classification and Valuation of Loans. Similarly, the return to performing status of impaired exposures occurs automatically when the binding cases provided for by the reference regulations are no longer met, or through valuation and resolution processes, triggered manually by the structures responsible for managing impaired loans, in compliance with the “monitoring period” and “cure period” time frames provided for by the reference regulations.

The Group model for the management of impaired loans involves management and coordination by the Parent Company and the direct management of the impaired loans portfolio by the individual affiliated banks. In the context of this model, the Parent Company:

- prepares and implements the Group’s NPE Strategy and related operational plan;
- defines and updates internal regulations and processes related to the classification and valuation of loans;
- defines and updates the internal regulations and processes related to the management and recovery of impaired loans.

Each affiliated bank, through its own structures, conducts the following activities:

- the development and implementation its own individual NPE Strategy and related operational plan in compliance with the objectives defined by the Parent Company;
- the classification of individual exposures;
- the definition of the most appropriate management and/or recovery strategies for the individual positions;
- the activities of determining the provisions on the individual impaired credit lines.

The model used to determine provisions for impaired loans provides, depending on their characteristics, for the use of a specific analytical valuation or a flat-rate analytical valuation.

The amount of the adjustment to the value of each loan is determined as the difference between its carrying amount at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the effective interest rate to the ratio at the time immediately prior to classification in one of the risk categories of impaired loans.

The specific analytical valuation is carried out at the time of classification among impaired credit exposures and is reviewed quarterly in accordance with the criteria and methods identified in the Group policy for the classification and valuation of loans.

The flat-rate analytical valuation is carried out and updated quarterly on the basis of the estimate of the expected loss calculated by the impairment model introduced by IFRS9.

3.2 Write-offs

The write-off is an event that results in an accounting derecognition and may occur before the legal action for recovery of the impaired debt is completed and does not necessarily imply a waiver of the legal right to recover the debt. The write-off may cover the entire amount of an impaired exposure or a portion of it and corresponds to:

- the reversal, in full or in part, of the writedowns, as a contra-entry to the gross value of the impaired exposure; and
- for any portion exceeding the amount of the writedowns, to the impairment loss of the impaired exposure recognised directly in the income statement.

Any recoveries from collections in excess of the gross value of the impaired exposure following the write-off are recognised in the income statement under contingent assets.

In general, the write-off applies to impaired exposures for which:

- the occurrence of events has been found to lead to the irretrievability of all or part of the impaired exposure;
- all or part of the impaired exposure was deemed reasonably unrecoverable;
- it was considered appropriate, in the context of settlement agreements with the debtor, to waive all or part of the impaired debt.

The specific processes and criteria for the application of write-offs are governed at group level in accordance with specific internal regulation.

3.3 Impaired financial assets acquired or originated

In accordance with IFRS 9, loans considered impaired from the time of initial recognition are referred to as Purchased or Originated Credit Impaired Assets (POCI). These loans, if they fall within the scope of application of impairment pursuant to IFRS 9, are measured by setting aside - from the date of initial recognition - provisions to cover losses covering the entire residual life of the loan (ECL lifetime). Since these are impaired loans, they will be initially booked as part of stage 3.

In this regard, it should be noted that the acquisition or origination of impaired financial assets is not part of the Group's typical business model, so the above mentioned cases are to be considered residual.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND FORBORNE EXPOSURES

The category of 'forborne non-performing exposures' does not constitute a separate and additional category of impaired exposures to those previously mentioned (non-performing, unlikely to pay and impaired past due and/or overrun exposures), but only a sub-set of each of them, which includes on-balance exposures and commitments to disburse funds that are forborne ('forborne exposures'), if both of the following conditions are met:

- the debtor is in a situation of economic-financial hardship that does not allow him/her to fully comply with the contractual commitments in his/her debt agreement and that puts him/her in a state of 'credit deterioration' (classification in one of the categories of impaired exposures: non-performing, unlikely to pay, impaired past due and/or overrun);
- the Group agrees to amend the terms and conditions of that agreement, or to refinance it in full or in part, to enable the debtor to comply with it (there would have been no such forbearance if the debtor had not been in a state of hardship).

Forborne exposures to debtors in a condition of economic-financial hardship that has not reached a state of credit impairment are instead classified in the category of forborne performing exposures and are included among the other performing exposures, or among the performing past due exposures if they meet the requirements for this classification.

As provided for in the Group Regulations, once it has been ascertained that a concession measure meets the requirements of forbearance, the forborne exposure attribute involves:

- forborne performing if both of the following conditions occur:
    - the debtor was classified as ordinary performing or under observation before the forbearance was granted;
    - the debtor was not reclassified as an impaired counterparty as a result of the forbearance granted;
- forborne non-performing if at least one of the following conditions occurs:
    - the debtor was classified as impaired prior to the granting of the forbearance;
    - the debtor has been reclassified among impaired exposures, due to the forbearance granted, including the assumption that (in addition to other regulatory cases), as a result of the valuation made, significant impairment losses will emerge.

In order for a credit exposure classified as forborne non-performing to change to forborne performing, the following conditions must be met simultaneously:

- at least 12 months have passed since the last of the following events (known as cure period):
  - granting of the forbearance measure on impaired credit exposures;
  - classification as impaired of the counterparty;
  - end of the grace period set forth by the forbearance measure on impaired credit exposures;
- absence of the conditions to classify the debtor as impaired;
- absence of overdue payments on all the debtor's existing relationships with the Group;
- the debtor's presumed ability, on the basis of documentary evidence, to fully meet its contractual obligations under the repayment terms determined by the forbearance; this prospective ability to repay is deemed to have occurred when both of the following conditions are met:
  - the debtor has reimbursed, through the regular payments made on the renegotiated terms, an amount equal to the amount that had expired (or was subject to derecognition) at the time of granting the forbearance;
  - the debtor has complied with the post-forbearance payment terms over the last 12 months.

A credit exposure classified as forborne performing becomes forborne non-performing when even one of the following conditions occurs:

- the conditions for the classification of the counterparty as impaired loans are met;
- occurrence of conditions of reduced financial obligation as defined by Article 178 of EU Regulation no. 575/2013 (DO>1%);
- the credit exposure was previously classified as impaired with a forborne non-performing attribute and subsequently, if the conditions were met, the funded counterparty has been upgraded to performing status under observation (with the simultaneous transfer of the line in question to forborne performing), but: i) one of the credit lines of the financed counterparty has matured, during its stay in forborne performing, more than 30 days past due; or ii) the counterparty holding the line in question, during its stay in forborne performing, is subject to further forbearance measures.

For a credit exposure classified as forborne performing to lose this attribute, resulting in a return to only an ordinary performing or performing under observation status, the following conditions must be met simultaneously:

- at least 24 months have passed since the assignment of the forborne performing attribute (so-called probation period);
- the debtor has made, after the application of the forbearance, regular payments of principal or interest on the credit line subject to the forbearance for a total amount equal to at least 5% of the residual principal debt recorded at the time of application of the forbearance; these payments must have been made at such times and in such a way as to ensure full compliance with the contractual obligations for a period, even if not continuous, equal to at least half of the probation period;
- the debtor does not have any past due loan exceeding 30 days in relation to any of the relationships existing with the respective Group bank at the end of the probation period.

