Consolidated interim financial report as of 30 June 2021

illimity

BANCA OLTRE LA FORMA

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Composition of the Corporate Bodies

BOARD OF DIRECTORS

We are continuing our commitment to generate benefits for all our stakeholders, by making strategic, responsible, inclusive choices with strong values shared at all levels of the organization.

Rosalba Casiraghi
Chairman

BOARD OF STATUTORY AUDITORS

Chairman	Standing Auditors	Substitute Auditors
Ernesto Riva	Stefano Caringi	Riccardo Foglia Taverna
	Nadia Fontana	Michela Zeme

Chief Executive Officer

Corrado Passera

Directors

Massimo Brambilla

Patrizia Canziani

Elena Cialliè

Paola Elisabetta Galbiati

Giovanni Majnoni d'Intignano

Martin Ngombwa

Marcello Valenti

FINANCIAL REPORTING OFFICER

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

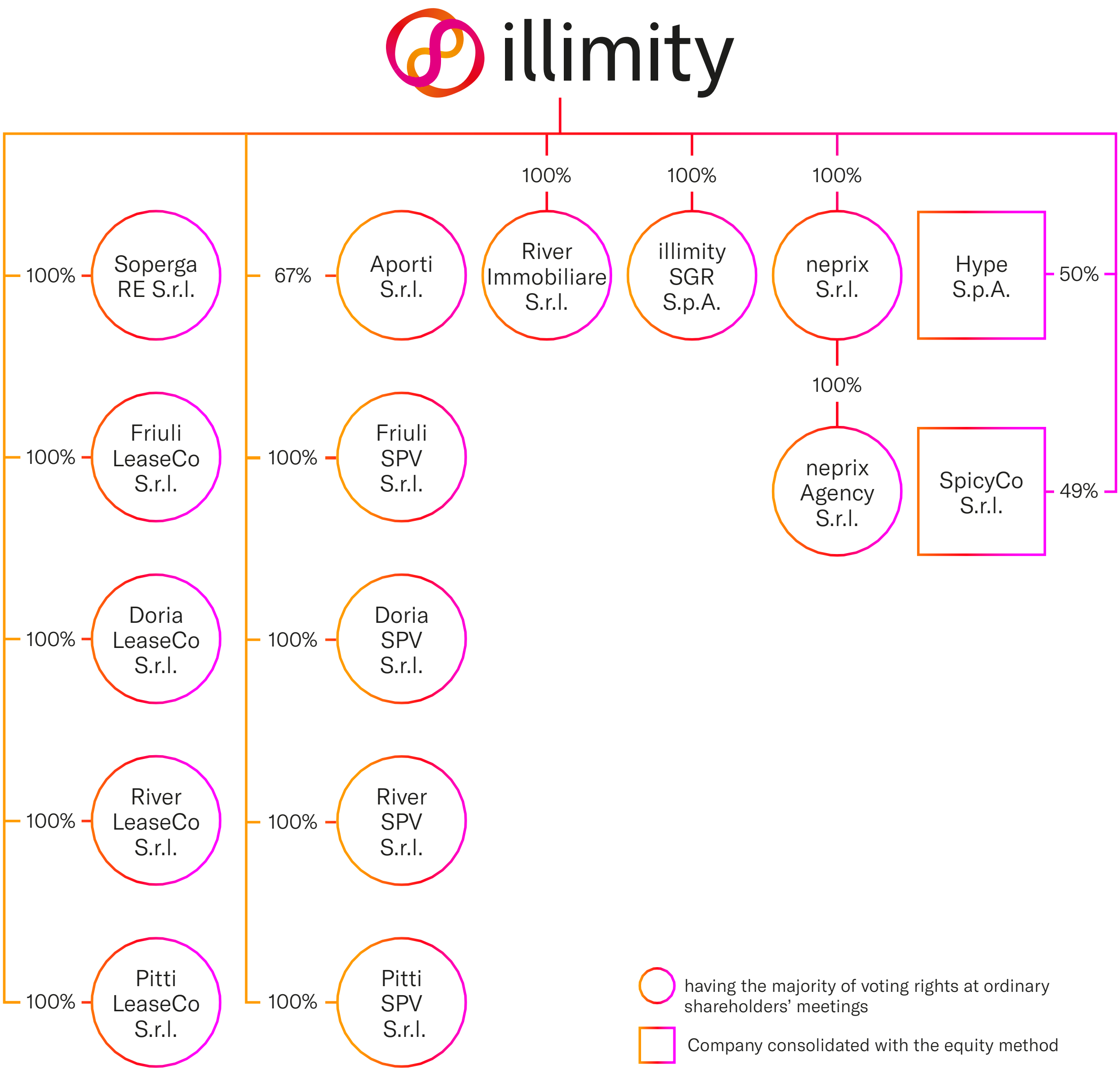
Consolidated interim financial report

as of 30 June 2021

illimity
BANCA OLTRE LA FORMA

THE ILLIMITY GROUP

This consolidated interim financial report illustrates the performance and the related H1 2021 financial results of illimity Bank S.p.A. ("illimity" or the "Bank") and of the entities included in the scope of consolidation (together with the Bank, the "illimity Group" or "Group"). illimity exercises the management and coordination of the Group and has its registered office in Milan, at Via Soperga 9.



The illimity Group is engaged in lending and management of credit through the Growth Credit (formerly SME), Distressed Credit (formerly Distressed Credit Investment & Servicing) *and* Direct Banking divisions. Specifically, illimity provides credit to high-potential SMEs, purchases *distressed corporate* credit and manages it through its own platform – neprix – and offers direct digital banking services through illimitybank.com. The Group also includes illimity SGR, which sets up and manages Alternative Investment Funds.

Illimity's business also make use of the operations of the other Group companies. Indeed, the scope of the Group includes the *LeaseCo*s, which support the bank in the management of lease operations, the *ReoCo*, which is active in the management of the properties linked to the acquired portfolios, and the *Special Purpose Vehicles (SPVs)* established to undertake securitisation operations.

Alternative performance measures as of 30 June 2021

The Group's main consolidated measures are set out below.

The figures presented, although not covered by IFRS/IAS, are provided in compliance with indications in CONSOB Communication No. 6064293 of 28 July 2006 and the ESMA Recommendations on alternative performance measures.

(amounts in thousands of euros)

PERFORMANCE MEASURES	30 June 2021	30 June 2020	Chg.	Chg. %
Total net operating income	126,806	71,362	55,444	78%
Operating expenses	(78,528)	(57,214)	(21,314)	37%
Operating profit (loss)	48,278	14,148	34,130	>100%
Total net adjustments/recoveries	(2,828)	3,044	(5,872)	N/A
Profit (loss) from operations before taxes	41,476	17,192	24,284	>100%
Profit (loss) for the period	27,418	14,838	12,580	85%

(amounts in thousands of euros)

BALANCE SHEET MEASURES	30 June 2021	31 December 2020	Chg.	Chg. %
Net non-performing loans - organic[1]	**20,721**	**19,055**	**1,666**	**9%**
of which: Bad loans	5,229	6,108	(879)	(14%)
of which: Unlikely-to-pay	13,914	12,521	1,393	11%
of which: Past-due positions	1,578	426	1,152	>100%
Net non-performing loans - inorganic (POCI)[2]	**1,043,045**	**1,054,778**	**(11,733)**	**(1%)**
of which: Bad loans	713,944	744,260	(30,316)	(4%)
of which: Unlikely-to-pay	329,101	310,439	18,662	6%
of which: Past-due positions	-	79	(79)	(100%)
Net performing HTC securities	**237,891**	**249,913**	**(12,022)**	**(5%)**
of which: Growth Credit securities - High Yield	12,743	4,154	8,589	>100%
of which: Distressed Credit securities - Senior Financing	225,148	245,759	(20,611)	(8%)
Loans to financial entities	**169,842**	**109,993**	**59,849**	**54%**
Net performing loans to customers	**1,028,684**	**881,162**	**147,522**	**17%**
Financial instruments (HTCS + FV)	**454,313**	**109,877**	**344,436**	**>100%**
Direct funding from customers	**2,947,375**	**2,853,141**	**94,234**	**3%**
Total Assets	**4,330,754**	**4,126,289**	**204,465**	**5%**
Shareholders' equity	**680,742**	**583,122**	**97,620**	**17%**

1 The definition of organic receivables and securities (performing and non-performing) includes loans to customers in the crossover and acquisition finance segments, factoring, disbursement of senior financing, high-yield securities, turnaround and the stock of receivables from customers of the former Banca Interprovinciale.

2 POCI = Purchased or Originated Credit Impaired

RISK RATIOS	30 June 2021	31 December 2020
Gross Organic NPE Ratio[3]	3.0%	3.2%
Net Organic NPE Ratio[4]	1.6%	1.7%
Coverage ratio for organic non-performing loans[5]	47.4%	49.1%
Coverage ratio for organic bad-debt positions[6]	72.5%	69.4%
Coverage ratio for performing loans[7]	0.98%	1.20%
Cost of organic credit risk (BPS)[8]	13	52

STRUCTURAL RATIOS	30 June 2021	31 December 2020
Shareholders' equity/Total Liability	15.7%	14.1%
Interbank Funding/Total Funding	16.5%	15.8%
Liquidity coverage ratio	~700%	>700%
Net Stable Funding Ratio	>100%	>100%
Net loans with customers/Total assets[9]	53.8%	53.4%
Direct customer funding/Total Liability	68.1%	69.1%

CAPITAL RATIOS	30 June 2021	31 December 2020
Tier I capital ratio (Tier I capital/Total weighted assets)	17.15%	17.86%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	17.15%	17.86%
Own Funds	543,387	509,127
of which: Tier I capital	543,387	509,127
Risk-weighted assets	3,167,529	2,850,572

3 Ratio of non-performing organic gross loans to total organic gross loans, plus gross performing client loans (net of exposure to financial entities), senior financing instruments and high-yield instruments.

4 Ratio of non-performing organic net loans to total organic net loans plus net performing client loans (net of exposure to financial entities), senior financing instruments and high-yield instruments.

5 Ratio between adjustments/recoveries on organic non-performing loans and gross exposure of non-performing organic loans.

6 Ratio between adjustments/recoveries on organic bad loans and gross exposure of organic bad loans.

7 Ratio between adjustments/recoveries on performing client loans and gross exposure of performing client loans.

8 Ratio between the sum of annualised adjustments/recoveries on performing client loans (net of investments with financial entities), organic non-performing loans and HTC securities and net exposures of same at the end of the period.

9 Ratio of customer loans, Senior Financing and SME securities at amortised cost to total assets.

Composition and organisational structure

illimity operates in the banking sector and is authorised to provide banking, investment and trading services. illimity currently has three Business Divisions:

- Growth Credit
- Distressed Credit
- Direct Banking.

There is also the Asset Management Company ("SGR"), which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.
The Bank's organisational structure also comprises other units supporting the Business and monitoring risks.

Growth Credit Division

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

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

The Growth Credit Division is active in the following segments:

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

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

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the Legal Growth Credit area supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support area manages the annual reporting of the Division, monitors relations with tutors, manages the Modena branch and oversees the portfolio of the former Banca Interprovinciale regarding progressive divestment.

Distressed Credit Division

The Distressed Credit Division (formerly Distressed Credit Investment & Servicing Division) is the business area operating in the following segments:

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

The Distressed Credit Division has the following structure:

1) *Portfolios, Senior Financing, Special Situations – Real Estate and Special Situations Energy Areas*, responsible for the origination of the investment opportunities in NPL portfolios and Senior Financing, as well as the coordination of the entire negotiation and bidding process, until the final closing phase;
2) *The Servicing Area*, responsible for performing due diligence procedures and for adapting, implementing and monitoring recovery strategies through the coordination of internal and external servicers. *The Servicing Unit* neprix, tasked with debt recovery, reports to the Area;
3) *The Portfolio Optimisation Area*, which is responsible for optimising portfolio and single name management by identifying market opportunities for their sale, in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase to post-sales;
4) *The Pricing Area*, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models of portfolios/single name (special situations)/ senior financing and the capital structure of all investments, as well as the activities of Due Diligence Coordination;
5) *The Business Operations Area*, tasked with coordinating and monitoring the Division’s activities, overseeing relations with other Bank units and decision-making bodies, providing legal advice related to individual investment opportunities and initiatives, and monitoring the Division’s performance;
6) *The Data Architecture & Analytics Area*, responsible for governing and managing the process of acquiring, transforming and using the data originated and used by the Distressed Credit Division in business processes; it is also responsible for managing the onboarding process.

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

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

a) *Portfolios*, aimed at investments in distressed credit portfolios, mainly or totally represented by the corporate type (any retail receivables purchased are destined for sale on the secondary market);
b) "*Special Situations – Real Estate*", aimed at investment opportunities in so-called "*single name*" receivables, meaning exposures to a single borrower or, at most, a cluster of corporate counterparties, both secured and unsecured;
c) *Special Situations – Energy*, aimed at investment opportunities in single name loans involving corporate counterparties operating in the renewable energy sector.

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

At the organisational level, the aforementioned areas report to the Head of the Distressed Credit Division and interact with the other areas of the Division (*Pricing, Business Operations, Servicing*) and the Bank's structures (*General Counsel, Administration & Accounting, Finance, Risk, Budget & Control, Compliance & AML*), acting as an interface between internal units and investors.

In line with illimity's business model of internalising the entire value chain, the Bank is supported by neprix for the management of distressed loans, and forms commercial agreements with servicers selected from time to time on the basis of the characteristics of the assets acquired.

neprix, the company where servicing activities for NPLs acquired by illimity, are centralised, relies on the services of professionals with specific experience and know how in due diligence and in managing non-performing loans. Following the merger with IT Auction (the company acquired by the Group in 2020 and merged into neprix with legal effect from 1 February 2021), the *neprix Sales Area* was created, for managing and selling property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a network of professionals operating nationwide.

To carry out its operations concerning distressed credit, illimity works with the vehicles Aporti, Friuli SPV, Doria SPV, River SPV and Pitti SPV and with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, River Immobiliare and SpicyCo.

Direct Banking Division

Through its Direct Banking Division, illimity offers digital banking products and services to Retail and Corporate customers. The Division aims to develop a range of products and services that can fulfil the needs of the market and to manage the online and app channels. It is responsible for designing the *value proposition* and its relative commercial and *pricing* characteristics, and for formulating the characteristics of the *front-end* and the overall *user experience* for the customer. In addition, it formulates the Bank's communications plan and brand development strategy to ensure positioning, customer acquisition results and optimal customer management. This is achieved through a platform supported by the most innovative technologies available. The optimisation of the service is also supported by the Contact Center, Back Office and design of processes, as well as by dedicated data management oversight.

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

1) Deposits accounts with competitive rates and a simple, customisable product structure;
2) Spending projects, to simply and automatically save to achieve goals;
3) Current accounts, offered through an innovative, digital user experience;
4) Payment and cash management services provided through a platform that combines the most innovative tools available on the market with household budget management services;

5) Account Aggregator and Payment Initiation Service, i.e. features that enable the aggregation in each customer's home banking of accounts held with other banks, providing an overview of the customer's financial situation within a single screen, and bank credit transfers from the accounts of participating banks directly from the customer's illimity personal area;
6) A complete range of other products, including personal loans, American Express credit cards and insurance products, made available to customers through partnerships with selected market operators;
7) Amazon vouchers payable in instalments, to enable the purchase of products on Amazon through interest-free financing without any additional charges (annual nominal rate of 0% and annual percent rate of 0%), with customised amounts and repayment plans;
8) illimity Hubs, i.e. innovative collaboration models enabling the Customer to use the functionalities offered by our partners - so far Mimoto and Fitbit – via integration into the illimitybank.com platform, and to activate complementary banking services.

Asset Management Company

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

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

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

- two "Business Areas" comprising:
  - the *UTP & Turnaround Funds Area*, with the activities previously managed by the former "Investments Area" of the original organisation. the *UTP & Turnaround Funds Area*, is focussed on setting up and managing AIFs with investment strategies and policies centred on the turnaround market and on businesses in financial difficulty with prospects for relaunch;
  - the *Private Capital Funds Area*, newly established, with the aim of setting up and managing AIFs with investment strategies and policies targeting asset classes with underlying financial instruments issued by performing companies;

- two "Support Areas" comprising:
  - the *Sales & Business Development Area*, set up with the aim of steering, coordinating and monitoring the commercial promotion and distribution of all products and services provided by the SGR for its own customers, and organising and promoting new business activities within the SGR;
  - the *Operations & Administration* Area, which groups the activities of the pre-existing Administration, Finance and Control Area, with a focus on operating areas and providing support for the Business Areas.

Lastly, the SGRs will establish Compliance and AML, Risk Management and Internal Audit functions, outsourced to the central units of the parent company illimity Bank, in order to have a structured system to monitor internal controls.

Other functions - Corporate Center

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

- The *Chief Financial Officer & Central Functions*, responsible for coordinating the overall planning and control, finance and administration process, to optimise operating and procurement costs, and human resources management, as well as manage the organisational activities of supervision and transversal coordination for the Bank;
- the *Chief Risk Officer*, responsible for guaranteeing the strategic oversight and definition of risk management policies;
- the *Chief Lending Officer*, that monitors credit analysis and approval activities;
- the *Chief Information Officer*, responsible for IT infrastructure management;
- the *Compliance & AML* Department, responsible for compliance risk management and oversight of money laundering and terrorist financing risk;
- the *Communication & Stakeholder Engagement Department*, responsible for promoting and supporting the development of a single, shared identity of the Bank among various stakeholders.

Bank branches and offices

The Bank's branches and offices are as follows:

- Milan - Via Soperga, 9 (head office);
- Modena - Via Emilia Est, 107 (branch).

Human resources

As of 30 June 2021, the Bank's registered employees numbered 675 (587 as of 31 December 2020). A breakdown of the workforce is given below, divided by job level:

Category	30 June 2021			31 December 2020			Changes	
	No. of employees	in %	Average age	No. of employees	in %	Average age	No. of employees	in %
Senior managers	62	9%	47	55	9%	46	7	13%
Middle managers	294	44%	38	242	41%	37	52	21%
Other employees	319	47%	31	290	50%	34	29	10%
Employees	**675**	**100%**		**587**	**100%**		**88**	**15%**

Macroeconomic scenario

As noted by the European Central Bank (ECB) in its macroeconomic projections for the Euro Area of June 2021 (the "Projections"), the coronavirus (COVID-19) pandemic continued to affect the economy of the Eurozone in the first quarter of 2021 with the extension of rigid containment measures and the emergence of bottlenecks on the supply side. Nevertheless, the decline in output was stemmed by learning effects – in a context where economic operators have shown a greater capacity to adapt to the pandemic – and by policy support, as well as by the ongoing recovery in external demand and the resilience of the manufacturing sector.

The ECB underscored how recent progress in addressing the pandemic should lead to a significant recovery starting from the second quarter of 2021. Specifically, a faster distribution of vaccines and the consequent drop in infections should allow the rapid elimination of containment measures in the second half of 2021, which were stricter than expected in the first six months of the year. However, it is assumed that these measures will be fully relaxed only at the beginning of 2022.

Compared to the March 2021 Projections, the outlook for growth is now more favourable in 2021 and 2022. This reflects the assumption of a lower economic impact resulting from the pandemic given the progress of the vaccination campaign, the considerable additional fiscal policy measures – partly funded by the Next Generation EU programme – and the improved outlook for foreign demand, also supported by recent fiscal packages in the United States. Monetary, fiscal and macro-prudential policy measures are expected to avoid strong amplification effects through the financial sector and limit the economic scars left by the crisis. As a result, by the end of 2022 real GDP should only be 1.3% below the level expected in the projections published before the outbreak of the pandemic. Inflation should peak at 1.9% in 2021, pushed up by temporary factors, and then return to 1.5% and 1.4% in 2022 and 2023 in a context where demand-side pressures remain modest and a decline in oil prices is assumed.

In the banking sector, the Bank of Italy observed how with the progress of the vaccination campaigns the growth of the world output has strengthened. The outlook is positive, but varies according to the area. A significant increase in inflation in the United States has reflected delays in adjusting supply to the strong recovery in demand, but has not yet significantly extended to medium-term expectations. Monetary policies remain expansive in all major countries.

In Italy the change in GDP was slightly positive in the first quarter, unlike the other major countries of the euro area where there was a drop in output. Based on the available indicators, growth in the second quarter was accentuated, favoured by the acceleration of the vaccination campaign and the gradual relaxation of restrictions, and was apparently more than 1% higher than the previous period. In addition to a further expansion of industrial production, the start of a recovery in services seems to have also contributed.

The recovery is driven mainly by investments. According to surveys conducted by the Bank of Italy, companies report that the conditions for investing are improving and the savings plans are accelerating during the year. Consumption appears to have returned positive in the second quarter, but the propensity to save is still high, which continues to be affected by cautious attitudes. Italy's exports increased in a context of strengthening world trade. In the first quarter tourist inflows decreased. However, mobile phone data provide signs of a resumption of foreign visits to Italy from the end of April. The propensity of foreign investors to buy Italian securities has been confirmed in recent months. The net foreign credit position increased even further.

The latest figures available show an increase in employment in the spring months, with a partial recovery of jobs for young people and women in the two-month period from May to June. Employment had fallen in the first quarter of the year as a result of the sharp decline in private services linked to the rise in infections. The rise in commodity prices – driven by the global recovery – was reflected in consumer prices, bringing inflation in June to 1.3%, the highest level in the last three years. Net of energy and food, however, inflation remains very weak (0.3%). There is no evidence of significant effects of further transmission of energy costs to the prices of final goods and services. There are no signs of significant increases in wages.

The accommodating stance of the ECB's monetary policy continues to translate into very relaxed financial market and bank credit conditions. Government bond yields remain low: the sovereign risk premium remains below the levels observed before the pandemic. Growth in loans to non-financial companies and households continued. In addition to the need for debt restructuring and precautionary reasons, the demand for credit from companies, most of which are backed by public guarantees, also reflected an intention to finance the recovery of investments. The government introduced new measures to support workers and businesses in the second quarter of the year. In mid-July the EU Council approved the National Recovery and Resilience Plan (PNRR) submitted by the government at the end of April.

The projections depend on the assumptions that national and global health improvements will continue, that support for budgetary policy will also continue, using both national resources and European funds, and that monetary and financial conditions will remain favourable, as outlined by the governing council of the ECB. Based on these assumptions, output would accelerate significantly from the third quarter, with an average annual growth currently valued at 5.1%, which would continue in the following two years (at a rate of 4.4 in 2022 and 2.3 in 2023). In this context, GDP would return to pre-pandemic levels in the second half of next year.

Contrary to what happened after the two previous recessions, the recovery would be marked by a strong contribution from investments, that would start to grow again in a sustained way thanks to the demand outlook, favourable financing conditions and support from the PNRR. In this scenario, at the end of the three-year period the ratio of investments to GDP would return to the levels prevailing before the global crisis of 2008-09; the weight of the public component on output would return – after a decade – in line with the European average. The recovery in consumption appears to be more gradual; inflation over the next two years would likely remain subdued, at around 1.3%.

However, this forecast is highly dependent on the effectiveness and timeliness of the support and recovery measures, which in simulations raise the level of GDP by about 4 percentage points over the three-year forecast period. About half of this effect is attributable to the PNRR. A further stimulus to growth in the years following the forecast horizon could occur through effects on productivity resulting from public investments and reforms foreseen in the PNRR.

The main elements of uncertainty regarding the growth projections are linked to the evolution of the pandemic, which can affect consumption and investment, the way in which PNRR projects are implemented and their ability to also affect potential growth, as well as the response of consumers to reopening the economy. Risks related to inflation projections are balanced and also depend on its evolution in the euro area. On the one hand, the persistence of large margins of unused capacity could delay the recovery of wages, while on the other a persistent action in support of economic activity could favour a faster return of expectations and wage dynamics to values consistent with the definition of price stability in the euro area and in Italy.

Significant events in the first half of 2021

The economic scenario created by the COVID-19 epidemic and the business continuity of the illimity Group

In the current context, which is still influenced – both at economic and operational levels – by the evolution of the COVID-19 epidemic, the illimity Group continues to maintain the primary measures for mitigating the related risks, including the use of teleworking for employees and the factoring in of the framework of reference (macro forecasts, fiscal and monetary policy choices, regulatory developments, etc.), the management of credit strategies and policies and credit risk, the portfolio of financial assets, customer relations and the governance of its own business models.

The effectiveness of illimity's commercial and technological proposal has been a strength in understanding and meeting the increased demand for remote financial services, related to the logistics limitations that have still marked the first half of the year.

The Group's highly conservative approach to pricing investments and providing funding, continuous monitoring and its limited exposure to economic sectors or asset classes most affected by the pandemic, are all factors that demonstrate the resilience of the business model in a reference scenario still characterised by considerable risks.

The managerial committees and governing boards of the Group carry out assessments at regular intervals on the actual and potential economic, financial and operational impacts of the pandemic on the strategic and operational choices of the various business lines.

Finally, the macro scenarios that also take into account the evolution of the epidemiological context and the responses of the Authorities, markets, companies and consumers were used to guide the prospective capital adequacy (ICAAP) and liquidity (ILAAP) assessments and the preparation of the Recovery Plan, as required by the prudential supervisory regulations, for the update of the Risk Appetite Framework and the sustainability assessment of the new 2021-2025 Strategic Plan.

Other events

Corporate transactions

On 5 January 2021, illimity announced the new composition of its share capital, as follows: (i) a reserved capital increase for Fabrick S.p.A. totalling EUR 44,670,596.42 (of which EUR 3,491,882.89 as capital) freed up through the transfer to illimity of shares representing 37.66% of Hype (which took place on 29 December 2020, effective from 1 January 2021), the registration in the Company Register of the directors' statement pursuant to Article 2343-quater of the Italian civil code (made on 5 January 2021) and consequent issue of 5,358,114 new ordinary shares for this increase, as well as (ii) the cash increase in capital for Banca Sella Holding S.p.A. for a total of EUR 16,544,676.46 (of which EUR 1,293,290.83 as capital), subscribed on 29 December 2020 with effect from 1 January 2021 (with regulation dated 5 January 2021), and consequent issue of 1,984,488 new ordinary shares, for this increase. Hype is a company providing "light banking" services, the objective of which is to establish itself as a leading operator on the Italian market in the segment of innovative financial services provided by non-banking operators.

On 13 January 2021, the deed was signed by which Core, IT Auction and Mado were merged into neprix. The merger became effective on 1 February 2021. The accounting and fiscal effects of the merger started from 1 January 2021. Following the merger, neprix holds 100% of the shares in the company neprix Agency, previously held by IT Auction. This merger has no effects on the consolidated financial statements, as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

On 1 April 2021, illimity SGR announced it had completed the first closing of the illimity Credit & Corporate Turnaround fund (the "Fund" or "iCCT"), dedicated to investments in unlikely-to-pay positions of SMEs, with prospects for them to recover and relaunch. The initial portfolio includes receivables for a total gross amount of over EUR 200 million with 33 companies operating in highly diversified sectors. These receivables were sold by 7 banks and banking groups, becoming holders of units in the Fund. Initial funding - subscribed by professional investors, including illimity Bank - amounted to EUR 25 million, that will be used in managing purchased receivables and to support the turnaround of companies in which the Fund assets have invested. The Fund will support the financial restructuring of companies with the aim not only of overcoming the crisis, but also of valuing their potential and pursuing a concrete prospect of being relaunched.

On 15 June 2021, illimity announced the establishment of the illimity foundation ("foundation"), launched with the aim of creating new spaces for inclusion, cohesion and shared well-being, including through the regeneration of real estate assets to be allocated to projects of social utility and with a strong focus on sustainability issues (ESG).

The foundation is a separate and independent body from the illimity Group, a bank born with a clear mission: to recognise and develop the potential of people, families and businesses. For illimity generating value does not simply mean making profits, but being useful. This mission, deeply rooted in illimity, is confirmed by the establishment of the illimity foundation, which will recognise the potential of real estate assets to be transformed into new spaces that can recreate value for the community.

On 17 June 2021, illimity announced that it had signed a binding letter of intent to form a joint venture (50/50) ("JV") with some funds managed by Apollo Global Management Inc (NYSE: APO) ("Apollo") aimed at investing up to EUR 500 million in non-performing single name loans related to real estate in Italy.

The JV will have an initial investment period of two years with the possibility of extension and will pursue investments in bad and unlikely-to-pay loans mainly guaranteed by the underlying property and with a unit price of up to EUR 50 million. The JV, which will see illimity and Apollo as 50/50 investors with equal governance rights, also provides for the contribution by illimity of approximately EUR 231 million of gross book value of loans previously purchased by illimity and representing part of the Bank's current investment portfolio in the Bank's special situation real estate world. The JV will see the direct involvement of illimity's Special Situations Real Estate teams and Apollo's European Principal Finance teams. The JV selected neprix as exclusive special servicer for the management of the investments. It is expected that the final agreements will be signed and the transaction finalised by the third quarter of 2021.

Other significant information

The other significant events described below took place in the first six months of 2021.

On 29 January 2021, illimity obtained certification as a Great Place to Work® for the second year running. Great Place to Work® is an organisational consulting company in the HR field, leader in Italy in business climate studies and analysis.

On 10 March 2021, illimity was qualified by the Bank of Italy as a Nomad (Nominated Adviser), for companies that, through listing on the AIM Italy market, wish to raise capital to consolidate their competitive position and accelerate their growth.

On 7 April 2021, viafintech and illimity announced a partnership enabling customers of illimitybank.com to use the viacash function in the mobile banking app. The service, provided by viafintech, allows customers to deposit cash in a smart, efficient way, while they shop.

On 22 April 2021, the Ordinary Shareholders' Meeting of illimity was held, which as indicated in the press releases, among other things approved the financial statements as of 31 December 2020 and appointed the new Board of Directors of the Bank, which is composed of the following members: Rosalba Casiraghi (Chair), Corrado Passera (CEO), Massimo Brambilla, Patrizia Canziani, Elena Cialliè, Paola Elisabetta Galbiati, Giovanni Majnoni d'Intignano, Martin Ngombwa and Marcello Valenti.

On 25 May 2021, illimity and Flee, a brand owned by Aon, announced that they had entered into a partnership aimed at offering illimitybank.com customers and all bank employees a new idea of mobility thanks to exclusive rental services. Flee is the first mileage-based long-term car rental – pay per use that combines the savings, security and convenience of an all-digital service.

On 31 May 2021, Kerakoll Group, an international leader in the green building sector, and illimity informed the market of their partnership aimed at providing companies and professionals with a comprehensive assistance service to take advantage of the opportunities offered by the 110% Superbonus. The services are aimed at companies operating in the sectors of building energy upgrades and seismic safety that opt for the transfer of the tax credit to make use of the new tax relief measure.

On 9 June 2021, the illimity Board of Directors approved the capital increase servicing the 2021 "Employee Stock Ownership Plan - ESOP" for a total of EUR 78,542.13, corresponding to 120,515 ordinary shares.

On 22 June 2021, the illimity Board of Directors approved the Group’s business plan for the 2021-2025 period (the "Plan").

The Plan’s objectives include:
- a net profit of approximately EUR 60-70 million already in 2021, increasing to approximately EUR 140 million in 2023 and to more than EUR 240 million in 2025, corresponding to an average annual growth of approximately 51% in the period 2020-25;
- Revenues growing by more than 30% on average each year in the 2020-25 period, reaching over EUR 450 million in 2023 and about EUR 660 million in 2025;
- Operating costs are expected to grow less than proportionally compared to revenues, and operating leverage is expected to progressively and significantly improve; the cost income ratio is expected to decrease from 76% in 2020 to less than 50% in 2023 and further decrease below 40% by 2025.
- Expected net customer loans of over EUR 5 billion in 2023 and over EUR 7 billion in 2025, with total expected assets of over EUR 7 billion in 2023 and about EUR 10 billion in 2025;
- RWA: consistent with the growth in business volumes, this is expected to increase to EUR 5.4 billion in 2023 and EUR 7 billion in 2025;
- CET1 Ratio: the Bank's commitment to maintaining a robust capitalisation is confirmed, with a CET1 Ratio target of more than 15% over the course of the entire Plan and a Total Capital Ratio of around 18%.