Information of a quantitative nature

A. Credit quality

A.1.4 Prudential consolidation - On-balance and off-balance-sheet credit exposures to banks: gross and net values

TYPES OF LOANS/ VALUES	Gross exposure					Writedowns and total allocations					Net exposure	Total partial write-offs*
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
A. ON-BALANCE-SHEET CREDIT EXPOSURES												
A.1 ON DEMAND	**122**	**114**	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**122**	**-**
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	122	114	8	X	-	-	-	-	X	-	122	-
A.2 OTHER	**1,671**	**1,593**	**74**	**-**	**-**	**2**	**1**	**1**	**-**	**-**	**1,669**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Impaired past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-

TYPES OF LOANS/ VALUES	Gross exposure					Writedowns and total allocations					Net exposure	Total partial write-offs*
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
e) Other performing exposures	1,671	1,593	74	X	-	2	1	1	X	-	1,669	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
TOTAL (A)	**1,793**	**1,707**	**82**	**-**	**-**	**2**	**1**	**1**	**-**	**-**	**1,791**	**-**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES												
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	1,103	557	192	X	-	-	-	-	X	-	1,103	-
TOTAL (B)	**1,103**	**557**	**192**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,103**	**-**
TOTAL (A+B)	**2,896**	**2,264**	**274**	**-**	**-**	**2**	**1**	**1**	**-**	**-**	**2,894**	**-**

*Value to be displayed for information purposes

A.1.5 Prudential consolidation - On-balance and off-balance-sheet credit exposures to customers: gross and net values

TYPES OF LOANS/ VALUES	Gross exposure					Writedowns and total allocations					Net exposure	Total partial write-offs*
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
A. ON-BALANCE-SHEET CREDIT EXPOSURES												
a) Non-performing	739	X	-	738	-	683	X	-	682	-	56	268
- of which: forborne exposures	171	X	-	171	-	162	X	-	162	-	9	54
b) Unlikely to pay	1,553	X	-	1,553	-	1,237	X	-	1,237	-	316	3
- of which: forborne exposures	855	X	-	855	-	713	X	-	713	-	142	2
c) Impaired past due exposures	100	X	-	100	-	38	X	-	38	-	62	-
- of which: forborne exposures	5	X	-	5	-	2	X	-	2	-	3	-
d) Performing past due exposures	701	281	419	X	-	38	3	35	X	-	663	-
- of which: forborne exposures	50	-	50	X	-	6	-	6	X	-	44	-
e) Other performing exposures	83,410	76,953	6,329	X	-	565	164	401	X	-	82,845	-
- of which: forborne exposures	795	-	795	X	-	72	-	72	X	-	723	-
TOTAL (A)	**86,503**	**77,234**	**6,748**	**2,391**	**-**	**2,561**	**167**	**436**	**1,957**	**-**	**83,942**	**271**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES												
a) Impaired	142	X	-	142	-	56	X	-	56	-	86	-
b) Performing	13,671	12,893	738	X	-	81	49	32	X	-	13,590	-
TOTAL (B)	**13,813**	**12,893**	**738**	**142**	**-**	**137**	**49**	**32**	**56**	**-**	**13,676**	**-**
TOTAL (A+B)	**100,316**	**90,127**	**7,486**	**2,533**	**-**	**2,698**	**216**	**468**	**2,013**	**-**	**97,618**	**271**

*Value to be displayed for information purposes

A.1.5a Loans subject to COVID-19 support measures: gross and net values

TYPES OF LOANS/ VALUES	Gross exposure					Writedowns and total allocations					Net exposure	Total partial write-offs*
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
A. NON-PERFORMING LOANS	**50**	**-**	**-**	**50**	**-**	**36**	**-**	**-**	**36**	**-**	**14**	**-**
a) GL-compliant forborne	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures in place that are no longer GL-compliant and are not assessed as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Other forborne loans	-	-	-	-	-	-	-	-	-	-	-	-
d) Newly originated loans	50	-	-	50	-	36	-	-	36	-	14	-
B. UNLIKELY TO PAY	**139**	**-**	**-**	**139**	**-**	**68**	**-**	**-**	**68**	**-**	**71**	**-**
a) GL-compliant forborne	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures in place that are no longer GL-compliant and are not assessed as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Other forborne loans	-	-	-	-	-	-	-	-	-	-	-	-
d) Newly originated loans	139	-	-	139	-	68	-	-	68	-	71	-
C. IMPAIRED PAST DUE LOANS	**20**	**-**	**-**	**20**	**-**	**6**	**-**	**-**	**6**	**-**	**14**	**-**
a) GL-compliant forborne	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures in place that are no longer GL-compliant and are not assessed as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Other forborne loans	-	-	-	-	-	-	-	-	-	-	-	-
d) Newly originated loans	20	-	-	20	-	6	-	-	6	-	14	-

TYPES OF LOANS/ VALUES	Gross exposure					Writedowns and total allocations					Net exposure	Total partial write-offs*
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
D. OTHER PERFORMING PAST DUE LOANS	**29**	**6**	**23**	**-**	**-**	**2**	**-**	**2**	**-**	**-**	**27**	**-**
a) GL-compliant forborne	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures in place that are no longer GL-compliant and are not assessed as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Other forborne loans	-	-	-	-	-	-	-	-	-	-	-	-
d) Newly originated loans	29	6	23	-	-	2	-	2	-	-	27	-
E. OTHER PERFORMING LOANS	**5,196**	**4,297**	**899**	**-**	**-**	**57**	**16**	**41**	**-**	**-**	**5,139**	**-**
a) GL-compliant forborne	4	4	-	-	-	-	-	-	-	-	4	-
b) Subject to moratorium measures in place that are no longer GL-compliant and are not assessed as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Other forborne loans	1	-	1	-	-	-	-	-	-	-	1	-
d) Newly originated loans	5,191	4,293	898	-	-	57	16	41	-	-	5,134	-
TOTAL (A+B+C+D+E)	**5,434**	**4,303**	**922**	**209**	**-**	**169**	**16**	**43**	**110**	**-**	**5,265**	**-**

Value to be displayed for information purposes

The "Total partial write-offs" column has no significant values.

1.2 MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading book

Information of a qualitative nature

A. General aspects

The Finance and Treasury Committee of the Parent Company defines the investment choices relating to the trading book within the periodic portfolio management strategy documents approved by the Board of Directors.

During the year, the proprietary portfolio management strategy established that the trading book activity was limited to financial instruments held for intermediation with banking and non-banking customers and to derivatives entered into for hedging risks (such as, for example, forward foreign exchange transactions for intermediation with customers or derivatives linked to the fair value option): such operations, being balanced, do not give rise to significant risks.

B. Management processes and measurement methods relative to interest rate and price risk

Interest rate risk - Regulatory trading book

The measurement of interest rate risk on the regulatory trading book, related to the securities component, is supported by the daily reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR, Value at Risk). This is calculated using RiskMetrics applications, based on the historical method, over a 10-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk). The calculation of volatilities and correlations is made by assuming a future distribution of risk factor returns equal to the historical distribution over a given time horizon.

To support the definition of the structure of its internal limits, important strategic choices, or specific analyses, simulations of purchases and sales of financial instruments within its asset allocation are available, obtaining an updated calculation of the new risk exposure in terms of both VaR and effective duration.

The monitoring of market risk exposure is also carried out using the Montecarlo fat-tailed method, which uses a procedure to simulate the returns of risk factors on the basis of past volatility and correlation data, generating 10,000 random scenarios consistent with the market situation. An additional measure introduced to assess market risk is the expected shortfall, calculated with both the historical method and the Montecarlo method.

Additional risk statistics derived from VaR (such as marginal VaR, incremental VaR and conditional VaR), measures of sensitivity of income instruments (effective duration) and analyses linked to the evolution of correlations between the various risk factors present are monitored through reporting.

The analyses are available at different levels of detail: on the entire trading book and within the latter on groupings by type of instrument (Equities, Funds, Fixed Rate and Government, Supranational and Corporate variable rate), up to the individual securities present.

Of particular importance is also the backtesting of the VaR model used daily, carried out on the entire portfolio of securities owned by comparing the VaR - calculated at 99% and over the daily time period - with the actual changes in the theoretical market value of the portfolio.

Daily stress tests are available on the theoretical market value of the own securities portfolio through which changes in the theoretical countervalue of the trading book and the various groupings of instruments (Equities, Funds, Fixed Rate and Government, Supranational and Corporate variable rate) present in it are studied with respect to certain market scenarios. As part of risk management strategies, various scenarios on the bond and equity front are monitored for a complete and improved analysis of the portfolio.

The reports described are monitored by the Risk Management and Finance Departments and periodically submitted to the Boards of Directors.

In addition, an automatic email alert is active if the attention thresholds and/or limits in the internal regulations are exceeded.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Price risk - Regulatory trading book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the regulatory trading book is supported by the reports provided by the Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics applications, on the basis of the historical method, over a 10-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (interest rate risk, equity risk, foreign exchange risk and inflation risk).

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Information about the VaR calculations for the securities component of the regulatory trading book in the first half of 2023 is reported below:

Figures rounded to nearest euro unit

VaR 30/06/2023	Average VaR	Minimum VaR	Maximum VaR
-	-	-	-

As at 30 June 2023, there were no securities in the regulatory trading book, according to the strategic guidelines established by the Parent Company.

Information of a quantitative nature

3. Regulatory trading book: internal models and other methodologies for sensitivity analysis

The measurement of price risk on the trading book is supported by reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics applications, based on the historical method, over a 10-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

The VaR measurement is available daily for monitoring and operational evaluations carried out by the Risk Management and Finance Departments and is calculated on various levels of detail which, in addition to the Total portfolio, consider the Banking portfolio, the business models, the various groupings by type of instrument (Equities, Funds, Fixed Rate and Government, Supranational and Corporate variable rate), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

1.2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for interest rate and price risk

Interest rate risk - Banking book

Primary sources of interest rate risk

The sources of the interest rate risk to which the Group is exposed can be identified mainly in the lending, funding and finance processes, since the banking book consists mainly of loans and the various forms of funding from customers.

In particular, 'fair value' interest rate risk is derived from fixed-rate items while interest rate risk from cash flows is derived from variable-rate items.

However, items on demand generally include asymmetrical behaviours, depending on whether one considers liability or asset items; the former - being characterised by greater stability - primarily refer to fair value risk while the second are more sensitive to market changes and therefore ascribable to cash flow risk.

Internal management processes and measurement methods for interest rate risk

The Group has put in place appropriate mitigation and control measures aimed at avoiding the possibility of positions exceeding a certain level of objective risk.

These mitigation and control measures are applied within the framework of corporate regulations aimed at setting up monitoring processes based on position limits and systems of attention thresholds in terms of internal capital, beyond which appropriate corrective actions are triggered.

With regard to this point, the following are defined:

- policies and procedures for managing interest rate risk that are consistent with the nature and complexity of the activity carried out;
- measurement metrics consistent with the risk measurement methodology adopted by the Group, on the basis of which an early warning system has been defined that allows for the timely identification and activation of appropriate corrective measures;
- operational limits and internal procedural provisions which aim to maintain exposure within limits that are consistent with the managerial policy and with the alert thresholds pursuant to prudential regulations.

From an organisational point of view, the Group has identified the Finance Departments as the structures responsible for overseeing this process of managing interest rate risk on the banking book.

The monitoring of interest rate risk exposure on the banking book is carried out on a monthly basis.

With regard to the risk measurement methodology in terms of change in economic value and change in interest margin, the Group has decided to use the calculation framework provided by the EBA guidelines (EBA/GL/2022/14) which is based on the following elements:

- sensitivity analysis to economic value: the calculation engine allows the quantification of the difference in fair value of financial statement items calculated according to the Discounted Cash Flow method using first a base curve (without shock) and then a shocked curve. The reports can be prepared individually or aggregated on the basis of their specific financial characteristics;
- margin sensitivity analysis: the calculation engine allows the quantification of the difference in the interest margin against specific expected rate scenarios (baseline or adverse) or one or more rate shocks (parallel or otherwise), assuming the reinvestment of maturing (assuming of constant volumes) or rate-revising flows (indexed ratios) at forward rates over a predefined time period (e.g. twelve months);
- treatment of behavioural models: the calculation engine allows for the behavioural models to be taken into account in the analysis (value and margin); in 2022, an update was applied to the model of items on demand, estimated using Group data. The model is subject to parameters being estimated again in 2023.

The Group determines the internal capital for interest rate risk according to the model of the change in economic value shown above, applying a parallel rate shock of +/- 200 basis points.

Additional stress scenarios, as indicated in the relevant legislation, are determined to assess the impacts of non-parallel curve shifts (steepening, flattening, short rates up and down) and from cases established internally within the Group. With the introduction by regulation of the SOT (supervisory outlier test) also on the NII (net interest income) from 30/06/2023, the Group has adapted its rate risk monitoring process on the Interest Margin by calculating and monitoring the respective levels of “large decline”.

The risk indicator is represented in the RAF (Risk Appetite Framework) by the ratio between the internal capital thus calculated and the value of CET1. At consolidated level, the Parent Company monitors the Group's positioning with respect to the attention thresholds of 15% for the Economic Value and 5% for the Interest Margin set by EBA's Guidelines and Regulatory Technical Standards (RTS). If the risk indicator exceeds the thresholds set out in the RAF, the appropriate recovery initiatives are activated.

Price risk - Banking book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the banking book is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics applications, on the basis of the historical method, over a 10-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

The VaR measurement is available daily for monitoring and operational evaluations carried out by the Risk Management and Finance Departments and is calculated on various levels of detail which, in addition to the Total portfolio, consider the Banking portfolio, the business models, the various groupings by type of instrument (Equities, Funds, Fixed Rate and Government, Supranational and Corporate variable rate), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Information about the VaR calculations for the securities component of the banking book in the first half of 2023 is reported below:

Figures rounded to nearest euro unit

VaR 30/06/2023	Average VaR	Minimum VaR	Maximum VaR
534,176,491	699,409,979	534,176,491	971,925,540

Control over the reliability of the model is implemented through theoretical backtesting activities which verify daily changes in the market value of the banking book, as calculated by the model with an estimate of the expected loss for the day. At consolidated portfolio level the previous model did not identify any significant overruns in the reference period.

The year 2023 saw a continuation, with respect to VaR, of the quantification of issuer risk for government securities and therefore country risk, understood as VaR relating only to the risk factor "Credit Spread", expressed as the spread between the Italian government bond curve and the risk-free curve, understood as the reference monetary curve for each currency in which the bond is denominated. VaR and Expected Shortfall metrics were also calculated only on the Italian Government bonds segment.

With regard to stress tests, the outcomes of simulations of the impact of different shock scenarios on the theoretical value of the portfolio on 30 June 2023 is reported below. The shocks replicate parallel movements of +/-25 and +/-50 basis points for the primary rate curves that were used in the valuation of securities within the owned portfolio.

Figures rounded to nearest euro unit

Theoretical value at 30/06/23	Shock value changes -25 bps	Shock value changes +25 bps	Shock value changes -50 bps	Shock value changes +50 bps
35,107,159,964	+256,133,936	-251,078,328	+517,470,979	-497,244,956

Information of a quantitative nature

2. Banking book: internal models and other methodologies for sensitivity analysis

For management purposes, the Group quantifies on a monthly basis the impacts deriving from parallel and non-parallel curve shocks, both for the change in economic value and for the change in the interest margin.

On the basis of the analyses as at 30 June 2023, assuming a change in interest rates of +/-100 basis points, the effects relating to the change in the economic value and the interest margin are shown, then compared to the value of the Tier 1, therefore adapting the calculation to the new indicator established by RTS/2022/10.