Reclassified consolidated financial statements of the Group as of 30 June 2021

This consolidated interim financial report has been prepared on the basis of tables in the Bank of Italy Circular No. 262 of 22 December 2005 as amended.

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

Reconciliation with the items of the mandatory financial statements aids in reclassification of the items in question, but above all facilitates the understanding of the criteria adopted in constructing the interim financial report. Additional details useful to this end are provided below:

- recoveries of taxes recognised among other operating expenses/income are deducted directly from the indirect taxes included among other administrative expenses and therefore their amount has been set off against the relevant item of the mandatory financial statements;
- the cost components related to Raisin's operations are deducted from net interest;
- personnel expenses also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations;
- interest expense resulting from the lease liability (IFRS 16) is recognised under other administrative expenses;
- net credit exposure to customers on closed positions is shown separately from net losses/recoveries for credit risk.

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

- the inclusion of assets held for sale and cash and cash equivalents in the residual item other assets;
- the aggregation in a single item of property and equipment and intangible assets;
- the aggregation of financial assets designated at fair value through other comprehensive income and financial assets held for trading;
- separate indication of HTCS loans;
- separate indication of loans to financial entities and securities at amortised cost;
- separate indication of loans mandatorily measured at fair value;
- the reclassification of Leasing agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes;
- the inclusion of the Provision for Risks and Charges and employee severance pay in residual items of other liabilities;
- the aggregate indication and items comprising shareholders' equity.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Assets	30 June 2021	31 December 2020	Chg.	Chg. (%)
20 a) + 30	Property portfolio - Securities at FV	299,513	91,427	208,086	>100%
30	Loans to customers HTCS	15,856	-	15,856	N/A
20 c)	Financial instruments mandatorily measured at fair value	138,439	18,450	119,989	>100%
20 c)	Loans mandatorily measured at fair value	505	-	505	N/A
40 a)	Due from banks	444,780	530,922	(86,142)	(16%)
40 b)	Loans to financial entities	169,842	109,993	59,849	54%
40 b)	Loans to customers HTC	2,092,450	1,954,995	137,455	7%
40 b)	Securities at amortised cost - Growth Credit	12,743	4,154	8,589	>100%
40 b)	Securities at amortised cost – Senior Financing	225,148	245,759	(20,611)	(8%)
70	Investments in equity	83,727	-	83,727	N/A
90 + 100	Property and equipment and intangible assets	152,371	147,816	4,555	3%
	of which: Goodwill	*36,257*	*36,224*	*33*	*0%*
110	Tax assets	29,449	35,403	(5,954)	(17%)
10 + 120 + 130	Other assets	665,931	987,370	(321,439)	(33%)
	of which: Cash and cash equivalents	*507,653*	*944,832*	*(437,179)*	*(46%)*
	Total assets	**4,330,754**	**4,126,289**	**204,465**	**5%**

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Liabilities	30 June 2021	31 December 2020	Chg.	Chg. %
10 a)	Amounts due to banks	581,628	534,345	47,283	9%
10 b)	Amounts due to customers	2,643,308	2,552,161	91,147	4%
10 c)	Securities issued	304,067	300,980	3,087	1%
60	Tax liabilities	5,268	4,207	1,061	25%
80 + 90 + 100	Other liabilities	115,741	151,474	(35,733)	(24%)
(*)	Shareholders' equity	680,742	583,122	97,620	17%
	Total liabilities and shareholders' equity	**4,330,754**	**4,126,289**	**204,465**	**5%**

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

Summary of consolidated statement of financial position data

The Group's total assets amounted to EUR 4,330.8 million as of 30 June 2021 (EUR 4,126.3 as of 31 December 2020), and primarily include financial assets arising from loans to customers of EUR 2,092.5 million (up compared to EUR 1,955 million recorded as of 31 December 2020). The increase is primarily attributable to the new transactions of the Distressed Credit Division and Growth Credit Division concluded during the first half of the year. For further information, refer to the section "Contribution from operating segments to the Group's results".

With reference to the Group's liquidity profile, the cash and cash equivalents component came to EUR 507.7 million as of 30 June 2021, down on EUR 944.8 million as of 31 December 2020, due to greater uses in the Growth Credit Division, Distressed Credit Division and own securities portfolio.

Financial assets at amortised cost – loans to banks – amounted to EUR 444.8 million as of 30 June 2021, down from EUR 530.9 million as of 31 December 2020, primarily due to the reduction in investments in repurchase agreements with a bank. Taking loans to financial entities into account, as of 30 June 2021, total net exposure to banks and financial entities was EUR 614.6 million.

With reference to securities, financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, primarily represented by government bonds and instruments with other banks and financial institutions and high yield corporate bonds, amounted to approximately EUR 299.5 million, up compared to 31 December 2020 due to the increase in the operations of the ALM & Treasury portfolio. As of 30 June 2021, the Group had a negative net valuation reserve regarding financial assets measured at fair value through other comprehensive income of approximately EUR 2.3 million, net of the component of Expected credit loss on debt securities (EUR 1.2 million), mainly due to the performance of the markets.

Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 138.4 million as of 30 June 2021, and include two investments in equity instruments/earnouts for EUR 7.2 million, quotas of an illimity SGR investment fund for EUR 3.0 million attributable to the Growth Credit Division, an energy business operation for EUR 68.8 million and investments in junior and mezzanine investments in securitisation vehicles for EUR 2.4 million attributable to the Distressed Credit Division, as well as two investments in ETFs held for the purpose of hedging interest rate risk and credit risk for EUR 57.0 million attributable to the CFO Division.

As of 30 June 2021, property and equipment and intangible assets amounted to EUR 152.4 million, increasing by approximately EUR 4.6 million compared to 31 December 2020. The Group's intangible assets refer to the goodwill from the business combination of SPAXS with Banca Interprovinciale, equal to EUR 21.6 million. The item also includes the measurement of the goodwill recognised at the acquisition of IT Auction and its subsidiaries (equal to EUR 14.6 million) as well as the goodwill recognised at the acquisition of 100% of the shares of the securitisation vehicles Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l., River SPV S.r.l., and 66.7% of the shares of the securitisation vehicle Aporti S.r.l., in addition to the intangible assets identified pursuant to IFRS 3 and intangible assets held by Group companies. Group property and equipment mainly consist of assets covered by IAS 2, namely *datio in solutum* real estate involved in the lending business and items for functional use arising from the recognition of the right of use of assets acquired through lease agreements (IFRS 16).

Total consolidated liabilities and shareholders' equity as of 30 June 2021 amounted to EUR 4,330.8 million. Amounts due to customers, net of the lease liability referred to IFRS 16, amounted to EUR 2,643.3 million and increased compared to the value as of 31 December 2020, mainly due to the increase in current accounts and time deposits.

Amounts due to Banks - including the central banks component - stood at EUR 581.6 million, increasing by EUR 47.3 million compared to 31 December 2020, mainly following subscriptions to repurchase agreements. Securities issued were equal to EUR 304.1 million, basically in line with the 2020 year-end value, and include the EMTN transaction in the fourth quarter of 2020.

Consolidated shareholders' equity amounted to EUR 680.7 million, increasing compared to the end of 2020, mainly due to profit realised in the first half of 2021 and the joint venture in Hype S.p.A, realised through a capital increase.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	30 June 2021	30 June 2020	Chg.	Chg. %
10 + 20	Net interest margin	64,422	45,276	19,146	42%
40 + 50	Net fee and commission income	13,642	5,099	8,543	>100%
80 + 100 + 110	Gains/losses on financial assets and liabilities	4,896	3,668	1,228	33%
130 a)	Net write-downs/write-backs on closed positions - HTC Clients - POCI	37,427	17,046	20,381	>100%
280	Other profits (losses) from the disposal of investments	2,278	-	2,278	N/A
140 + 230	Other operating expenses and income (excluding taxes)	4,141	273	3,868	>100%
Total net operating income		**126,806**	**71,362**	**55,444**	**78%**
190 a)	Personnel expenses	(35,599)	(24,545)	(11,054)	45%
190 b)	Other administrative expenses	(37,744)	(28,809)	(8,935)	31%
210 + 220	Net write-downs/write-backs on property and equipment and intangible assets	(5,185)	(3,860)	(1,325)	34%
Operating expenses		**(78,528)**	**(57,214)**	**(21,314)**	**37%**
Operating profit (loss)		**48,278**	**14,148**	**34,130**	**>100%**
130 a)	Net losses/recoveries for credit risk - HTC Banks	(3)	119	(122)	N/A
130 a)	Net losses/recoveries for credit risk - HTC financial entities	(129)	(151)	22	(15%)
130 a)	Net losses/recoveries for credit risk - HTC Clients	(236)	3,425	(3,661)	N/A
130 b)	Net losses/recoveries for credit risk - HTCS	(1,143)	(353)	(790)	>100%
200 a)	Net losses/recoveries for commitments and guarantees	(1,317)	4	(1,321)	N/A
Total net adjustments/recoveries		**(2,828)**	**3,044**	**(5,872)**	**N/A**
200 b)	Other net provisions	-	-	-	N/A
250	Other income (expenses) on investments	(3,974)	-	(3,974)	N/A
Profit (Loss) from operations before taxes		**41,476**	**17,192**	**24,284**	**>100%**
300	Income tax for the period on continuing operations	(14,058)	(2,354)	(11,704)	>100%
Profit (loss) for the period		**27,418**	**14,838**	**12,580**	**85%**

Consolidated income statement highlights

The Group's total net operating income for the period ended 30 June 2021 amounted to EUR 126.8 million, up sharply on the same period of the previous year, when it came to approximately EUR 71.4 million.

The increase in total operating income is to be attributed to the introduction and expansion of various lines of business by the Bank in 2020 and the first half of 2021, which contributed to the increase in the interest margin of the Group from EUR 45.3 million as of 30 June 2020 to EUR 64.4 million as of 30 June 2021. Net fee and commission income, which amounted to EUR 13.6 million in the first few months of 2021, also increased compared to June 2020, due on the one hand to increased operations of the Bank Divisions, and on the other as a consequence of the operations in the first half of 2021, of neprix and its subsidiary neprix Agency, which contribute to the item through the "auction commissions" earned on the use of proprietary real-estate portals.

Total net operating income also includes net recoveries on customer HTC positions closed in the first half of 2021 for a total of EUR 37.4 million (EUR 17 million as of 30 June 2020), and income from disposals of investments for EUR 2.3 million, related to the sale of the business unit Fluid, as part of the joint venture for 50% control of Hype.

Overall net adjustments/recoveries on portfolio positions were negative for EUR 2.8 million. In detail, net write-downs on HTC positions are primarily related to individual and collective assessments of loans to customers and the effects of the revision of expected cash flows from the NPL portfolios for existing positions. In the first half of the year, net losses/recoveries for credit risk – HTCS were also recorded, due to an increase in investments in securities classified in this business model at the end of the period.

Operating expenses of EUR 78.5 million for the period ended 30 June 2021 were up by approximately EUR 21.3 million compared to the same period of the previous year. In detail, personnel expenses increased compared to the previous year by approximately EUR 11.1 million, mainly as a result of new resources being employed, to support the increased activities of the Bank's Divisions, and also due to the operating activities of neprix. Another factor that increased personnel costs is the MBO portion used to consolidate individual incentive systems for employees. Other administrative expenses also increased, by approximately EUR 8.9 million compared to the same period of the previous year, due to the increase in Bank operations. Finally, the item includes net adjustments/recoveries on property and equipment and intangible assets totalling around EUR 5.2 million, up by EUR 1.3 million compared to 30 June 2020, primarily due to the amortisation of IT investments.

Based on the above, also taking into account other charges on equity investments of EUR 4 million – linked to the pro-rata contribution of companies consolidated using the equity method as of 30 June 2021 – profit for the period before taxes amounted to EUR 41.5 million. Net of income tax for the period on continuing operations, equal to approximately EUR 14.1 million, consolidated net profit as of 30 June 2021 stood at EUR 27.4 million, compared to a profit of EUR 14.8 million as of 30 June 2020.

Basic and diluted earnings per share as of 30 June 2021, calculated by dividing the result for the period by the weighted average number of ordinary shares issued, was equal to EUR 0.37. See the section "Basic and diluted earnings per share" for details of the methodology to calculate earnings per share.

Key statement of financial position figures

Invested assets

Invested assets broken down by *Business* Division and/or type of invested assets are shown below:

(amounts in thousands of euros)

DETAILS OF INVESTED ASSETS	30 June 2021		31 December 2020		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. %
Cash and cash equivalents	**507,653**	**13.0%**	**944,832**	**24.2%**	**(437,179)**	**(46%)**
Financial assets held for trading	**33**	**0.0%**	**52**	**0.0%**	**(19)**	**(37%)**
Financial assets mandatorily measured at fair value	**138,944**	**3.6%**	**18,450**	**0.5%**	**120,494**	**>100%**
- Distressed Credit Division	*71,212*	*1.8%*	*11,167*	*0.3%*	*60,045*	*>100%*
- Growth Credit Division	*10,655*	*0.3%*	*7,167*	*0.2%*	*3,488*	*49%*
- ALM & Treasury portfolio	*57,077*	*1.5%*	*116*	*0.0%*	*56,961*	*>100%*
HTCS Financial assets	**315,336**	**8.1%**	**91,375**	**2.3%**	**223,961**	**>100%**
- ALM & Treasury portfolio	*260,979*	*6.7%*	*91,375*	*2.3%*	*169,604*	*>100%*
- Structured Products Portfolio	*38,501*	*1.0%*	*-*	*0%*	*38,501*	*n.a*
- Distressed Credit portfolio - POCI	*15,856*	*0.4%*	*-*	*0%*	*15,856*	*n.a*
Due from banks	**444,780**	**11.4%**	**530,922**	**13.6%**	**(86,142)**	**(16%)**
- of which: Repurchase agreements	*362,626*	*9.3%*	*395,167*	*10.1%*	*(32,541)*	*(8%)*
Loans to financial entities	**169,842**	**4.3%**	**109,993**	**2.8%**	**59,849**	**54%**
Loans to customers	**2,092,450**	**53.6%**	**1,954,995**	**50.1%**	**137,455**	**7%**
- Organic non-performing loans	*20,721*	*0.5%*	*19,055*	*0.5%*	*1,666*	*9%*
- Inorganic non-performing loans	*1,043,045*	*26.7%*	*1,054,778*	*27.0%*	*(11,733)*	*(1%)*
- Performing loans	*1,028,684*	*26.3%*	*881,162*	*22.6%*	*147,522*	*17%*
Loans to customers - Securities	**237,891**	**6.1%**	**249,913**	**6.4%**	**(12,022)**	**(5%)**
- Distressed Credit Division (Senior Financing) - performing	*225,148*	*5.8%*	*245,759*	*6.3%*	*(20,611)*	*(8%)*
- Growth Credit Division - performing	*12,743*	*0.3%*	*4,154*	*0.1%*	*8,589*	*>100%*
Total invested assets	**3,906,929**	**100%**	**3,900,532**	**100%**	**6,397**	**0%**

Loans to customers amounted to approximately EUR 2,092.5 million, up from EUR 1,955 million at the end of the previous year, mainly due to new transactions completed in the half by the Distressed Credit Division (net of portfolio disposals in the period), and the Growth Credit Division. The item also includes NPLs of approximately EUR 1,043 million classified as POCI (Purchased or Originated Credit Impaired), down from EUR 1,054.8 million recorded as of 31 December 2020, mainly due to the structuring of a securitisation of a mixed portfolio of loans – GBV of EUR 356 million – for which the Bank recorded EUR 61.4 million among the held for sale (HFS) assets, which was only partially offset by the purchases made by the Distressed Credit Division in the first half of the year. Considering Securities, financing to customers accounted for under the HTC business model amounted to EUR 2,330.3 million.