Figures rounded to nearest euro unit

CHANGE IN ECONOMIC VALUE	Scenario +100 basis points	Scenario -100 basis points
Banking book: loans	-1,238,813,492	1,395,378,707
Banking book: securities	-1,046,571,588	1,144,277,076
Other assets	-13,215,932	14,051,875
Liabilities	1,967,242,208	-2,130,823,537
Total	**-331,358,804**	**422,884,122**
Tier1	7,662,085,581	7,662,085,581
% Impact on Tier 1	-4.32%	5.52%

Figures rounded to nearest euro unit

CHANGE IN INTEREST MARGIN	Scenario +100 basis points	Scenario -100 basis points
Banking book: loans	216,255,206	-220,046,308
Banking book: securities	96,470,618	-97,167,900
Other assets	7,152,861	-11,906,374
Liabilities	-229,364,929	232,063,184
Total	**90,513,756**	**-97,057,397**
Tier1	7,662,085,581	7,662,085,581
% Impact on Tier 1	1.18%	-1.27%

1.2.3 EXCHANGE RATE RISK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for exchange rate risk

In line with the section on interest rate risk - regulatory trading book, the measurement of exchange rate risk relating to foreign currency income instruments held is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics applications, based on the historical method, over a 10-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

B. Exchange rate risk hedging activities

Exchange rate risk hedging activities are implemented through a careful policy of essentially balancing booked foreign currency positions. To this end, in the first half of 2023, the Group carried out transactions to hedge the exchange rate risk using outright derivatives.

1.4 LIQUIDITY RISK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is defined as the possibility that the Group may not be able to meet its payment commitments due to the inability to raise new funds and/or sell its assets on the market (Funding Liquidity Risk), or that it may be forced to incur very high costs to meet these commitments (Market Liquidity Risk). Funding liquidity risk can be divided into: (i) Mismatching Liquidity Risk, consisting of the risk associated with the different time profile of cash inflows and outflows determined by the misalignment of the maturities of financial assets and liabilities on (and off) the balance sheet; (ii) Contingency Liquidity Risk, i.e. the risk that unexpected events may require a higher amount of cash and cash equivalents than estimated as necessary; and (iii) Margin Calls Liquidity Risk, i.e. the risk that the Group, in the event of adverse changes in the fair value of financial instruments, is contractually required to restore the reference margins by means of collateral/cash margins.

In this regard, it should be noted that the Delegated Regulation of the European Commission (EU) no. 61/2015 introduced the Liquidity Coverage Requirement (LCR) for credit institutions (hereinafter "DR-LCR"). The LCR is a short-term rule aimed at ensuring the availability of liquid assets by individual banks that allow them to survive in the short to very short term in the event of acute stress, without recourse to the market. The indicator compares the liquid assets available to the Group with net cash outflows (difference between gross outflows and inflows) expected over a 30-day time period, the latter developed taking into account a predefined stress scenario: a 100% requirement must be met. The DR-LCR integrates and, in part, amends the provisions of Regulation no. 575/2013 (CRR) which provides only for obligations of a reporting nature.

Liquidity risk can be generated by various factors both internal and external to the Group. The sources of liquidity risk can therefore be distinguished in the following macro-categories:

- endogenous: represented by negative events specific to the Group (e.g. deterioration of the Group's creditworthiness and loss of confidence on the part of creditors);
- exogenous: when the origin of the risk can be traced back to negative events not directly controllable by the Group (political crises, financial crises, catastrophic events, etc.) that cause situations of liquidity tension in the markets;
- combinations of the above.

The identification of the factors from which liquidity risk is generated is carried out by means of the following:

- the analysis of the time distribution of cash flows of financial assets and liabilities and off-balance sheet transactions;
- the identification of:
    - items that do not have a defined due date (on demand and revocation items);
    - financial instruments that incorporate optional components (explicit or implicit) that may change the entity and/or the time distribution of cash flows (e.g. early redemption options);
    - financial instruments that by their nature determine variable cash flows depending on the performance of specific underlying assets (e.g. derivatives);

- the analysis of the level of seniority of financial instruments.

The processes in which the Group's liquidity risk arises are mainly represented by the Finance/Treasury, Funding and Credit processes.

The internal regulation of liquidity risk management meets the requirements set out in the regulatory provisions and guarantees consistency between the management measurements and the regulatory ones.

The Group adopts a liquidity risk management and governance system which, in accordance with the provisions of the Supervisory Authorities and on the basis of the guidelines defined by the Parent Company, pursues the objectives of:

- being liquid at all times and, therefore, to remain in a position to meet its payment obligations in situations of both normal business and stress;
- financing its activities at the best current and prospective market conditions.

To this end, in its function as a strategic Supervisory Authority, the Board of Directors of the Parent Company and of each Affiliated Bank defines the strategies, policies, responsibilities, processes, risk objectives, tolerance thresholds and limits to exposure to liquidity risk (operating and structural), as well as instruments for liquidity risk management - related to membership of the Cooperative Banking Group - by formalising its internal regulations on liquidity risk management and governance.

The Group's liquidity is managed by the Finance Department of the Parent Company and the Affiliated Banks in accordance with the aforementioned strategic guidelines. To this end, it makes use of the commitment forecasts made through internal procedures where information on forecast cash requirements and availability can be found. The organisational controls of liquidity risk are defined in terms of line controls and activities of the control functions at level II and III. Liquidity risk is controlled by the Risk Management Department of the Parent Company, which makes use of its representative at the Affiliated Banks to check the availability of sufficient liquidity reserves to ensure solvency in the short term and diversification of sources of funding and, at the same time, to maintain a substantial balance between average maturities of lending and funding in the medium/long term.

The Group intends to pursue a dual objective:

- the management of operating liquidity aimed at verifying the Group's ability to meet expected and unforeseen short-term (up to 12 months) cash payment commitments;
- structural liquidity management aimed at maintaining an adequate ratio between total liabilities and medium/long-term assets (over 12 months).

The Group has structured its control of short-term operating liquidity on two levels:

- the first level provides for daily supervision of the treasury position;
- the second level provides for monthly monitoring of the overall operating liquidity position.

With reference to the monthly monitoring of the overall operating liquidity position, the Group uses the analysis reports available monthly prepared by the Parent Company.

Monthly measurement and monitoring of the operating liquidity position is carried out by means of the following methods:

- the LCR indicator, for the 30-day liquidity position, as determined on the basis of the DR-LCR and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority;

- its liquidity position by means of the time to survival indicator, designed to measure the ability to cover the liquidity imbalance generated by inertial operations of balance sheet items;
- a set of summary indicators aimed at highlighting vulnerabilities in the Group's liquidity position in reference to the degree of concentration of loans and deposits with the main counterparties;
- analysis of the level of asset encumbrance and quantification of readily monetised assets.

In particular, as regards the concentration of funding sources at the end of the reporting period, the incidence of funding from the top 10 counterparties (private and Non-financial corporations) on the Group's total funding from customers is 0.7% as at 30 June 2023.

The Group's exposure to unexpected cash outflows mainly relates to:

- items that do not have a defined maturity (primarily current account liabilities and unrestricted deposits);
- liabilities at maturity (certificates of deposit, term deposits) which, at the request of the depositor, can be repaid early;
- its own bonds, for which the Group operates in order to guarantee liquidity on the secondary market;
- commitments to exchange collateral arising from margining agreements relating to OTC derivative transactions;
- the margins available on the credit lines granted.

With reference to the management of structural liquidity, the Group uses the analysis reports available monthly prepared by the Parent Company.

The Net Stable Funding Ratio, consisting of the ratio between stable sources of funding and medium/long-term assets, is measured monthly from reporting and management sources by means of the percentages set out in the EU Regulation no. 2019/876 (CRR2).

In order to assess its vulnerability to exceptional but plausible liquidity stress situations, the Group calculates and monitors the LCR indicator as determined on the basis of the DR-LCR and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority. Periodic scenario stress tests are also conducted. The latter, conducted according to a qualitative approach based on the company's experience and the indications provided by the regulations and supervisory guidelines, cover two scenarios of liquidity, market/systemic and Group-specific crises. In particular, the Group performs the stress analysis by extending the scenario covered by the LCR regulation, with the aim of assessing the impact of additional load tests.

Over the last few years, additional stress scenarios linked to the pandemic crisis have been introduced (which affects the inflow component) and climate risk (both physical and transition). The results of the analyses carried out are periodically documented to the Board of Directors.

On the basis of the guidelines defined by the Parent Company, crisis, system/market early warning indicators have been identified, i.e. a set of qualitative and quantitative measurements useful for identifying signs of a potential increase in exposure to liquidity risk. These indicators represent, together with the results of liquidity risk measurement, an important information element for the activation of liquidity risk mitigation measures.

With regard to the Contingency Funding Plan (CFP), i.e. the organisational and operational procedures to be implemented to deal with situations of alert or liquidity crisis, it should be noted that management is centralised at the Parent Company; it follows that in the event of any critical issues regarding the liquidity profile encountered at the level of individual banks belonging to the Group, it is the Parent Company that intervenes using the resources available to the entire Group. The CFP is therefore only activated if there is a problem with the consolidated values of the Cassa Centrale Group. The Group's CFP defines the statuses of non-ordinary operations and the processes and tools for their activation/management (roles and responsibilities of the corporate bodies and organisational units involved, systemic and specific crisis early warning indicators, procedures for monitoring and activating non-ordinary operations, crisis management strategies and tools).

Traditionally, the Group has had a significant amount of liquid resources due to both the composition of its liquidity buffer, consisting mainly of high-quality financial instruments eligible for refinancing operations with the Eurosystem, and the adoption of funding policies aimed at favouring direct retail funding.

As at 30 June 2023, the total amount of free cash reserves, understood as high-quality liquid assets calculated for the purposes of determining the Liquidity Coverage Ratio (LCR), stood at EUR 23.9 billion.

The recourse to refinancing from the ECB amounted to EUR 12 billion and is mainly represented by funding from participation in the Targeted Longer Term Refinancing Operations (TLTRO).

1.5 OPERATIONAL RISK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for operational risk

Operational risk, as defined by prudential regulations, is the "risk of sustaining losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems or those caused by exogenous events".

This definition includes legal risk (i.e. the risk of suffering losses resulting from violations of laws or regulations, contractual or non-contractual liability or other disputes), but does not consider reputational and strategic risk.

Operational risk therefore refers to different types of events that are not individually relevant and are quantified jointly for the entire risk category.

Operational risk - which is inherent in the performance of banking activities - is generated across all company processes. In general, the primary sources of operating risk are internal fraud, external fraud, workplace employment and safety reports, professional obligations with respect to clients or the nature and characteristics of products as well as damages from external events and the breakdown of IT systems and deficiencies in the handling of transactions or process management, as well as losses due to positions with commercial counterparties and suppliers.

The following subcategories of risk are significant in terms of operational risks:

- "ICT and security" risk, namely the risk of incurring losses due to a breach of confidentiality, lack of integrity of the systems and data, inadequacy or unavailability of the systems and data or inability to replace the information technology (IT) within a reasonable time and cost limits, in case of changes to the requirements of the external environment or activity (agility), as well as security risks arising from inadequate or incorrect internal processes or external events, including cyber attacks or a level of inadequate physical security;

- "third-party risk", namely the risk of incurring economic losses, damage to reputation or market share losses arising from the outsourcing/supply of services and/or company functions.

Given that it is a transversal risk across processes, operational risk can be controlled and mitigated through currently effective regulations (regulations, executive provisions, proxies) which operate primarily for the purposes of prevention. Specific line controls are then set up on the basis of these regulations as a verification and additional system for monitoring this type of risk.

Currently effective regulations are also applied to IT procedures with the aim of constantly monitoring the correct assignment of authorisation as well as compliance with functional subdivisions on the basis of company roles.

Regulations and line controls are governed by the Board of Directors, implemented by the Management and updated, as a rule, by specialist managers.

With reference to organisational controls, the establishment of the Compliance function is important, outsourced to the Parent Company, which is responsible for monitoring and controlling compliance with regulations and which provides support to the process of preventing and managing the risk of being subject to judicial or administrative sanctions as well as the risk of reporting significant losses following the violation of external regulations (laws or regulations) or internal ones (Articles of Association, codes of conduct, corporate governance codes). The Compliance Department also operates through its own representatives identified within the individual Group banks.

In addition, second-level controls are envisaged regarding the checks on the risks associated with the management of the IT system and the operations of employees.

The operational risk management process consists of the following steps:

- **identification and assessment**, which includes the detection, collection and classification of quantitative and qualitative information relating to operational risk; these risks are constantly and clearly identified, reported and relayed to top management;
- **measurement**, which includes the activity of determining operational risk exposure based on information collected at the identification stage;
- **monitoring and control**, which includes activities concerning the regular monitoring of the operational risk profile and exposure to significant losses, through the provision of a regular information flow that promotes active risk management;
- **risk management**, which includes activities aimed at containing operational risk consistently with the established risk appetite, implemented by intervening on significant risk factors or through their transfer, through the use of insurance coverage or other instruments;
- **reporting,** activities aimed at preparing information to be transmitted to corporate bodies (including control bodies) and to all corporate structures involved, regarding the risks assumed or assumable.

During the financial year, the Group, under the coordination of the Parent Company, has implemented a procedure for the recognition of operational loss events and the related economic effects.

Finally, there are the third level controls carried out by the Internal Audit Department of the Parent Company, which periodically reviews the functionality of the control system as part of the various corporate processes.

As part of the overall assessment, with specific reference to the risk component linked to the outsourcing of business processes/activities, it should be noted that the Group mainly uses the services offered by the Parent Company and its instrumental companies. These circumstances constitute a mitigation of the risks assumed by the Group in outsourcing important control or operational functions.

With regard to all the existing outsourcing profiles, the procedures have been activated to ascertain the correct performance of the supplier's activities by preparing, according to the different types, different levels of contractual protection and control with regard to the list of outsourcing of important operational functions and corporate control functions.

The Group internally maintains the expertise required to effectively control the outsourced important operational functions (hereinafter also "IOF") and to manage the risks associated with outsourcing, including those arising from potential conflicts of interest of the service provider. In this context, an internal contact representative has been identified within the organisation for each of the outsourced activities, with adequate professional requirements, responsible for monitoring the level of services provided by the outsourcer and set out in the respective outsourcing contracts and for reporting to corporate bodies on the status and performance of the outsourced functions.

With reference to the regulatory measurement of the prudential requirement for operational risks, the Group, in view of its organisational, operational and dimensional profiles, has approved the application of the Basic Indicator Approach (BIA).

On the basis of this methodology, the capital requirement for operating risks is measured by applying the regulatory coefficient of 15% to the average of the last three data recordings - on an annual basis - of an indicator of the volume of corporate operations (so-called relevant indicator, referring to the year-end situation).

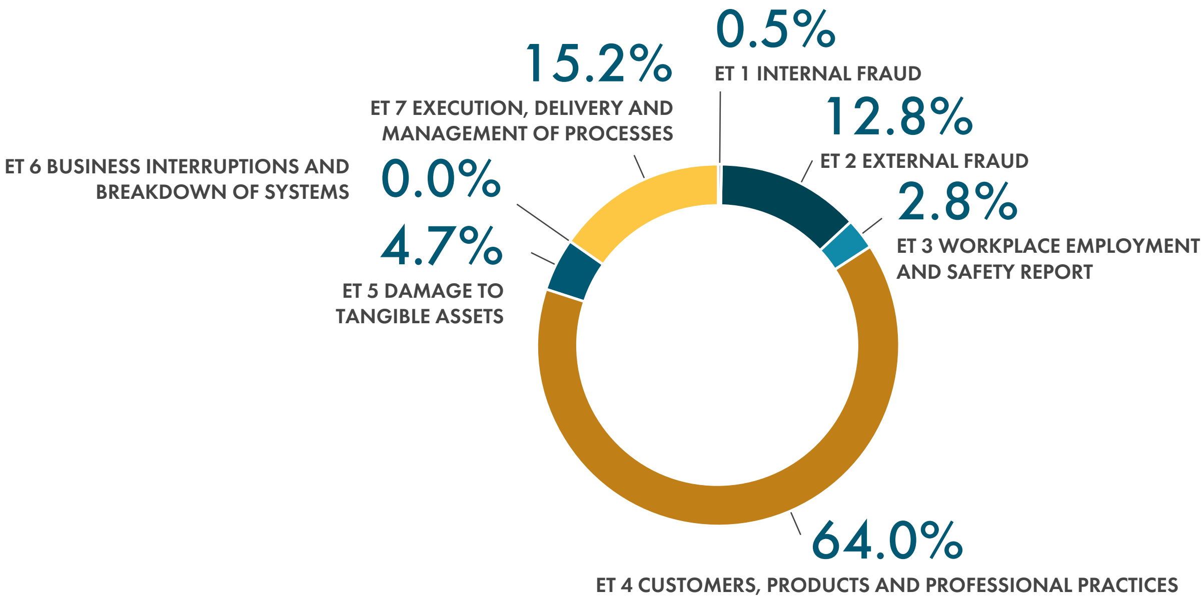
If one of the observations shows that the relevant indicator is negative or zero, this figure shall not be taken into account in the calculation of the three-year average.