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, amounted to approximately EUR 315.3 million, and refer to government bonds and instruments with other banks and financial institutions and high yield corporate bonds. The item also includes loans relating to POCI portfolios purchased during the half-year for which the Bank has adopted an HTCS business model.

Financial assets mandatorily measured at fair value through profit or loss amounted to EUR 138.9 million, and include two investments in equity instruments/earnouts for EUR 7.2 million, a loan in foreign currency for EUR 0.5 million, as well as quotas of an illimity SGR investment fund for EUR 3.0 million attributable to the Growth Credit Division, an energy business operation for EUR 68.8 million and investments in junior and mezzanine investments in securitisation vehicles for EUR 2.4 million attributable to the Distressed Credit Division, as well as two investments in ETFs held for the purpose of hedging interest rate risk and credit risk for EUR 57.0 million attributable to the CFO Division. The remaining EUR 237.9 million of securities was measured at amortised cost (held-to-collect business model) and mainly comprises EUR 225.1 million of Senior Financing securities of the Distressed Credit Division and EUR 12.7 million from high-yield securities of the Growth Credit Division.

(amounts in thousands of euros)

INVESTED ASSETS BY TECHNICAL FORM	30 June 2021		31 December 2020		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. %
Cash and cash equivalents	**507,653**	**13.0%**	**944,832**	**24.2%**	**(437,179)**	**(46%)**
Current accounts and deposits	82,154	2.1%	135,755	3.5%	(53,601)	(39%)
Repurchase agreements	362,626	9.3%	395,167	10.1%	(32,541)	(8%)
Due from banks	**444,780**	**11.4%**	**530,922**	**13.6%**	**(86,142)**	**(16%)**
Loans to financial entities	**169,842**	**4.3%**	**109,993**	**2.8%**	**59,849**	**54%**
Current accounts held by customers	265,064	6.8%	273,971	7.0%	(8,907)	(3%)
Loans	1,827,386	46.8%	1,681,024	43.1%	146,362	9%
Loans to customers HTC	**2,092,450**	**53.6%**	**1,954,995**	**50.1%**	**137,445**	**7%**
Loans to customers HTCS	**15,855**	**0.4%**	**-**	**0.0%**	**15,855**	**n.a**
Loans mandatorily measured at fair value	**505**	**0.0%**	**-**	**0.0%**	**505**	**n.a**
Debt securities	*608,589*	*15.6%*	*352,454*	*9.0%*	*256,135*	*73%*
- Government bonds	*172,639*	*4.4%*	*-*	*0.0%*	*172,639*	*n.a*
- Bank bonds	73,029	1.9%	79,464	2.0%	(6,435)	(8%)
- Structured Products	347,604	8.9%	261,081	6.7%	86,523	33%
- ALM & Treasury	15,317	0.4%	11,909	0.3%	3,408	29%
Financial instruments/earnouts	7,167	0.2%	7,167	0.2%	-	0%
Equity securities	18	0.0%	18	0.0%	-	0%
Units of UCIs	60,070	1.5%	151	0.0%	59,919	>100%
Securities	**675,844**	**17.3%**	**359,790**	**9.2%**	**316,054**	**88%**
Total	**3,906,929**	**100%**	**3,900,532**	**100%**	**6,397**	**0%**

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

Loans due from banks amounted to EUR 444.8 million, down compared to 31 December 2020, and consisted mainly of reverse repurchase agreements.

Loans to customers, on the other hand, increased due to the Bank's operations, and in particular for the provision of loans with SACE and MCC guarantee.

Debt securities were equal to EUR 608.6 million and mainly attributable to the transactions of the ALM & Treasury Portfolio in financial assets measured at fair value through other comprehensive income.

Finally, note that the UCITS units as of 30 June 2021 include two investments in ETFs for EUR 57.0 million held for the purpose of hedging interest rate risk and credit risk attributable to the CFO Division.

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

(amounts in millions of euros)

FINANCING BY BUSINESS DIVISION	30 June 2021	Inc. %	31 December 2020	Inc. %	Chg.	Chg. %
Distressed Credit Division	1,254	50.2%	1,308	56.5%	(54)	(4%)
Growth Credit Division	959	38.5%	763	32.9%	196	26%
Loans to ordinary former BIP customers (Growth Credit Division)	117	4.7%	134	5.8%	(17)	(13%)
Total due from customers (Loans and Securities)	**2,330**	**93.2%**	**2,205**	**95.2%**	**125**	**6%**
Loans to financial entities	170	6.8%	110	4.8%	60	55%
Total loans to customers measured at amortised cost	**2,500**	**100%**	**2,315**	**100%**	**185**	**8%**

Financial assets measured at amortised cost

The table below provides an overview of the Group's main financing at amortised cost, compared with the relevant values as of 31 December 2020.

(amounts in thousands of euros)

FINANCIAL ASSETS AT AMORTISED COST	30 June 2021						31 December 2020					
	Gross Exposure	Inc. %	Adjustments/ recoveries	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Adjustments/ recoveries	Book value	Inc. %	Coverage ratio (*)
Due from banks	**444,964**	**15.0%**	**(184)**	**444,780**	**15.1%**	**0.04%**	**531,103**	**18.5%**	**(181)**	**530,922**	**18.7%**	**0.03%**
- Loans	444,964	15.0%	(184)	444,780	15.1%	0.04%	531,103	18.5%	(181)	530,922	18.7%	0.03%
- Stage 1-2	*444,964*	*15.0%*	*(184)*	*444,780*	*15.1%*	*0.04%*	*531,103*	*18.5%*	*(181)*	*530,922*	*18.7%*	*0.03%*
Loans to financial entities	**170,086**	**5.7%**	**(244)**	**169,842**	**5.8%**	**0.14%**	**110,108**	**3.8%**	**(115)**	**109,993**	**3.9%**	**0.10%**
- Loans	170,086	5.7%	(244)	169,842	5.8%	0.14%	110,108	3.8%	(115)	109,993	3.9%	0.10%
- Stage 1-2	*170,086*	*5.7%*	*(244)*	*169,842*	*5.8%*	*0.14%*	*110,108*	*3.8%*	*(115)*	*109,993*	*3.9%*	*0.10%*
Loans to customers	**2,359,729**	**79.3%**	**(29,388)**	**2,330,341**	**79.1%**	**1.25%**	**2,234,313**	**77.7%**	**(29,405)**	**2,204,908**	**77.5%**	**1.32%**
- Securities	238,387	8.0%	(496)	237,891	8.1%	0.21%	250,281	8.7%	(368)	249,913	8.8%	0.15%
- Stage 1-2	*238,387*	*8.0%*	*(496)*	*237,891*	*8.1%*	*0.21%*	*250,281*	*8.7%*	*(368)*	*249,913*	*8.8%*	*0.15%*
- Loans	2,121,342	71.3%	(28,892)	2,092,450	71.1%	1.36%	1,984,032	69.0%	(29,037)	1,954,995	68.7%	1.46%
- Stage 1-2	*1,038,888*	*34.9%*	*(10,204)*	*1,028,684*	*34.9%*	*0.98%*	*891,852*	*31.0%*	*(10,690)*	*881,162*	*31.0%*	*1.20%*
- Stage 3	1,082,454	36.4%	(18,688)	1,063,766	36.1%	N/A	1,092,180	38.0%	(18,347)	1,073,833	37.7%	N/A
Total	**2,974,779**	**100%**	**(29,816)**	**2,944,963**	**100%**	**N/A**	**2,875,524**	**100%**	**(29,701)**	**2,845,823**	**100%**	**N/A**

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

A breakdown of the credit quality to customers (loans and securities) and a comparison to the previous year is provided below.

(amounts in thousands of euros)

LOANS TO CUSTOMERS	30 June 2021						31 December 2020					
	Gross Exposure	Inc. %	Adjustments/ recoveries	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Adjustments/ recoveries	Book value	Inc. %	Coverage ratio (*)
- Non-performing loans – organic	**39,409**	**1.7%**	**(18,688)**	**20,721**	**0.9%**	**47.42%**	**37,402**	**1.7%**	**(18,347)**	**19,055**	**0.9%**	**49.05%**
- Bad loans	19,012	0.8%	(13,783)	5,229	0.2%	72.50%	19,988	0.9%	(13,880)	6,108	0.3%	69.44%
- Unlikely-to-pay positions	18,533	0.8%	(4,619)	13,914	0.6%	24.92%	16,961	0.8%	(4,440)	12,521	0.6%	26.18%
- Past-due positions	1,864	0.1%	(286)	1,578	0.1%	15.34%	453	0.0%	(27)	426	0.0%	5.96%
Non-performing loans - inorganic	**1,043,045**	**44.2%**	**-**	**1,043,045**	**44.8%**	**N/A**	**1,054,778**	**47.2%**	**-**	**1,054,778**	**47.8%**	**N/A**
- Bad loans	713,944	30.3%	-	713,944	30.6%	N/A	744,260	33.3%	-	744,260	33.8%	N/A
- Unlikely-to-pay positions	329,101	13.9%	-	329,101	14.1%	N/A	310,439	13.9%	-	310,439	14.1%	N/A
- Past-due positions	-	0.0%	-	-	0.0%	N/A	79	0.0%	-	79	0.0%	N/A
Performing loans	**1,277,275**	**54.1%**	**(10,700)**	**1,266,575**	**54.4%**	**0.84%**	**1,142,133**	**51.1%**	**(11,058)**	**1,131,075**	**51.3%**	**0.97%**
- Securities	238,387	10.1%	(496)	237,891	10.2%	0.21%	250,281	11.2%	(368)	249,913	11.3%	0.15%
- Loans	1,038,888	44.0%	(10,204)	1,028,684	44.1%	0.98%	891,852	39.9%	(10,690)	881,162	40.0%	1.20%
Total	**2,359,729**	**100%**	**(29,388)**	**2,330,341**	**100%**	**N/A**	**2,234,313**	**100%**	**(29,405)**	**2,204,908**	**100%**	**N/A**

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

Organic non-performing loans amounted to EUR 20.7 million, up slightly compared to EUR 19.1 million as of 31 December 2020, due to new positions in the category of unlikely-to-pay and overdue exposures, while organic bad loans decreased from EUR 6.1 million to EUR 5.2 million due to the combined effect of collections on some positions and the generalised further strengthening of the coverage ratio. The coverage ratio for organic non-performing loans as of 30 June 2021 was 47.4%, down slightly from 31 December 2020.

Inorganic non-performing loans amounted to EUR 1,043 million, of which:

- EUR 713.9 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as bad loans, registering a decrease compared to EUR 744.3 million as of 31 December 2020;
- EUR 329.1 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as unlikely-to-pay positions, registering an increase compared to EUR 310.4 million as of 31 December 2020.

Performing loans amounted to EUR 1,028.7 million, up compared to EUR 881.2 million as of 31 December 2020, as a result of new transactions during the first half of 2021. Performing securities amounted to 237.9 million euros as of 30 June 2021, a decrease compared to 31 December 2020.

The coverage ratio for performing loans of the Bank as of 30 June 2021 was equal to 0.98%, down slightly from the value of 1.20% as of 31 December 2020, as a result of government-backed financing during the half year.

Funding

(amounts in thousands of euros)

CUSTOMER FUNDING BY TECHNICAL FORM	30 June 2021		31 December 2020		Change	
	Book values	Inc. %	Book values	Inc. %	Absolute	Chg. %
Amounts due to customers (A)	2,643,308	74.9%	2,552,161	75.3%	91,147	4%
Securities issued (B)	304,067	8.6%	300,980	8.9%	3,087	1%
Total direct customer funding (A) + (B)	**2,947,375**	**84%**	**2,853,141**	**84%**	**94,234**	**3%**
Due to banks (C)	581,628	16.5%	534,345	15.8%	47,283	9%
Total debt (A) + (B) + (C)	**3,529,003**	**100%**	**3,387,486**	**100%**	**141,517**	**4%**

At the end of the reporting period, funding amounted to approximately EUR 3,529 million, up compared to 31 December 2020, primarily due to new subscriptions of repurchase agreements with banks, and to the positive trend of customer savings deposits.

Property and equipment and intangible assets

Property and equipment amounted to approximately EUR 79 million as of 30 June 2021, compared to EUR 78.4 million as of 31 December 2020. In accordance with IFRS 16, the item includes the right of use of assets acquired on lease of approximately EUR 18.8 million, net of accumulated depreciation. The item also includes the value of an owned property for functional purposes, as well as real-estate investments acquired through enforcement, by auction, as part of NPL transactions.

Intangible assets as of 30 June 2021 amounted to approximately EUR 73.3 million, compared to EUR 69.4 million as of 31 December 2020, and mainly include goodwill from the acquisition of the Company IT Auction (now merged into neprix), and its subsidiaries in the first quarter of 2020 (for EUR 14.6 million), as well as the goodwill recognised following the business combination of SPAXS with Banca Interprovinciale (equal to EUR 21.6 million), and IT investments made by Group companies.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 29.4 million as of 30 June 2021, down from the EUR 35.4 million recognised as of 31 December 2020. Details of the breakdown of tax assets are shown below.

TAX ASSETS	30 June 2021	31 December 2020	Chg.	Chg. %
Current	4,077	3,206	871	27%
Deferred	25,372	32,197	(6,825)	(21%)
Total	**29,449**	**35,403**	**(5,954)**	**(17%)**

Deferred tax assets other than those convertible into tax credits (Article 2, paragraphs 55 et seq. of Decree Law no. 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences.

The reduction in deferred tax assets is mainly due to the use in the half-year of tax losses and ACE (Economic Aid Subsidies) from previous years, offsetting taxable income (IRES - Corporate income tax).

Capital adequacy

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

On 19 March 2020 illimity Bank, following the Supervisory Review and Evaluation Process (SREP) performed on the illimity Banking Group, received notification from the Bank of Italy of the prudential requirements to be observed at the consolidated level with effect from 31 March 2020. To ensure compliance with the binding requirements even in the event of a deterioration in the economic and financial scenario (Pillar 2 Guidance - P2G), the Bank of Italy identified the following capital levels, which the illimity Banking Group was invited to maintain on an ongoing basis:

- Common Equity Tier 1 (CET1) ratio of 9.20%;
- Tier 1 ratio of 11.10%;
- Total Capital ratio of 13.70%.

The supervisory authority also indicated a need – without prejudice to the additional supervisory requirements set out in the notification sent – for observance of the commitment to keep the CET1 ratio over 15% on an ongoing basis.

On 29 March 2021, the Bank of Italy, considering the complex evaluation aspects available to the regulatory authorities concerning the corporate situation of the illimity Group, confirmed the outcome of the SREP 2020.

Considering the result for the period, net of any foreseeable charges and dividends pursuant to Article 26 (2) (b) of the CRR and Articles 2 and 3 of Commission Delegated Regulation (EU) No 241/2014, the composition of own funds at the reporting date would be as follows:

(amounts in thousands of euros)

Capital ratios	30 June 2021	31 December 2020
Common Equity Tier 1 (CET1) capital	**543,387**	**509,127**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**543,387**	**509,127**
Credit risk	*243,652*	*218,290*
Credit valuation adjustment risk	-	-
Settlement risks	-	-
Market risks	*11*	*17*
Operational risk	*9,739*	*9,739*
Other calculation factors	-	-
Total minimum requirements	**253,402**	**228,046**
Risk-weighted assets	**3,167,529**	**2,850,572**
Common Equity Tier 1 ratio	**17.15%**	**17.86%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**17.15%**	**17.86%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**17.15%**	**17.86%**
(Total own funds/Risk-weighted assets)		

As of 30 June 2021, the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds. If special shares had been included in CET1 capital, the CET1 ratio would have been 17.61%.

Changes in shareholders’ equity

As of 30 June 2021, shareholders' equity, including the result for the period, amounted to EUR 680.7 million, increasing compared to 31 December 2020, mainly due to profit realised in the first half of 2021 and the joint venture in Hype realised through a capital increase.