Information of a quantitative nature

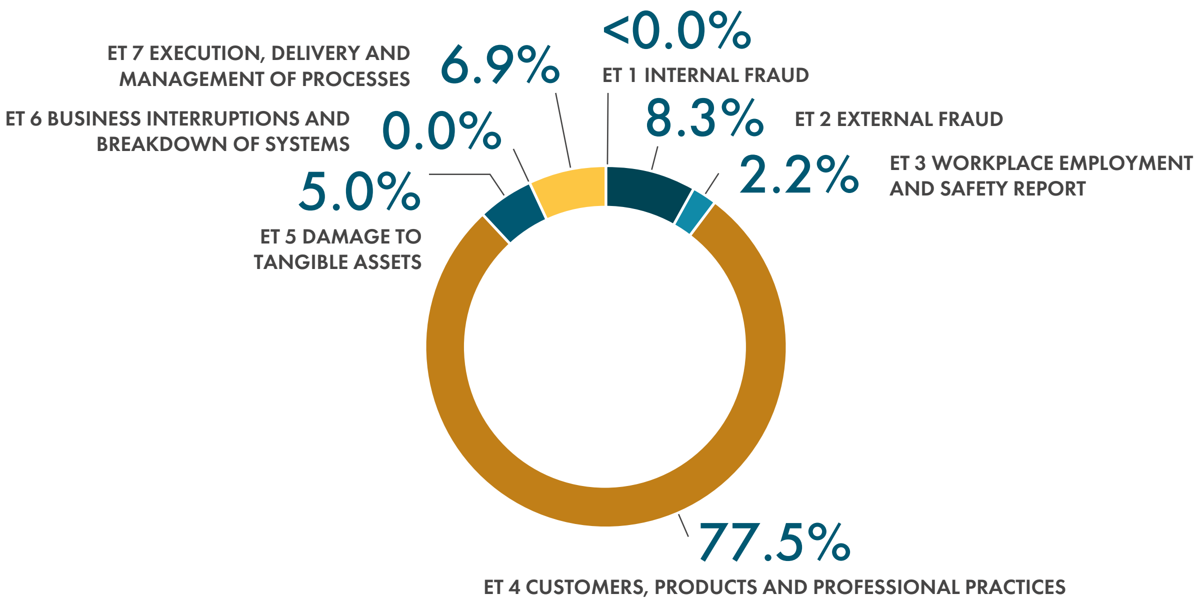
With reference to the quantitative information, in continuation of the activity already started last year, in relation to the structured process of Loss Data Collection at the Group [22], the distribution by Event Type is reported.

[22] As at 30/06/2023, the process of recording Operational Risk events in the Loss Data Collection company tool was active for the Affiliated Banks, Allitude S.p.A and Claris Leasing S.p.A.

Number of operational loss events with effects recorded in the first half of 2023



Net operating losses in the first half of 2023



Operational losses were mainly concentrated in the event type “ET 4 Customers, products and professional practices” (64.0% of frequencies and 77.5% of total impacts detected), followed by “ET 7 Execution, delivery and management of processes” (15.2% of frequencies and 6.9% of total impacts detected) and “ET 2 External fraud” (12.8% of frequencies and 8.3% of total impacts detected).

Legal risk

In carrying out their activities, the Group companies may be involved in legal disputes and proceedings. For these disputes and proceedings, adequate provisions have been made in the financial statements based on the reconstruction of the amounts potentially at risk, the assessment of the risk carried out according to the degree of “probability” and/or “possibility” as defined by IAS 37 and taking into account the most consolidated case law on the subject. Therefore, although it is not possible to predict with certainty the final outcome, it is believed that any unfavourable result of these proceedings would not have, either individually or as a whole, a significant negative effect on the financial and economic situation of the Group. For more detailed information, please refer to Part B, Section 10 - Provisions for risks and expenses.

PART F – Information on consolidated equity

Section 1 – Consolidated equity

Qualitative information

Equity is the main safeguard against corporate risks associated with the Group's activities. It represents a fundamental reference parameter for solvency assessments, conducted by the Supervisory Authorities and by the market, and is the best element for effective management, both from a strategic point of view and in terms of current operations, as it is a financial element capable of absorbing possible losses produced by the Group's exposure to all the risks assumed. In addition, it also plays an important role in terms of guaranteeing depositors and creditors in general.

To this end, the international and local Supervisory Authorities have established strict requirements for determining the regulatory capital and the minimum capital requirements that credit institutions must comply with.

The capital to which the Group refers is that defined by EU Regulation no. 575/2013 (CRR) in the notion of Own Funds and is divided into the following components:

- Tier 1 capital, consisting of Common Equity Tier 1 capital (CET 1) and Additional Tier 1 capital (AT1);
- Tier 2 capital - (T2).

In this, particular importance is represented by:

- a careful profit distribution policy, which in compliance with the provisions of the sector, entails a significant allocation to the profit reserves by the Affiliated Banks;
- prudent management of investments, which takes into account the risk of counterparties;
- capital strengthening plans promoted by the Parent Company through the issue of equity instruments and subordinated securities.

All this is pursued within the scope of compliance with capital adequacy by determining the level of internal capital necessary to face the risks assumed, from a current and future perspective, as well as in stressful situations, and taking into account the company objectives and strategies in the contexts in which the Group operates. These assessments are carried out annually in conjunction with the definition of the budget objectives and, if necessary, in view of extraordinary transactions involving the Group companies.

Moreover, at least every quarter, compliance with the minimum capital requirements, envisaged by the provisions in force, as per Art. 92 of the CRR shall be verified, based on which:

- the value of Common Equity Tier 1 capital in relation to total risk-weighted assets must be at least 4.5% (CET1 capital ratio);
- the value of Tier 1 capital in relation to total risk-weighted assets must be at least 6.0% (T1 capital ratio);
- the value of own funds in relation to total risk-weighted assets must be at least 8.0% (Total capital ratio).

The Capital Conservation Buffer of 2.5% was added to these minimum regulatory requirements.

Any failure by the Supervised Entity to comply with all these requirements (the Combined Requirement) will result in limitations on dividend distributions, variable remuneration and other elements of regulatory capital beyond pre-established limits, and as a result, Supervised Entities will be required to take appropriate action to restore the required level of capital.

Moreover, as of 1 January 2016, the Banks are required to hold a Countercyclical Capital Buffer. Starting from 1 January 2019, this reserve, consisting of Common Equity Tier 1, may not exceed 2.5% of the total amount of risk-weighted exposures.

Considering that, as per Bank of Italy notice of 24 March 2023, for the fourth quarter of 2023, the countercyclical buffer ratio for exposures to counterparties resident in Italy has been set at 0%, that countercyclical capital ratios have generally been set at 0%, and that the Group has mainly exposures to domestic entities, the Group-specific countercyclical ratio is close to zero.

Lastly, the Group must comply with the provisions deriving from the Supervisory Review and Evaluation Process (SREP) pursuant to Art. 97 et seq. of EU Directive no. 36/2013 (CRD IV). Through this process, the Competent Authority reviews and evaluates the process of determining capital adequacy conducted internally by the Group, analyses its risk profiles both individually and in the aggregate — including under stress conditions – assesses its contribution to systemic risk, the corporate governance system, and verifies compliance with the set of prudential rules.

At the end of the reporting period of these consolidated financial statements, the Group shows:

- a ratio of Common Equity Tier 1 capital - CET1 - to risk-weighted assets (CET 1 ratio) of 23.81%;
- a ratio of Tier 1 capital to risk-weighted assets (Tier 1 capital ratio - Tier 1 ratio) of 23.81%;
- a ratio of own funds to risk-weighted assets (total capital ratio) of 23,81%.

The amount of own funds is not only fully sufficient on all three binding capital levels, but also adequate to cover the Capital Conservation Buffer.

Information of a quantitative nature

B.1 Consolidated accounting capital: breakdown by type of company

ITEMS OF EQUITY	Prudential consolidation	Insurance companies	Other companies	Eliminations and consolidation adjustments	Total
1. Capital	1,276	-	-	-	**1,276**
2. Share premium	75	-	-	-	**75**
3. Reserves	6,889	-	82	(82)	**6,889**
4. Equity instruments	1	-	-	-	**1**
5. (Own shares)	(867)	-	-	-	**(867)**
6. Valuation reserves:	(177)	-	2	(2)	**(177)**
- Equities measured at fair value through other comprehensive income	2	-	-	-	**2**
- Hedging of equities measured at fair value through other comprehensive income	-	-	-	-	**-**
- Financial assets (other than equities) measured at fair value through other comprehensive income	(204)	-	2	(2)	**(204)**
- Tangible assets	4	-	-	-	**4**
- Intangible assets	-	-	-	-	**-**
- Hedging of foreign investments	-	-	-	-	**-**
- Cash flow hedging	-	-	-	-	**-**
- Hedging instruments [non designated elements]	-	-	-	-	**-**
- Exchange rate differences	-	-	-	-	**-**
- Non-current assets and groups of assets held for disposal	-	-	-	-	**-**
- Financial liabilities measured at fair value through profit or loss (changes in credit rating)	-	-	-	-	**-**
- Actuarial gains (losses) from defined benefit plans	(15)	-	-	-	**(15)**
- Quota of reserves from the valuation of shareholdings measured with the equity method	2	-	-	-	**2**
- Financial revenues or costs relating to insurance contracts issued	-	-	-	-	**-**
- Financial revenues or costs relating to reinsurance transfers	-	-	-	-	**-**
- Special revaluation laws	34	-	-	-	**34**
7. Profit (Loss) for the year (+/-) of the group and pertaining to minority interests	587	-	28	(28)	**587**
Total	**7,784**	**-**	**112**	**(112)**	**7,784**

Section 2 – Own funds and adequacy ratios

With regard to the contents of this section, reference should be made to the information on own funds and capital adequacy contained in the disclosure to the public (so-called Third Pillar), prepared in accordance with Regulation (EU) no. 575/2013 of 26 June 2013 (CRR).

PART H – Transactions with related parties

The Cassa Centrale Group, in compliance with the procedures provided for by sector regulations, has adopted the Group Regulation for the management of transactions with associated parties.

The aforementioned Regulation, which takes into account the provisions of Bank of Italy Circular no. 285 of 17 December 2013 and subsequent updates, is intended to govern the identification, approval and execution of Transactions with Associated Parties carried out by the Group, as well as the organisational structure and internal control system that the Group uses in order to preserve the integrity of decision-making processes in Transactions with Associated Parties, ensuring constant compliance with the prudential limits and decision-making procedures established by the aforementioned Bank of Italy Circular.

For more strictly accounting purposes, the provisions of IAS 24 - Related party disclosures also apply; under the Cassa Centrale Group's internal regulations, the following are identified as related parties:

Natural persons:

- executives and officers with strategic responsibilities (including Directors, Standing Auditors and General Management members) of the entity preparing the financial statements:
    - executives with strategic responsibilities are those who retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company's activities;
- the immediate family members of "executives and officers with strategic responsibilities":
    - close family members of a person are those family members who are expected to influence, or be influenced by, that person in their dealings with the entity, including:
        - children (even if not living together) and the spouse (even if legally separated) or common-law spouse of that person;
        - the children of the spouse or common-law spouse of that person;
        - the dependants of that person or the dependants of that person's spouse or common-law spouse for tax purposes;
        - the brothers, sisters, parents, grandparents and grandchildren - children of the children - even if not cohabitant, of that person.

Legal Entity/legal person:

- entity controlled (direct, indirect or joint control) by one of the persons referred to in the previous point (natural persons);
- entity that has significant influence over the entity preparing the financial statements as well as their subsidiaries and related joint ventures;

- CR/BCC/Raika belonging to the Cassa Centrale Group;
- the companies belonging to the Cassa Centrale Group (direct, indirect or joint control) as well as their subsidiaries;
- associates and joint ventures that prepare the financial statements and their subsidiaries;
- post-employment benefit plans for employees of the Group.

1. Information on compensation of executives with strategic responsibilities

Executives with strategic responsibilities are those which retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company's activities.

The table below shows, in compliance with the requirements of section 17 of IAS 24, the amount of compensation paid during the year to the members of the Management and Control Bodies as well as the compensation relating to other Executives with strategic responsibilities that fall within the notion of related party.

	MANAGEMENT BODIES		CONTROL BODIES		OTHER MANAGERS		TOTAL AS AT 30/06/2023	
	Amount pertinent	Amount paid	Amount pertinent	Amount paid	Amount pertinent	Amount paid	Amount pertinent	Amount paid
Salaries and other short-term benefits	11	8	4	3	19	19	34	30
Benefits relative to the post-employment period (social security, insurance, etc.)	1	1	-	-	3	3	4	4
Other long-term benefits	-	-	-	-	-	-	-	-
Compensation for termination of employment	-	-	-	-	-	-	-	-
Payments in shares	-	-	-	-	-	-	-	-
Total	**12**	**9**	**4**	**3**	**22**	**22**	**38**	**34**

2. Information on transactions with related parties

The table below provides information on the balance sheet and income statement transactions with related parties during the period. It should be noted that transactions with related parties consolidated on a line-by-line basis are not included in this disclosure, as they are eliminated at consolidated level.

	Assets	Liabilities	Guarantees given	Guarantees received	Revenues	Costs
Associates	63	10	17	-	2	-
Directors and Executives	30	60	5	79	1	2
Other related parties	207	514	46	437	7	1
Total	**300**	**584**	**68**	**516**	**10**	**3**

It should be noted that “Other related parties” include the close relatives of Directors, Statutory Auditors and other Executives with strategic responsibilities, as well as subsidiaries, jointly-controlled companies and associates of the same parties or their close relatives.

Relations and transactions with related parties are attributable to ordinary credit and service activities and have normally developed during the year according to contingent needs or benefits, in the common interest of the parties. The conditions applied to individual relationships and transactions with such counterparties do not differ from current market conditions, or are aligned, if the conditions are met, with the conditions applied to employees.

Transactions with related parties do not have a significant incidence on the financial situation, economic result and cash flows of the Group.

PART L – Segment reporting

INTRODUCTION

This section is prepared based on provisions of the international accounting standard IFRS 8 "Operating Segments". The identification of the "operating segments" in this section is consistent with the methods adopted by the Company Management for making operational decisions and is based on the internal reporting used for resource allocation purposes to the different segments and analysing the related performance (IFRS 8 paragraph 5 Operating Segments).