(amounts in thousands of euros)

Items/Technical forms	30 June 2021	31 December 2020
1. Share capital	48,870	44,007
2. Share premium reserve	543,803	487,373
3. Reserves	62,980	21,766
4. Equity instruments	-	-
5. (Treasury shares)	(832)	(832)
6. Valuation reserves	(1,502)	(278)
7. Profit (loss) for the period	27,418	31,086
Total Shareholders' Equity	**680,742**	**583,122**
Shareholders’ equity attributable to minority interests	5	-
Attributable to the Group	680,737	583,122

Note that the assets attributable to third parties refer to the portion of the assets of the vehicle Aporti S.r.l. (33.3%) subscribed by minority interests.

Share capital and ownership structure

At 30 June 2021, the Bank's share capital amounted to EUR 50,366,953.62, of which EUR 48,870,282.28 was subscribed and paid up, divided into 73,546,534 ordinary shares and 1,440,000 special shares without par value.

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

The Bank's Special Shares are not traded.

Treasury shares

Following the purchases made in previous years, as of 30 June 2021, the Bank held 98,505 treasury shares for a value of EUR 832 thousand, in line with figures as of 31 December 2020. The Bank's subsidiaries do not hold any shares in it.

Parent company reconciliation - consolidated

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 30 June 2021:

	Shareholders' equity	Result
illimity Bank S.p.A.	**684,574**	**29,745**
Effect of consolidation of subsidiaries	(7,419)	-
Results of the consolidated companies	1,389	1,389
Consolidation adjustments	6,167	258
Dividends	-	-
Effect of valuation at equity method of associates and joint ventures	(3,974)	(3,974)
Group	**680,737**	**27,418**

Financial performance

Interest margin

(amounts in thousands of euros)

Items/Technical forms	Loans/Payables	Debt securities	Other transactions	30 June 2021	30 June 2020	Absolute changes	Change %
Interest and similar income							
1. Financial assets measured at fair value through profit or loss	3	276	-	**279**	-	279	N/A
Held for trading	*-*	*80*	*-*	***80***	*-*	*80*	*N/A*
Carried at FV	*-*		*-*	***-***	*-*	*-*	*N/A*
Mandatorily measured at fair value	*3*	*196*	*-*	***199***	*-*	*199*	*N/A*
2. Financial assets at FV through other comprehensive income	-	2,120	-	**2,120**	1,257	863	69%
3. Financial assets at amortised cost	84,757	5,574	-	**90,331**	63,891	26,440	41%
Due from banks	*433*	*-*	*-*	***433***	*331*	*102*	*31%*
Loans to customers	*84,324*	*5,574*	*-*	***89,898***	*63,560*	*26,338*	*41%*
4. Hedging derivatives	-	-	-	**-**	-	-	N/A
5. Other assets	-	-	64	**64**	8	56	>100%
6. Financial liabilities	-	-	-	**684**	117	567	>100%
Total interest income	**84,760**	**7,970**	**64**	**93,478**	**65,273**	**28,205**	**43%**
Interest expenses							
1. Financial liabilities at amortised cost	**(20,787)**	**(5,337)**	-	**(26,124)**	(18,133)	(7,992)	44%
Due to central banks	*(16)*	*-*	*-*	***(16)***	*(9)*	*(7)*	*78%*
Amounts due to banks	*(2,614)*	*-*	*-*	***(2,614)***	*(3,343)*	*729*	*-22%*
Amounts due to customers	*(18,157)*	*-*	*-*	***(18,157)***	*(14,682)*	*(3,476)*	*24%*
Securities issued	*-*	*(5,337)*	*-*	***(5,337)***	*(99)*	*(5,238)*	*>100%*
2. Financial liabilities held for trading	-	-	-	**-**	-	-	N/A
3. Financial liabilities designated at FV	-	-	-	**-**	-	-	N/A
4. Other liabilities and provisions	-	-	(951)	**(951)**	(856)	(95)	11%
5. Hedging derivatives	-	-	-	**-**	-	-	N/A
6. Financial assets	-	-	-	**(1,981)**	(1,008)	(972)	96%
Total interest expenses	**(20,787)**	**(5,337)**	**(951)**	**(29,056)**	**(19,997)**	**(9,059)**	**45%**
Interest margin	**63,973**	**2,633**	**(887)**	**64,422**	**45,276**	**19,146**	42%

As of 30 June 2021, the interest margin amounted to approximately EUR 64.4 million, up considerably on the previous year, when it came to approximately EUR 45.3 million.

The change described above is mainly due to the increase in interest income accrued on financial assets at amortised cost: in particular, interest on loans to customers increased by EUR 26.3 million compared to the same period of the previous year. This increase is due to greater loan activity in the first half of 2021.

Interest income also increased on financial assets measured at fair value through other comprehensive income due to the purchase, in 2021, of securities assigned to this portfolio (ALM & Treasury).

Interest expense increased by approximately EUR 9.1 million compared to 30 June 2020, mainly due to the rise of EUR 5.2 million in interest expense on securities issued – following the issuance of an EMTN programme bond – and the increase in income expense on amounts due to customers, for approximately EUR 3.5 million, directly related to the increase in volumes of direct funding.

Net fee and commission income

(amounts in thousands of euros)

Items/Technical forms	30 June 2021	30 June 2020	Absolute changes	Change %
Fee and commission income				-
a. guarantees given	25	29	(4)	(14%)
c. management, brokerage and advisory services	494	281	213	76%
d. collection and payment services	176	94	82	87%
f. factoring services	1,306	784	522	67%
i. maintenance and management of current accounts	214	160	54	34%
j. other services	13,594	5,248	8,346	>100%
Total	**15,809**	**6,596**	**9,213**	**>100%**
Fee and commission expense				
a. guarantees received	(1)	-	(1)	N/A
c. management and brokerage services	(268)	(66)	(202)	>100%
d. collection and payment services	(441)	(426)	(15)	4%
e. other services	(1,457)	(1,005)	(452)	45%
Total	**(2,167)**	**(1,497)**	**(670)**	**45%**
Net fee and commission income	**13,642**	**5,099**	**8,543**	**>100%**

Net fee and commission income amounted to EUR 13.6 million, up significantly compared to the period ended 30 June 2020, when they amounted to EUR 5.1 million. The "other services" sub-item of fee and commission income mainly includes commissions from the specific business of Group companies referred to neprix and neprix Agency – and in particular commissions from auctions and related services, accrued for the use of the companies' property portals – for approximately EUR 5.9 million, commissions on the operations of the Distressed Credit and Growth Credit Divisions of the Bank for approximately EUR 3.4 million, as well as the activity of Capital Markets launched by the Bank in H1 2021 for approximately EUR 2 million.

Other operating expenses and income

(amounts in thousands of euros)

Items/Technical forms	30 June 2021	30 June 2020	Absolute changes	Change %
Other operating expenses				
Amortisation of expenses for improvements on third party assets	(43)	(42)	(1)	2%
Other operating expenses	(836)	(968)	132	(14%)
Total	**(879)**	**(1,010)**	**131**	**(13%)**
Other operating income				
Recoveries of expenses from other customers	851	272	579	>100%
Other income	2,898	607	2,291	>100%
Rental income	1,271	404	867	>100%
Total	**5,020**	**1,283**	**3,737**	**>100%**
Other operating income/expenses	**4,141**	**273**	**3,868**	**>100%**

The item includes operating income and expenses of the Bank and its subsidiaries. Other operating income is mainly from the management of a real-estate complex recognised under property and equipment, acquired through the NPL business and from the income from the ancillary activities to the real-estate auctions held by neprix and its subsidiary neprix Agency.

Personnel expenses

(amounts in thousands of euros)

Items/Technical forms	30 June 2021	30 June 2020	Absolute changes	Change %
1. Employees	(33,580)	(22,760)	(10,820)	48%
2. Other personnel in service	(963)	(807)	(156)	19%
3. Directors and statutory auditors	(1,056)	(978)	(78)	8%
Personnel expenses	**(35,599)**	**(24,545)**	**(11,054)**	**45%**

Personnel expenses amounted to approximately EUR 35.6 million and consist mainly of employee wages and salaries and the related social security contributions. This item went up compared to the same period of the previous year due to new personnel being employed to support the Group's new, increased operations. Another factor that increased costs is the MBO portion used to consolidate individual incentive systems for employees.

The Group had a total of 675 employees as of 30 June 2021, up on 31 December 2020 (587). The following table shows the number of employees as of 30 June 2021, broken down by classification, together with changes compared to 31 December 2020.

Category	30 June 2021			31 December 2020			Changes	
	No. employees	No. employees %	Average age	No. employees	No. employees %	Average age	Ass.	%
Senior managers	62	9%	47	55	9%	46	7	13%
Middle managers	294	44%	38	242	41%	37	52	21%
Other employees	319	47%	31	290	50%	34	29	10%
Employees	**675**	**100%**		**587**	**100%**			

Other Administrative expenses

(amounts in thousands of euros)

Items/Technical forms	30 June 2021	30 June 2020	Absolute changes	Change %
Insurance	(1,557)	(681)	(876)	>100%
Various consulting services	(4,025)	(4,291)	266	(6%)
Sundry contributions	(1,972)	(376)	(1,596)	>100%
Cost of services	(1,741)	(1,831)	90	(5%)
Financial information	(1,152)	(493)	(659)	>100%
Adverts and advertising	(1,270)	(1,470)	200	(14%)
Financial stetements audit	(321)	(324)	3	(1%)
IT and software expenses	(10,255)	(8,697)	(1,558)	18%
Legal and notary's fees	(2,879)	(2,310)	(569)	25%
Property management expenses	(1,879)	(1,607)	(272)	17%
Expenses for professional services	(4,564)	(3,517)	(1,047)	30%
Utilities and services	(789)	(954)	165	(17%)
Other indirect taxes and duties	(4,677)	(1,283)	(3,394)	>100%
Others	(663)	(975)	312	(32%)
Total other administrative expenses	**(37,744)**	**(28,809)**	**(8,935)**	**31%**

Other administrative expenses amounted to approximately EUR 37.7 million, increasing by EUR 8.9 million compared to the same period of the previous year, and refer primarily to IT and software expenses other indirect taxes and duties and various consultancy fees.

With regard to the other indirect taxes and duties component, the increase is mainly attributable to the combined effect of the IMU property tax on *datio in solutum* properties acquired during 2020 and to lower tax recoveries compared to the comparison period – listing expenses and advertising investments.

Net write-downs/write-backs on property and equipment and intangible assets

(amounts in thousands of euros)

Items/Technical forms	30 June 2021	30 June 2020	Absolute changes	Change %
Net write-downs/write-backs on property and equipment				
Property and equipment with functional use	(1,722)	(1,323)	(399)	30%
of which: own Property and equipment	*(569)*	*(258)*	*(311)*	*>100%*
of which: Lease rights of use	*(1,153)*	*(1,065)*	*(88)*	*8%*
Total	**(1,722)**	**(1,323)**	**(399)**	**30%**
Net adjustments/recoveries on intangible assets				
Finite useful life	(3,463)	(2,537)	(926)	36%
Indefinite useful life	-	-	-	N/A
Total	**(3,463)**	**(2,537)**	**(926)**	**36%**
Net write-downs/write-backs on property and equipment and intangible assets	**(5,185)**	**(3,860)**	**(1,325)**	**34%**

Net adjustments/recoveries on property and equipment and intangible assets amounted to approximately EUR 5.2 million, compared to EUR 3.9 million as of 30 June of the previous year. The increase was due to the amortisation of significant IT investments made by the Bank.

Net losses/recoveries for credit risk relating to financial assets measured at Amortised Cost

(amounts in thousands of euros)

Transaction/Income item	Adjustments (1)			Recoveries (2)		30 June 2021 (1) + (2)
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three	
		Write-offs	Others			
A. Due from banks	**(21)**	**–**	**–**	**18**	**–**	**(3)**
- loans	(21)	–	–	18	–	(3)
- debt securities	–	–	–	–	–	–
of which: purchased or originated credit impaired	–	–	–	–	–	–
B. Loans to customers:	**(773)**	**–**	**(67,240)**	**989**	**104,086**	**37,062**
- loans	(630)	–	(67,240)	974	104,086	37,190
- debt securities	(143)	–	–	15	–	(128)
of which: purchased or originated credit impaired	–	–	*(64,388)*	–	*102,421*	*38,033*
Total	**(794)**	**–**	**(67,240)**	**1,007**	**104,086**	**37,059**

Net adjustments/recoveries for assets measured at amortised cost amounted to EUR 37.1 million. In particular, net recoveries on POCI loans amounted to EUR 38 million, as shown in the table above. The sub-item "purchased or originated impaired financial assets" recognises the amount of adjustments/reversals of purchased or originated impaired financial assets as a result of income or revisions of business plans. The overall valuation of POCI Client HTC closed positions during the period yielded a net positive result of EUR 37.4 million.

Basic and diluted earnings per share

Basic earnings (loss) per share are calculated by dividing the Group's profit for the period by the weighted average number of ordinary shares in issue. The diluted profit per share as of 30 June 2021 coincides with the basic profit per share.

(amounts in thousands of euros)

Basic and diluted earnings per share	Profit/(Loss) for the period	Average number of shares	Basic and diluted earnings (loss) per share
Period ended 30 June 2021	27,418	73,276,910	0.37
Period ended 30 June 2020	14,838	65,311,441	0.23

Quarterly trend

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

Reclassified Statement of Financial Position

(amounts in thousands of euros)

Assets	30 June 2021	31 March 2021	31 December 2020	30 September 2020	30 June 2020
Property portfolio - Securities at FV	299,513	342,635	91,427	139,861	285,731
Loans to customers HTCS	15,856	-	-	-	-
Financial instruments mandatorily measured at fair value	138,439	17,789	18,450	13,962	7,710
Loans mandatorily measured at fair value	505	512	-	-	4,422
Due from banks	444,780	536,023	530,922	504,806	502,844
Loans to financial entities	169,842	139,943	109,993	139,974	139,959
Loans to customers	2,330,341	2,233,732	2,204,908	1,830,969	1,765,923
Investments in equity	83,727	85,564	-	-	-
Property and equipment and intangible assets	152,371	147,191	147,816	137,264	133,946
Tax assets	29,449	31,088	35,403	35,368	39,500
Other assets	665,931	781,560	987,370	589,854	357,821
Total assets	**4,330,754**	**4,316,037**	**4,126,289**	**3,392,058**	**3,237,856**

(amounts in thousands of euros)

Liabilities	30 June 2021	31 March 2021	31 December 2020	30 September 2020	30 June 2020
Amounts due to banks	581,628	626,660	534,345	540,953	582,970
Amounts due to customers	2,643,308	2,567,758	2,552,161	2,123,218	1,912,996
Securities issued	304,067	302,402	300,980	2,256	2,254
Tax liabilities	5,268	6,859	4,207	4,627	3,187
Other liabilities	115,741	146,865	151,474	146,489	173,289
Shareholders' equity	680,742	665,493	583,122	574,515	563,160
Total liabilities and shareholders' equity	**4,330,754**	**4,316,037**	**4,126,289**	**3,392,058**	**3,237,856**

Reclassified Income Statement

(amounts in thousands of euros)

Income Statement items	2Q2021	1Q2021	4Q2020	3Q2020	2Q2020
Net interest margin	33,215	31,207	30,801	27,226	23,878
Net fee and commission income	8,698	4,944	6,548	3,176	2,359
Gains/losses on financial assets and liabilities	1,063	3,833	2,747	2,071	(28)
Net write-downs/write-backs on closed positions - HTC Clients - POCI	26,021	11,406	13,995	11,596	7,924
Other profits (losses) from the disposal of investments	-	2,278	-	-	-
Other operating expenses and income	2,138	2,003	4,112	461	227
Total net operating income	**71,135**	**55,671**	**58,203**	**44,530**	**34,360**
Personnel expenses	(18,961)	(16,638)	(16,023)	(11,495)	(13,246)
Other administrative expenses	(19,803)	(17,941)	(25,244)	(16,851)	(12,718)
Net adjustments/recoveries on property and equipment and intangible assets	(2,215)	(2,970)	(2,456)	(2,298)	(2,027)
Operating expenses	**(40,979)**	**(37,549)**	**(43,723)**	**(30,644)**	**(27,991)**
Operating profit (loss)	**30,156**	**18,122**	**14,480**	**13,886**	**6,369**
Net losses/recoveries for credit risk - HTC Banks	12	(15)	57	(72)	252
Net losses/recoveries for credit risk - HTC Other financial entities	(98)	(31)	25	11	(25)
Net losses/recoveries for credit risk - HTC Clients	(6,421)	6,185	(5,108)	(761)	3,352
Net losses/recoveries for credit risk - HTCS	361	(1,504)	82	353	184
Net losses/recoveries for commitments and guarantees	190	(1,507)	(785)	(200)	(137)
Total net adjustments/recoveries	**(5,956)**	**3,128**	**(5,729)**	**(669)**	**3,626**
Other net provisions	25	(25)	(428)	(40)	36
Other income (expenses) on investments	(1,851)	(2,123)	-	-	-
Profit (Loss) from operations before taxes	**22,374**	**19,102**	**8,323**	**13,177**	**10,031**
Income tax for the period on continuing operations	(7,512)	(6,546)	(1,558)	(3,694)	307
Profit (loss) for the period	**14,862**	**12,556**	**6,765**	**9,483**	**10,338**

The interest margin amounted to EUR 33.2 million in the second quarter of 2021, up on both the previous quarter and the same quarter of 2020. The Distressed Credit Division was able to make a significant contribution to the quarterly result in spite of the challenging market conditions caused by the COVID-19 pandemic.

Total net operating income for the second quarter of 2021 was EUR 71.1 million, up compared to the previous quarter. In addition to the interest margin, revenues for the period include net fee and commission income of EUR 8.7 million and a positive result of approximately EUR 26 million on closed HTC Clients positions.

Operating expenses in the second quarter of 2021 amounted to approximately EUR 41 million, up on the previous quarter and on the same quarter of 2020, in relation to the increase in the Group's operations, as also reflected in the increase in personnel expenses due to new hires to support the Group's increased operations. Another factor that made costs go up is the increase in the MBO portion used to consolidate individual incentive systems for employees, in addition to the annual ESOP tranche of EUR 1.2 million.

Net adjustments/recoveries, relating mainly to the valuation of the HTC Clients portfolio, were negative during the quarter (approximately EUR 6.4 million), reflecting the reversal of recoveries recorded during the first quarter and recorded among the positions closed during the second quarter. Costs on investments, related to result for the period of the joint venture in Hype, were also recorded, for EUR 1.9 million.

As a result of the above dynamics, the second quarter of 2021 ended with a profit for the period, before taxes on continuing operations, equal to EUR 22.4 million and a net profit for the quarter of EUR 14.9 million.

Contribution of operating segments to the group's results

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

a. Distressed Credit
b. Growth Credit
c. Direct Banking;
d. Asset Management Company ("SGR").

In addition, the Corporate Center has the function of steering, coordinating and controlling the entire Group.

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

The next table shows the main data summarising developments in the operating segments of the illimity Group in the first half of 2021.

(amounts in millions of euros)

Economic performance	Distressed Credit	Growth Credit	Direct Banking	SGR	Corporate Center (*)	30 June 2021
Net interest margin	54.3	8.3	1.8	-	-	64.4
Net fee and commission income	4.9	8.3	-	0.5	(0.1)	13.6
Other economic components	42.3	3.7	2.3	-	0.5	48.8
Total net operating income	**101.5**	**20.3**	**4.1**	**0.5**	**0.4**	**126.8**
Personnel expenses	(12.8)	(6.0)	(4.1)	(1.1)	(11.6)	(35.6)
Other administrative expenses and Net adjustments/recoveries on property and equipment and intangible assets	(20.0)	(6.2)	(6.3)	(0.1)	(10.3)	(42.9)
Operating expenses	**(32.8)**	**(12.2)**	**(10.4)**	**(1.2)**	**(21.9)**	**(78.5)**
Operating profit (loss)	**68.7**	**8.1**	**(6.3)**	**(0.7)**	**(21.5)**	**48.3**
Total net adjustments/ recoveries and other provisions	(2.5)	(0.4)	-	-	0.1	(2.8)
Other income (expenses) on investments	-	-	(4.0)	-	-	(4.0)
Profit (loss) from operations before taxes	**66.2**	**7.7**	**(10.3)**	**(0.7)**	**(21.4)**	**41.5**

(amounts in millions of euros)

Financial data	Distressed Credit	Growth Credit	Direct Banking	SGR	Corporate Center (*)	30 June 2021
Loans to customers	1,029.1	1,063.4	-	-	-	2,092.5
Asset securities at amortised cost	225.2	12.7	-	-	-	237.9
Property and Equipment	58.2	-	-	-	20.7	78.9
Amounts due to customers and Securities issued	-	-	2,460.1	-	509.4	2,969.5
RWAs	2,054.8	855.9	27.7	-	229.1	**3,167.5**

(*) Intersector eliminations are carried out at the Corporate Center.

In line with illimity's business plan, the Divisions' contribution to profitability reflects their different nature and the pace at which they do business. The Distressed Credit Division therefore confirmed a quicker rate of growth in the first few years, to be gradually followed by the Growth Credit Division.

In line with a quicker pace of investments and therefore becoming fully operational, the Distressed Credit Division reported approximately EUR 54.3 million of net interest income in the first half of 2021, and a net operating income of EUR 101.5 million (approximately 80.1% of the Group's net operating income). Profits before taxes amounted to EUR 66.2 million for the first half of 2021.

The Growth Credit Division, besides being affected by a slower growth rate already predicted for the Distressed Credit business, was impacted in 2020 by the temporary slowdown in the generation of business volumes due to the COVID-19 health emergency. However, the Division reported a profit before taxes of EUR 7.7 million in the first half of 2021, a net increase compared to the annual profit for 2020, which amounted to EUR 5.5 million. The Growth Credit Division also recorded EUR 117 million of net receivables (corresponding to approximately EUR 136 million of gross receivables) from Banca Interprovinciale's portfolio, most of which are not part of illimity's core business and have a profitability adjusted for the risk that is decidedly lower than the Division's new business. The negative contribution of this component to the Division's profitability will decrease rapidly in proportion to the results achieved in the next few years, in line with the gradual lower impact of this portfolio in relation to the Division's new business.

The Direct Banking Division as of 30 June 2021 reported an operating loss of approximately EUR 6.3 million. However, the joint venture in Hype is expected to produce benefits, above all significant cost sharing, as well as revenues enabled from cross selling opportunities.

The SGR contributed to the consolidated results with an operating loss for the half-year of approximately EUR 0.7 million. It is believed that the growing operation of illimity SGR will gradually benefit the Group, especially in terms of improving the commission margin.

Lastly, the central functions of the Corporate Center reported an operating loss of EUR 21.4 million in the first half of 2021, which is consistent with its nature as a cost centre for all other functions of the Group.

Distressed Credit

Direct Acquisitions

As of 31 March 2021, the Distressed Credit Division had purchased 7.8 billion euros of distressed loans, in terms of gross book value, for the price of approximately 1,167 million euros.

During the second quarter of 2021, the Investments area finalised transactions for an invested amount of approximately EUR 49 million. These opportunities were finalised through two different structural types:

- acquisitions completed through securitisation vehicles pursuant to Law 130/1999: these transactions were concluded by subscribing 100% of the notes issued by the securitisation vehicles, which in turn receive from illimity the funding necessary for the acquisition of the credits. In this case, the purchase may only concern positions classified as bad loans, or in any case revoked credit lines;
- acquisitions executed directly by illimity: credits are purchased directly by illimity and accounted for in the Bank's financial statements; this case is necessary, for example, for the purchase of still-active positions, usually classified as UTPs, for which the transfer of both the credit right and the associated banking relationship is required.

Taking also into account investments made by the Investments area in previous years, as of 30 June 2021 the Distressed Credit Division finalised investment transactions in distressed loans, both on its own and through controlled securitisation vehicles, for a total amount of approximately EUR 1,216 million euros, as shown below.

(Amounts in millions of euros)

Investment transactions in Distressed Loans	Price	GBV
Acquisitions as of 31/12/2019	**720**	**5,301**
Acquisitions Q1 2020	37	174
Total as of 31/03/2020	**757**	**5,475**
Acquisitions Q2 2020	100	282
Total as of 30/06/2020	**857**	**5,757**
Acquisitions Q3 2020	12	485
Total as of 30/09/2020	**869**	**6,242**
Acquisitions Q4 2020	251	1,325
Total as of 31/12/2020	**1,120**	**7,567**
Acquisitions Q1 2021	47	245
Total as of 31/03/2021	**1,167**	**7,812**
Acquisitions Q2 2021	49	213
of which: items being processed	*11*	*38*
Total as of 30/06/2021	**1,216**	**8,025**

Senior Financing Operations

In the second quarter of 2021, the Senior Financing area finalised a transaction for a total of EUR 2 million. In general terms, these Senior Financing opportunities, concluded mainly in support of primary investment funds and companies specialised in the purchase of non-performing loans, were finalised through two different structural types:

- the subscription of senior notes issued by securitization vehicles pursuant to Law 130/1999 that have purchased non-performing loans. In some limited cases, illimity also acted as sponsor of the securitisation, and also subscribed to part of the junior notes issued by the securitisation vehicles pursuant to Law 130/1999;
- the provision of an asset-backed loan to a corporate entity.

Considering the investments made by the Senior Financing area in 2018, 2019 and 2020, as well as the two transactions undertaken with the support of the Special Situations Real Estate area through illimity's subscription of senior notes and any minority portion of junior notes issued by securitisation vehicles pursuant to Italian Law no. 130/1999, as of 30 June 2021, the Bank had entered into 21 asset-backed loan agreements on distressed loans for a total amount of approximately EUR 488 million, as shown below.

(Amounts in millions of euros)

Asset-backed financing on Distressed Loans	Amount paid
Investments up to 31/12/2019	**390**
Investments Q1 2020	11
Total as of 31/03/2020	**401**
Investments Q2 2020	13
Total as of 30/06/2020	**414**
Investments Q3 2020	27
Total as of 30/09/2020	**441**
Investments Q4 2020	33
Total as of 31/12/2020	**474**
Investments Q1 2021	12
Total as of 31/03/2021[1]	**486**
Investments Q2 2021	2
Total as of 30/06/2021[2]	**488**

1 The amount disbursed in 2019 and Q1 2021 also includes two transactions finalised by the Special Situations Real Estate area of the Distressed Credit Division.

2 As of 30 June 2021, the outstanding accounting balance (paid) amounted to approximately EUR 375.2 million, of which EUR 289 million of notes and EUR 86.2 million of loans.

Energy operations

On 11 June 2021, the Bank signed an agreement for the purchase of a portfolio of distressed loans with a nominal value of approximately EUR 83 million, consisting of lease contracts and medium to long-term loans to corporate debtors operating in the renewable energy sector (specifically in the photovoltaic sector). The purchase was completed using a securitisation vehicle pursuant to Italian Law no. 130/99, owned by the Bank and by VEI Green II S.p.A., a specialist in the renewables sector. The gross value portion of the portfolio attributable to the illimity shareholding is approximately EUR 71 million.

Growth Credit Division

As of 31 March 2021, gross exposures in the Growth Credit Division portfolio totalled approximately EUR 972 million, broken down as follows:

- former BIP portfolio, amounting to EUR 146 million (15%);
- Turnaround amounting to approximately EUR 261 million (27%);
- Crossover and Acquisition Finance amounting to EUR 407 million (42%);
- Factoring, amounting to EUR 158 million (16%).

In the second quarter of 2021, receivables of the Growth Credit Division went up by approximately EUR 133 million (+14% compared to 31 March 2021), with new loans of approximately EUR 116 million, repayments and syndications of almost EUR 5 million, as well as an increase in factoring loans of approximately EUR 30 million.

The corporate bond portfolio, which during Q1 2021 saw an expansion of the investment strategy to include the HTCS business model in order to increase the range of possible investments – compared to a strategy aimed at mere retention in the portfolio (HTC) – as of 30 June 2021 amounted to a total of EUR 48 million, of which EUR 38 million HTCS and EUR 10 million HTC.

In brief, the main trends observed in the second quarter of 2021 are as follows:

- new loans secured by public guarantees for a total of approximately EUR 107 million, of which EUR 42 million relating to the Turnaround Area and EUR 65 million relating to the Crossover & Acquisition Finance Area;
- disbursal of unsecured loans for approximately EUR 9 million, largely attributable to disbursements on operations of the Crossover & Acquisition Finance Area approved previously.

With regard to factoring, the positive trend continued in the second quarter leading to a total Turnover of almost EUR 432 million for the first half of the year (approximately EUR 232 million in the second half of 2021, up 17% compared to the previous quarter). The GBV as of 30 June 2021 is close to EUR 188 million, the highest value achieved so far.

The gradual reduction in former BPI portfolio exposures continued, with a decrease of around EUR 10 million in the second quarter of 2021. Note that due to operating practices the aggregate also includes loans granted to illimity Group employees, amounting to a total of approximately EUR 14 million.

As of 30 June 2021, the Growth Credit portfolio had a gross exposure of EUR 1,105 million, broken down as follows:

- former BIP portfolio, amounting to EUR 136 million (12%);
- Turnaround amounting to approximately EUR 305 million (28%);
- Crossover and Acquisition Finance amounting to EUR 476 million (43%);
- Factoring, amounting to EUR 188 million (17%).

Direct Banking

Direct Banking projects

The second quarter of the year saw the Direct Bank Division continue consolidating its platform and product range, completing both business and technological projects, as well as presenting the update of the 2021-2025 Business Plan to the market.

In the second quarter, illimity announced its partnership with viafintech, enabling customers of illimitybank.com to use the viacash function in their mobile banking app. The service integrated into the bank's app under the item "Cash Deposit" allows customers to deposit cash in a smart, efficient way while they shop at over 1,000 points of sale in Italy (including Pam, Penny Market and Carrefour). As of 30 June 2021, 1,900 customers of Direct Bank have activated the service, executing about 2,000 transactions and depositing EUR 0.3 million into current accounts.

Moreover, in May illimity announced a partnership with Flee, a brand owned by Aon, to offer illimitybank.com customers and all bank employees a new idea of mobility thanks to exclusive rental services. Flee is the first mileage-based long-term car rental – pay per use that combines the savings, security and convenience of an all-digital service. Innovation, smart attitude and digital approach are the values that unite illimity and Flee and that have led to this partnership. Customers and employees thus have access to Flee's long-term rental service with a series of benefits in terms of savings and service, available vehicles (green and ecological choices), free advice on reservations and many others. The service is accessible through a simple, fast and intuitive process.

At the conclusion of the main events of the quarter, on 22 June 2021 the illimity Group's 2021-2025 Business Plan was presented to the market, which is based on the solid results already achieved in the first three years of operations and sets economic and capital objectives for the Group that place it at the top of the financial services sector. Thanks to the capitalisation of experience and investments made in recent years, in 2021 the Direct Bank Division has already seen the launch of two strategic core initiatives detailed in the Business Plan:

- B-ILTY, the creation of the first bank for companies with a turnover of less than EUR 10 million and therefore able to expand the current pool of corporate customers of illimity, a segment served by the Growth Credit and Distressed Credit Divisions B-ILTY, designed for the specific needs of small businesses, will contain: both factoring and short- and medium-term financing products, digital transactional platform, value-added services (e.g. insurance, digital CFO, etc.). The predominantly digital service model will also be flanked by the availability of relationship managers, professionals dedicated to the relationship and also specialised for certain industries. Furthermore, the credit assessment model will be one of the most advanced on the market, a digitised, data-driven credit scoring process to ensure rapid response times and volume scalability. The aim of the initiative is to serve over 30,000 regular customers in 2025, and generate new volumes of loans disbursed cumulatively over the course of the Plan amounting to approximately EUR 3.7 billion, with a limited risk and absorption of capital thanks to the use of public guarantees and credit insurance;
- New Hype, launching in the third quarter of 2021, which will help further consolidate the JV with the Sella Group, already a leader in the sector of digital financial services platforms in the retail world with over 1.4 million customers destined to rise up to 3 million over the course of the Plan. Hype will evolve from a payment method into a money management hub to fully cover the customer's needs through synergies with illimity and therefore the extension of PSD2 functionality and the completion of the offer with third-party products (deposits, investments, etc.) combined with a new CRM, brand positioning and new graphics.