CASSA CENTRALE GROUP'S OPERATIONS BY SECTORS OF ACTIVITY

Similarly to the organisational structure of the Group presented in the paragraph of the Report on Consolidated Operations "Main strategic business areas of the Cassa Centrale Group", the entities belonging to the Cassa Centrale Group operate within the following operating segments:

- the Affiliated Banks, which represent the Group's core business through the management of banking activities in the territory;
- the Industrial Group, including the Parent Company and the Companies that offer services to Affiliated Banks in finance, credit, insurance, ICT, NPLs and asset management.

It is also shown that within the "Intra-sectoral Relations" sector, the eliminations between entities belonging to different operating sectors are incorporated.

The Affiliated Banks, which represent the most important part of the Cooperative Banking Group's consolidated assets and which operate with the aim of fostering the development of communities and the local economy, play a key role and are an important reference point for households and small and medium-sized enterprises. Their operations are in fact characterised by high customer funding deriving from historical ties with the territory to which they belong, a prevalence of loans to counterparties represented by households and small companies and a low loan-to-deposit ratio which, from a liquidity perspective, reflects the structural soundness of the Group and the investment of excess liquidity mainly in government bonds.

The Industrial Group, represented by the Parent Company and the subsidiaries and associates, operates in the following different areas of activity:

- ICT and back office services, with the subsidiary Allitude S.p.A.;
- leasing services, with the subsidiary Claris Leasing S.p.A.;
- insurance services, with the subsidiaries Assicura Agenzia S.r.l. and Assicura Broker S.r.l.;
- collective asset management services, with the subsidiary Nord Est Asset Management S.A.;
- consumer credit services, with the subsidiary Prestipay S.p.A.;
- other ancillary services, with the subsidiaries Centrale Credit Solutions S.r.l., Centrale Soluzioni Immobiliari S.r.l., Centrale Casa S.r.l., Claris Rent S.p.A. and the associated company Centrale Trading S.r.l..

A. PRIMARY SCHEME

A.1 Breakdown by sectors of activity: income statement data

(Figures in millions of euro)	30/06/2023			
	Total	Affiliated Banks	Industrial Group	Intra-sectoral relations
Interest income	1,584	1,493	353	(262)
Interest expenses	(410)	(378)	(294)	262
Interest margin	**1,174**	**1,115**	**59**	**-**
Net commissions	385	325	60	-
Dividends	3	23	1	(21)
Net trading revenues	(104)	(101)	(1)	(2)
Net interest and other banking income	**1,458**	**1,362**	**119**	**(23)**
Net value adjustments/write-backs	73	60	13	-
Income from financial activities	**1,531**	**1,422**	**132**	**(23)**
Operating expenses*	(942)	(813)	(213)	84
Net allocations to provisions for risks and expenses	-	(1)	1	-
Other income (expenses)	96	70	110	(84)
Value adjustments to goodwill and other intangible assets	-	-	-	-
Profit (loss) from disposal of investments and equity investments	1	1	-	-
Gross current result	**686**	**679**	**30**	**(23)**
Income tax	(99)	(91)	(8)	-
Profit (loss) from discontinued operations	-	-	-	-
Profit (loss) for the period for minority interests	-	-	-	-
Net income of the Parent Company	**587**	**588**	**22**	**(23)**

(*) This item includes staff expenses, other administrative expenses and operating amortisation/depreciation.

The "Affiliated Banks" and the "Industrial Group" operating segments incorporate all consolidation entries (IC eliminations, equity eliminations, other consolidation adjustments) between Companies belonging to the same operating sector.

As for the "intra-sectoral relations" column, summary information is provided below on the main cases attributable to the income statement aggregates reported in table A.1:

- interest margin: contains the eliminations relating to income statement reports essentially attributable to the Treasury activities in place between Affiliated Banks and the Parent Company;
- dividends: this is the elimination of the dividend disbursed by the Parent Company and received the Affiliated Banks;
- trading: mainly attributable to the effects arising from the consolidated accounting management of the Guarantee Agreement;
- other administrative expenses and other operating income: the eliminations are mainly attributable to the Administrative Expenses incurred by the Affiliated Banks for the activities for ICT Services and outsourcing provided by Allitude and, to a lesser extent, by the Parent Company.

A.2 Breakdown by sectors of activity: balance sheet data

(Figures in millions of euro)	30/06/2023			
	Total	Affiliated Banks	Industrial Group	Intra-sectoral relations
Lending and funding to Customers				
Loans to customers	(47,842)	(45,514)	(2,408)	80
Customer funding	62,050	58,973	3,087	(10)
Lending and funding to Banks				
Loans to banks	(962)	(3,215)	(13,638)	15,891
Bank funding	12,865	13,137	15,699	(15,971)
Other financial assets	**(37,291)**	**(34,550)**	**(4,571)**	**1,830**
Securities portfolio	**(37,171)**	**(34,438)**	**(4,472)**	**1,739**
FVTPL securities portfolio	(214)	(133)	(100)	19
FVOCI securities portfolio	(10,306)	(10,248)	(992)	934
Securities at amortised cost	(26,651)	(24,057)	(3,380)	786
Derivatives portfolio	**(120)**	**(112)**	**(99)**	**91**
FVTPL trading derivatives	(8)	-	(99)	91
Hedging derivatives	(112)	(112)	-	-
Other financial liabilities	**4,652**	**4,735**	**813**	**(896)**
Financial liabilities held for trading	6	1	96	(91)
Financial liabilities at amortised cost	4,645	4,733	717	(805)
Hedging derivatives	1	1		

The “Affiliated Banks” and the “Industrial Group” operating segments incorporate all consolidation entries (IC eliminations, equity eliminations, other consolidation adjustments) between Companies belonging to the same operating sector.

The intra-sectoral relations consist of:

- Lending and funding: mainly attributable to the Treasury reports in place between the Parent Company and the Affiliated Banks;
- Securities at FVOCI: the item consists of the reclassification of the shares issued by the Parent Company and subscribed by the Affiliated Banks (EUR 928 million) as well as, residually, the elimination of the perpetual debt instruments (AT1) classified among Equity Instruments by the Affiliated Banks and subscribed by the Parent Company (EUR 6 million);
- Other financial assets and liabilities: this mainly concerns the accounting reclassification of hedging derivatives stipulated between the Affiliated Banks and the Parent Company, traded and outsourced by the latter with leading third-party banking counterparties and amounting to approximately EUR 91 million.

  The residual amounts are mainly attributable to the balance sheet created as a result of the Parent Company’s issue of financial liabilities within the Euro Medium Term Notes Programme (EMTN), which are part of the process of meeting MREL requirements. The funding deriving from these issues, in turn, is channelled by the Parent Company to the Affiliated Banks.

B. SECONDARY SCHEME

With regard to information by geographical area, relating to the breakdown of economic and financial data towards foreign countries (IFRS 8 paragraph 33 Information on geographical areas), please note that the Group’s activity is carried out almost exclusively in Italy.

In this regard, it should be noted that only NEAM, a Luxembourg-based asset management company wholly owned by Cassa Centrale Banca which manages the NEF Mutual Investment Fund, has net interest and other banking income, gross of the intercompany component, about EUR 8 million, received against collective asset management services.

Our values expressed by the accessibility of our reporting

We are a part of the Community; we are dedicated to creating shared value with People and the Territory. Our decision to draw up **reporting documents** in compliance with the highest standards of accessibility – **one of the first Banking Groups in Italy** to do so – expresses our way of being and the values we pursue every day.

The **Consolidated Half-Yearly Financial Report as at 30 June 2023** is easy to access from electronic devices and designed to offer a satisfying experience for readers of all abilities. Through these documents we communicate the actions carried out and results obtained during the year in an **accessible** way, making our **continuous dialogue** with stakeholders even more direct.

The table layout is imposed by stringent regulations established by the Bank of Italy and therefore may not be consistent with guidelines for full accessibility.

Listening will change the future

The wave drawn on the cover is the graphic representation of the sound of the word "**proximity**".
It shows who we are: close. Close to the people and regions that we serve.
It shows the values that underpin our daily actions.
The wave is therefore the image we have chosen to describe ourselves and how we listen to communities every day.

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