Moreover, the Division will continue along the established path as the Bank's main source of funding, ensuring direct funding from retail customers through *illimitybank.com* and the Hype and Raisin channels to support the growth of the Group's loans. The objective is to contribute up to EUR 4.4 billion by 2025, with a simultaneous reduction in Cost of Funding. This will be achieved through a targeted pricing strategy and a consistent balance of the mix of the channels. Direct Bank will therefore strengthen its role as the main player and orchestrator of the illimity Group's funding channels, essential to support the growth of loans, including those relating to B-ILTY.

Finally, note that during Milan Digital Finance Week illimity was awarded with a further recognition for being the high-tech banking group that offers innovative direct digital banking services for retail and corporate customers through its own digital bank, *illimitybank.com*.

Retail Business performance

As of 30 June 2021, Bank funding broke down as follows:

- the partnership with the German fintech platform Raisin, operational since May 2019, contributed EUR 511 million to funding thanks to its nearly 14,000 customers; Funding was up +4% compared to the previous quarter, and by +44% compared to the end of the second quarter of 2020;
- the strategic partnership with Azimut, a leading advisory and wealth management firm, contributed EUR 62 million to the Bank's funding. Azimut funding grew by 77% compared to the same period in 2020, and by 7% compared to the previous quarter;
- the digital bank *illimitybank.com*, presented to the market on 12 September 2019, contributed EUR 1,170 million to funding. The funding raised by *illimitybank.com* increased by approximately EUR 70 million during the last quarter, and by EUR 340 million compared to the same period of 2020 (+41%);
- The Direct Bank customer base (including the Azimut channel) currently comprises some 50,000 customers (+50% compared to the end of the second quarter of 2020, and around 4,000 customers more in the first quarter of 2021).

Total direct funding from the above channels (Raisin, Azimut, illimitybank.com) amounted to EUR 1,740 million.

Asset Management Company ("SGR")

On 31 March 2021, with effect from 1 April 2021, the SGR completed the first closing of the "illimity Credit & Corporate Turnaround" AIF (the "Fund" or "iCCT"), a contribution fund dedicated to investments in unlikely-to-pay positions of SMEs, with prospects for them to recover and relaunch. The initial portfolio includes receivables for a total gross amount of over EUR 200 million with 33 companies operating in highly diversified sectors. These receivables were sold by 7 banks and banking groups, becoming holders of units in the Fund. The Fund envisages an initial funding – subscribed by professional investors, including illimity Bank – amounting to EUR 25 million, that will be used by the SGR to manage purchased UTP receivables and to support the turnaround of companies in which the Fund assets have invested. In addition to the valuation and management of the various positions by the SGR on behalf of the Fund, additional cash receivables were also acquired during the second quarter of 2021. The SGR has therefore launched full management operations.

During the month of June 2021, as part of the multi-year strategic planning process, the sole shareholder illimity Bank made a payment on account for a future capital increase of EUR 2 million aimed at supporting the development of the SGR in full compliance with the capital requirements.

Corporate Center

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

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

CIO

In the second quarter of 2021 there were no slowdowns due to the continuing COVID-19 pandemic. All illimiters work at the company and remotely as necessary, facilitated by the IT architecture (e.g. reserving workstations in the office when necessary and using the resources made available by the company) and related updates. The plan for attendance at offices was defined in accordance with measures decided by authorities to contain the spread of infection and working methods promoted by illimity.

IT platform projects

Illimity recently announced a strategic alliance with ION, which includes a licence agreement for developed information systems.

As part of IT4IT projects, initiatives dedicated to the platform's technological evolution are continuing, and will provide a number of benefits, both in qualitative terms (e.g. a general improvement in the performance of IT systems involved), and in quantitative terms (e.g. a reduction in the times necessary for development and related costs). These include the release of the project for the development of the Front-End (web/mobile) architecture, which has already brought clear benefits with respect to user satisfaction with mobile channels, and Data Quality works, started in the first quarter, that will end by the end of 2021. Projects in the field of security are under development for the implementation of Identity Governance and the consolidation of the Disaster Recovery and Business Continuity Management processes.

Projects in support of the other divisions

In addition, the IT Function is supporting the Direct Banking, Growth Credit and Distressed Credit Divisions in developing the projects identified in their respective masterplans:

Direct Bank Division

- As announced during the presentation of the 2021-2025 Business Plan, development of the B-ILTY project was launched in order to build and release a digital transactional platform that offers customers an inclusive value proposition of credit products and value-added services dedicated to small and micro-enterprises. The tactical release of the initiative, including the first functions, is scheduled for the beginning of July, and will then continue development moving towards the release target currently planned for the first quarter of 2022;
- The evolution linked to open banking for Payment Initiation and Account Information services also continues, expanding the pool of banks through which the two services are accessible to customers from home banking and mobile banking.

Growth Credit Division

- Development of the Ecobonus Module has been completed, an application for illimity to manage the purchase of tax credits accrued by third parties, which features an engine to calculate the interest to recognise in financial statements;

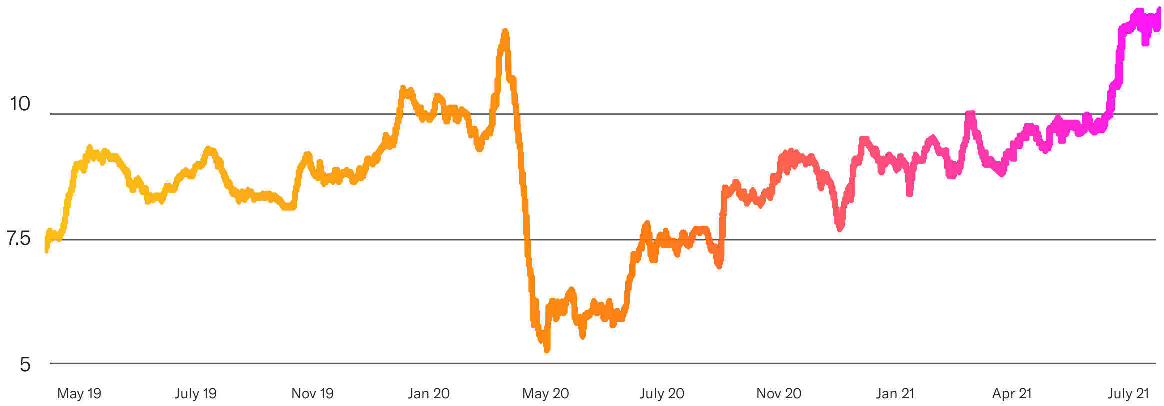
Distressed Credit Division

- Releases of the modules related to COMS (Credit Origination & Management System) continue, the vertical application being designed to guide the user through all phases of the process related to the world of credit, from origination to management, both distressed and performing. In the first half of the year, the modules were released to support the management of the Business Plan and related receipts, acquisition and screening, as well as the amortisation of transaction costs. Furthermore, a first version of the Pricing and LDT (Loan Data Tape) ingestion modules was released. The former is useful for the creation and management of the pricing models of the portfolios being valued, the latter expands COMS by introducing the ingestion of data from the Virtual Data Room of the sellers by digitising the load process.
- Lastly, in the Data sector, in collaboration with the Growth Credit Division, the creation of a single credit Data Warehouse continues, containing the current content of various illimity systems. The project saw an acceleration in the second quarter and the release in the last quarter of 2021 was confirmed.

As regards main projects underway and dedicated to central Functions, activities continued on Corporate Performance Management systems used to guarantee the correct monitoring and management of the company's economic and financial performance (and related decision-making KPIs), the project to revise the TIT (internal transfer rate) calculation model, with expected benefits that will include a better understanding and measurement of business income, and the active management of interest rate risk, and the implementation of the front-to-back system for the management of the new OTC (Over-the-Counter) derivatives.

illimity Bank share performance

The ordinary shares of illimity are traded on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana since 5 March 2019. From 10 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the MTA market. The performance of the share since it has been listed, is reported below:



Significant shareholders with a stake of at least 5% in the share capital with voting rights in illimity, with the percentages calculated by the Bank based on the number of shares resulting from the most recent information available and number of ordinary shares issued, updated at 30 July 2021, are reported below:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
GRUPPO SELLA	GRUPPO SELLA	Owned	10.10%	10.10%
LR TRUST	FIDIM SRL	Owned	8.76%	8.76%
TENSILE CAPITAL MANAGEMENT LLC	TENSILE-METIS HOLDINGS SARL	Owned	7.56%	7.56%
Atlas Merchant Capital LLC	AMC METIS SARL	Owned	7.07%	7.07%

In relation to the ownership structure, AMC Metis S.a.r.l., Metis S.p.A. and Corrado Passera entered into an agreement on 18 March 2019 pertaining directly and indirectly to shares of Tetis S.p.A. (a company nearly wholly owned by Metis S.p.A. which in turn is 90% owned by Corrado Passera and holds ordinary and special shares in the company) and ordinary shares of illimity, containing shareholders' pact measures. Specifically, this agreement, which governs AMC Metis S.a.r.l.'s pre-emptive right to ordinary illimity shares held by Tetis subject to certain conditions, provides among other things that Corrado Passera and Metis S.p.A. take steps to ensure that the illimity shareholders' meeting appoints, depending on the make-up of the Company's Board of Directors, one or two non-executive directors nominated by AMC Metis S.a.r.l.

Subsequent events

On 30 June 2021, illimity announced that it had successfully placed its first Tier 2 subordinated bond with a duration of 10 years and a 5-year call option, for a total amount of EUR 200 million. The issue, reserved for institutional investors, had a strong uptake of over EUR 400 million (twice the amount allocated), from over 80 investors, with a good distribution between domestic and foreign investors. Due to high investor interest, the bond coupon was set at 4.375%, better than the initial indication of 4.50%-4.75%, and the issue was raised to EUR 200 million compared to an initial plan for EUR 150 million. Listed on Euronext Dublin (Regulated Market) on 7 July 2021, the bond is part of the EMTN programme and has earned a "B-" rating from Fitch. The Tier 2 subordinated bond is one of the sources of financing envisaged in the Bank's 2021-2025 Strategic Plan presented to the market on 22 June 2021, and contributes to achieving the long-term objective of maintaining a Total Capital Ratio of around 18% over the Plan, thereby strengthening and optimising the Bank's already robust capital endowment.

On 29 July 2021, the Shareholders' Meeting of illimity, under the chairmanship of Rosalba Casiraghi, in extraordinary composition and following the authorisations received from the Supervisory Authorities in this regard, unanimously approved the increase in share capital reserved for the ION Group, part of the broader strategic alliance between the two Groups.

As part of the new 2021-25 Strategic Plan, presented to the market on 22 June, technology remains a critical success factor for illimity, which from the beginning of its business has employed an IT platform that is unique and cutting-edge in the national and international banking landscape. In this context, a broad collaboration agreement was signed by illimity and the ION Group which will be implemented through:

- a licence agreement for information systems developed by illimity, which will generate EUR 90 million of cumulative revenues for the Bank in the years 2021-25;
- long-term collaboration agreements that can generate important investment and commercial synergies between the two groups in crucial sectors and services including among others data analytics, credit scoring and market intelligence.

In detail, the capital increase approved by the Shareholders' Meeting, following the authorisations issued by the Supervisory Authorities in this regard, provides for:

1) a paid increase in share capital in tranches with the exclusion of option rights pursuant to article 2441, paragraph 4, second sentence of the Italian Civil Code for a maximum total amount of EUR 57,535,660.00 (including the share premium) through the issuance of a maximum of 5,753,566 illimity ordinary shares without par value, to be paid in cash and reserved for ION Investment Corporation S.à r.l. and/or its subsidiaries; and
2) the issuance of warrants to be assigned free of charge in combination with the shares referred to in point 1) and paid increase in share capital serving such warrants in tranches with exclusion of option rights pursuant to article 2441, paragraph 4, second sentence of the Italian Civil Code for a maximum total amount of EUR 30,114,900.00 (including the share premium) through the issuance of a maximum of 2,409,192 unlimited ordinary shares without par value, to be released in cash following the exercise of warrants (to be carried out between March and July 2022) and reserved for ION Investment Corporation S.à r.l. and/or its subsidiaries.

The Shareholders' Meeting unanimously approved the related and consequent amendments to the By-laws.

Business outlook

A further rise in the Growth Credit Division's business volumes is expected over the upcoming months, this forecast also being based on loans already approved and available pipeline totalling around EUR 280 million in July 2021. A positive contribution is expected to be made by all business segments in the wake of the commercial dynamism of the past few quarters. It is expected that loans backed by state guarantees will continue to play an important role in terms of providing a contribution to new disbursements, also given the fact that the measures have been extended to cover the whole of 2021.

By virtue of the seasonality typical of the distressed credit transaction market, a gradual acceleration in the Distressed Credit Division's investments can be expected to take place in the second half of the year, despite the fact that this will be taking place in the context of a foreseeable slowdown in transactions arising from the extension of corporate debt support measures ("moratorium") to the end of the current year. The available pipeline remains robust at ca. EUR 250 million, although slightly lower than the initial forecasts due to the mentioned extension of the support measures. Transactions in distressed credit are expected to undergo a vigorous pick-up in 2022, with an expectation of around EUR 180 billion at nominal value in cumulated transactions between 2021 and 2025 between NPL and UTP.

The generation of new business volumes will be the main source of support for the interest margin, whose increase in the second half of the year is expected to be contained, also given the EUR 200 million Tier 2 subordinated loan issued at the beginning of July.
The good dynamics in net fees and commissions will continue, also supported by the new initiatives that have already started – Ecobonus, illimity SGR, capital markets services for SMEs – which will be accompanied by an expected positive contribution from the ongoing dynamic management of the distressed credit investment portfolio.

The user licence agreement for the IT platform entered into by illimity and the ION Group will become effective in the second half of 2021 and this will generate other income of EUR 18 million for the current year.

Investments in new strategic projects – first and foremost B-ILTY – which will bring their benefits in the coming years, will also continue in the second half of 2021. Together with the growth in business volumes, the grounding of the new initiatives will lead to an increase in costs in the second half of 2021, as already anticipated in previous quarters.

Given the quality of the existing corporate loan book and the contribution of loans with public guarantees, into which a significant portion of the new business generated by the Growth Credit Division will be channelled, it is expected that the cost of risk will remain at contained levels for the year as a whole.

Taken overall, the solid results reported in the second quarter and current prospects confirm the trajectory of reaching the short and medium-long term results forecast in the 2021-25 Strategic Plan presented on 22 June, which envisages 2021 net profit closing at between EUR 60 and EUR 70 million.

The positive evolution of own funds through the generation of profits, despite an important growth in risk-weighted assets following the rise in volumes, will ensure that the Common Equity Tier 1 Ratio will remain significantly above regulatory requirements.

Condensed interim consolidated financial statements

as of 30 June 2021

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets		30 June 2021	31 December 2020
10.	Cash and cash equivalents	507,653	944,832
20.	Financial assets measured at fair value through profit or loss	138,977	18,502
	a) financial assets held for trading	33	52
	b) financial assets designated at fair value	-	-
	c) other financial assets mandatorily measured at fair value	138,944	18,450
30.	Financial assets measured at fair value through other comprehensive income	315,336	91,375
40.	Financial assets measured at amortised cost	2,944,963	2,845,823
	a) due from banks	444,780	530,922
	b) loans to customers	2,500,183	2,314,901
50.	Hedging derivatives	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	83,727	-
80.	Technical reinsurance reserves	-	-
90.	Property and equipment	79,047	78,434
100.	Intangible assets	73,324	69,382
	of which:		
	- goodwill	36,257	36,224
110.	Tax assets	29,449	35,403
	a) current	4,077	3,206
	b) deferred	25,372	32,197
120.	Non-current assets held for sale and discontinued operations	61,402	-
130.	Other assets	96,876	42,538
	Total assets	**4,330,754**	**4,126,289**

	Liabilities and shareholders’ equity	30 June 2021	31 December 2020
10.	Financial liabilities measeured at amortised cost	3,551,095	3,410,034
	a) due to banks	581,628	534,345
	b) due to customers	2,665,400	2,574,709
	c) Securities issued	304,067	300,980
20.	Financial liabilities held for trading	-	-
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	-	-
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	5,268	4,207
	a) current	3,977	3,460
	b) deferred	1,291	747
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	85,422	121,789
90.	Employee severance pay	2,896	2,656
100.	Allowances for risks and charges	5,331	4,481
	a) commitments and guarantees given	4,086	3,296
	b) post-employment benefits	8	7
	c) other allowances for risks and charges	1,237	1,178
110.	Technical reserves	-	-
120.	Valuation reserves	(1,502)	(278)
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	62,980	21,766
160.	Share premium reserve	543,803	487,373
170.	Share capital	48,870	44,007
180.	Treasury shares (-)	(832)	(832)
190.	Equity attributable to minority interests (+/-)	5	-
200.	Profit (loss) for the period (+/-)	27,418	31,086
	Total liabilities and shareholders’ equity	**4,330,754**	**4,126,289**

CONSOLIDATED INCOME STATEMENT

Items		30 June 2021	30 June 2020
10.	Interest income and similar income	93,478	65,273
	of which: interest income calculated according to the effective interest method	90,480	64,032
20.	Interest expenses and similar charges	(28,858)	(19,948)
30.	**Net interest margin**	**64,620**	**45,325**
40.	Fee and commission income	15,809	6,596
50.	Fee and commission expense	(2,635)	(1,970)
60.	**Net fee and commission income**	**13,174**	**4,626**
70.	Dividends and similar income	-	-
80.	Profit (losses) on trading	1,409	(531)
90.	Fair value adjustments in hedge accounting	-	-
100.	Profits (losses) on disposal or repurchase of	3,485	5,419
	a) financial assets measured at amortised cost	302	-
	b) financial assets measured at fair value through other comprehensive income	3,183	5,420
	c) financial liabilities	-	(1)
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	2	(1,220)
	a) financial liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	2	(1,220)
120.	**Net interest and other banking income**	**82,690**	**53,619**
130.	Net losses/recoveries for credit risks associated with:	35,916	20,086
	a) financial assets measured at amortised cost	37,059	20,439
	b) financial assets measured at fair value through other comprehensive income	(1,143)	(353)
140.	Profits/losses on changes in contracts without derecognition	-	-
150.	**Net result from banking activities**	**118,606**	**73,705**
160.	Net premiums	-	-
170.	Other net insurance income (expense)	-	-
180.	**Profits (losses) of banking and insurance management**	**118,606**	**73,705**
190.	Administrative expenses:	(74,519)	(54,095)
	a) personnel expenses	(35,540)	(24,495)
	b) other administrative expenses	(38,979)	(29,600)
200.	Net provisions for risks and charges	(1,317)	4
	a) commitments and guarantees given	(1,317)	4
	b) other net provisions	-	-
210.	Net adjustments/recoveries on property and equipment	(1,722)	(1,323)
220.	Net adjustments/recoveries on intangible assets	(3,463)	(2,537)
230.	Other operating income/expenses	5,587	1,438
240.	**Operating expenses**	**(75,434)**	**(56,513)**
250.	Profits (losses) on equity investments	(3,974)	-
260.	Profits (losses) of fair value valuation of property and equipment and intangible assets	-	-
270.	Goodwill impairment	-	-
280.	Profits (losses) on disposal of investments	2,278	-
290.	**Profit (loss) before tax from continuing operations**	**41,476**	**17,192**
300.	Income tax for the period on continuing operations	(14,058)	(2,354)
310.	**Profit (loss) after tax from continuing operations**	**27,418**	**14,838**
320.	Net income (Loss) (+/-) from discontinued operations after taxes	-	-
330.	**Profit (loss) for the period**	**27,418**	**14,838**
340.	Profit (loss) (+/-) attributable to minority interests	-	-
350.	**Profit (loss) (+/-) attributable to the parent company**	**27,418**	**14,838**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

		30 June 2021	30 June 2020
10.	**Profit (loss) for the period**	**27,418**	**14,838**
	Other comprehensive income, net of taxes, that may not be reclassified to the income statement		
20.	Equity instruments designated at fair value through other comprehensive income	-	(2)
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	133	(71)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves connected with investments measured at equity	-	-
	Other comprehensive income, net of taxes, that may be reclassified to the income statement		
100.	Hedging of foreign investments	-	-
110.	Foreign exchange differences	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (undesignated elements)	-	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(1,357)	(5,065)
150.	Non-current assets held for sale and discontinued operations	-	-
160.	Share of valuation reserves connected with investments measured at equity	-	-
170.	**Total other comprehensive income (net of tax)**	**(1,224)**	**(5,138)**
180.	**Other comprehensive income (Item 10+170)**	**26,194**	**9,700**
190.	Consolidated comprehensive income attributable to minority interests	-	-
200.	**Consolidated comprehensive income attributable to the parent company**	**26,194**	**9,700**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 30 JUNE 2021

	Balance as of 31 December 2020	Change in opening balances	Balance as of 1 January 2021	Allocation of result for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
a) ordinary shares	43,069	-	43,069	-	-
b) other shares	938	-	938	-	-
Share premium reserve	487,373	-	487,373	-	-
Reserves:					
a) retained earnings	(4,229)	-	(4,229)	31,086	-
b) other	25,995	-	25,995	-	-
Valuation reserves	(278)	-	(278)	-	-
Equity instruments	-	-	-	-	-
Treasury shares	(832)	-	(832)	-	-
Profit (loss) for the period	**31,086**	**-**	**31,086**	**(31,086)**	**-**
Group shareholders' equity	**583,122**	**-**	**583,122**	**-**	**-**
Shareholders' equity attributable to minority interests	**-**	**-**	**-**	**-**	**-**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 30 JUNE 2020

	Balance as of 31 December 2019	Change in opening balances	Balance as of 1 January 2020	Allocation of result for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
a) ordinary shares	42,470	-	42,470	-	-
b) other shares	938	-	938	-	-
Share premium reserve	480,156	-	480,156	-	-
Reserves:					
a) retained earnings	12,007	-	12,007	(16,140)	-
b) other	24,181	-	24,181	-	-
Valuation reserves	939	-	939	-	-
Equity instruments	-	-	-	-	-
Treasury shares	(96)	-	(96)	-	-
Profit (loss) for the period	**(16,140)**	**-**	**(16,140)**	**16,140**	**-**
Group shareholders' equity	**544,455**	**-**	**544,455**	**-**	**-**
Shareholders' equity attributable to minority interests	**-**	**-**	**-**	**-**	**-**

Change in reserves	Changes in the period – Shareholders' equity transactions: Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period	Shareholders' equity attributable to the Group as of 30/06/2021	Shareholders' equity attributable to minority interests as of 30/06/2021
-	4,785	-	-	-	-	78	-	-	47,932	3
-	-	-	-	-	-	-	-	-	938	-
-	56,430	-	-	-	-	-	-	-	543,803	-
-	-	-	-	-	-	(78)	-	-	26,779	2
7	8,608	-	-	-	-	1,591	-	-	36,201	-
-	-	-	-	-	-	-	-	(1,224)	(1,502)	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	(832)	-
-	-	-	-	-	-	-	-	27,418	27,418	-
7	**69,823**	**-**	**-**	**-**	**-**	**1,591**	**-**	**26,194**	**680,737**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**-**	**5**

Change in reserves	Changes in the period – Shareholders' equity transactions: Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period	Shareholders' equity attributable to the Group as of 30/06/2020	Shareholders' equity attributable to minority interests as of 30/06/2020
-	599	-	-	-	-	-	-	-	43,069	-
-	-	-	-	-	-	-	-	-	938	-
-	7,217	-	-	-	-	-	-	-	487,373	-
(96)	-	-	-	-	-	-	-	-	(4,229)	-
4	-	-	-	-	-	1,281	-	-	25,466	-
-	-	-	-	-	-	-	-	(5,138)	(4,199)	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	(96)	-
-	-	-	-	-	-	-	-	14,838	14,838	-
(92)	**7,816**	**-**	**-**	**-**	**-**	**1,281**	**-**	**9,700**	**563,160**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

A. OPERATING ACTIVITIES	Amount	
	30 June 2021 (+/-)	30 June 2020 (+/-)
1. Cash flow from operations	**76,826**	**30,641**
Profit/(Loss) for the period (+/-)	27,418	14,838
Gains/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (-/+)	2,377	2,013
Profits/losses on hedging activities (-/+)	-	-
Net value adjustments/recoveries for credit risk (+/-)	949	3,518
Net adjustments/write-backs on property and equipment and intangible assets (+/-)	5,185	3,859
Net allocations to allowances for risks and charges and other costs/income (+/-)	7,259	-
Net premiums not collected (-)	-	-
Other income/expenses from insurance activities not collected (-/+)	-	-
Taxes, duties and unpaid tax credits (+)	16,185	(800)
Net adjustments/recoveries on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	17,453	7,213
2. Cash flow generated/absorbed by financial assets	**(549,676)**	**(647,252)**
Financial assets held for trading	19	11
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(121,694)	(4,750)
Financial assets measured at fair value through other comprehensive income	(224,393)	(161,959)
Financial assets measured at amortised cost	(95,314)	(474,058)
Other assets	(108,294)	(6,496)
3. Cash flow generated/absorbed by financial liabilities	**57,878**	**171,540**
Financial liabilities measured at amortised cost	111,590	126,381
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value	-	-
Other liabilities	(53,712)	45,159
Net cash generated/absorbed by operating activities	**(414,972)**	**(445,071)**

B. INVESTING ACTIVITIES	Amount	
	30 June 2021 (+/-)	30 June 2020 (+/-)
1. Cash flows from	**-**	**-**
Sales of equity investments	-	-
Dividends received on equity investments	-	-
Sales of property and equipment	-	-
Sales of intangible assets	-	-
Sales of subsidiaries and business units	-	-
2. Cash flows used in	**(39,112)**	**(15,310)**
Purchases of equity investments	(32,007)	8,082
Purchases of property and equipment	(18)	(282)
Purchases of intangible assets	(7,087)	(23,110)
Purchases of subsidiaries and business units	-	-
Net cash generated/absorbed by investing activities	**(39,112)**	**(15,310)**

C. FINANCING ACTIVITIES	Amount	
	30 June 2021 (+/-)	30 June 2020 (+/-)
Issues / Purchases of treasury shares	-	-
Share capital increases	16,904	(358)
Distribution of dividends and other purposes	-	-
Sale/purchase of third-party control	-	-
Net cash generated/absorbed by financing activities	**16,904**	**(358)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE PERIOD	**(437,180)**	**(460,738)**

Reconciliation

FINANCIAL STATEMENT ITEMS	Amount	
	30 June 2021 (+/-)	30 June 2020 (+/-)
Cash and cash equivalents at the start of the period	944,832	772,125
Total cash and cash equivalents generated/absorbed during the period	(437,179)	(460,738)
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at the end of the period	**507,653**	**311,387**

Key:

(+) generated
(-) absorbed.

Explanatory notes

as of 30 June 2021

illimity
BANCA OLTRE LA FORMA

PART A - ACCOUNTING POLICIES

A.1 General Information

illimity Bank S.p.A. is a company limited by shares with legal personality organised according to the laws of the Italian Republic having its registered office in Milan at Via Soperga 9. It is registered in the Milan Companies Register, with taxpayer identification number 03192350365, Italian Banking Association Code 03395 and Register of Banks no. 5710.

Section 1 – Declaration of compliance with IAS/IFRS

The condensed interim consolidated financial statements were prepared in accordance with paragraph 5 of Article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998, in application of Italian Legislative Decree no. 38 of 28 February 2005. In this report the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) were applied and include the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), as well as the guidance in Bank of Italy Circular no. 262 of 22 December 2005 in accordance with the accounting policies adopted in preparing the consolidated financial statements of illimity Bank for the year ended 31 December 2020.

Specifically, the condensed interim consolidated financial statements comply with accounting standard IAS 34, which sets out the minimum contents and policies for recognition and measurement in interim financial statements. Based on IAS 34, paragraph 10, the Group opted to prepare summary reporting instead of the complete reporting (which must conform with provisions of IAS 1) required for annual financial statements.

The condensed interim consolidated financial statements were prepared also in compliance with CONSOB ruling no. 11971 (Issuer Regulation) of 14 May 1999 as amended.

Section 2 – General preparation principles

The condensed interim consolidated financial statements were prepared assuming that the Group will continue as a going concern, since there are no significant uncertainties regarding events or conditions that may entail the emergence of doubts as to the Group's ability to continue to operate as a going concern.

The condensed interim consolidated financial statements have been prepared using euros as the Group's functional currency and consists of the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated shareholders' equity, cash flow statement and the explanatory notes.

The amounts presented in the explanatory tables and notes are stated in thousands of EUR, unless otherwise indicated. Any discrepancies between the figures presented are due solely to rounding.

The condensed interim consolidated financial statements as of 30 June 2021 have been prepared according to principles and policies consistent with those adopted in the consolidated financial statements of the illimity Group as of 31 December 2020, to which the reader is referred for a complete description of the principles and policies adopted, with the exception of the application of the new standards that entered into force with effect from 1 January 2021, the effects of which are described in the paragraph "New documents issued by the IASB and endorsed by the EU to be adopted on a mandatory basis with effect from financial statements for years beginning on or after 1 January 2021".

The condensed interim consolidated financial statements at 30 June 2021, which were approved by the Board of Directors on 5 August 2021, were subject to limited review by the independent auditors KPMG S.p.A. The formats provided in the instructions for preparing financial statements issued by the Bank of Italy in its order of 22 December 2005, concurrent Circular no. 262 and subsequent updates have been adopted.

Section 3 – Consolidation scope and methods

The consolidation policies and principles adopted in preparing the condensed interim consolidated financial statements for the period ended 30 June 2021 are unchanged with respect to the consolidated financial statements for the year ended 31 December 2020.

The condensed interim consolidated financial statements include the accounting values of illimity and of the companies over which it directly or indirectly exercises control for the half year ended on 30 June 2021, encompassing within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments dissimilar to that of the Parent Company.

The scope of consolidation of the condensed interim consolidated financial statements as of 30 June 2021 includes the following entities:

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

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

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

iv. **Soperga RE S.r.l.** (REOCO) ("Soperga RE") a wholly owned subsidiary of the Bank, established to manage the real estate assets associated with the portfolios of acquired NPLs pursuant to Article 7.1 of Italian Law no. 130/1999 on securitisation;

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

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

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

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

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

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

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

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

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

xiv. **River Immobiliare S.r.l.** ("River Immobiliare"), a wholly owned subsidiary of the Bank, set up for the purchase, the sale and management - aimed at the disposal - of the properties owned by the company.

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

xvi. **SpicyCo S.r.l.** ("SpicyCo"), of which illimity holds 49% of the share capital, which is responsible for the acquisition, management and sale of equity investments.

This scope has changed with respect to the consolidated financial statements for the year ended 31 December 2020. Below is a summary of the transactions that led to the change in the scope of consolidation.

Increases

a) Acquisition of an investment in Hype with joint venture characteristics, consolidated according to the equity method;
b) Acquisition of a stake in SpicyCo, consolidated according to the equity method;
c) Acquisition of all shareholdings in Doria SPV, Friuli SPV, Pitti SPV and River SPV, in addition to the acquisition of a controlling interest (66.7% of the share capital) in Aporti.

Decreases

a) Merger of Core, IT Auction and Mado into neprix.

On 7 January 2021, ITA Gestione changed its company name to neprix Agency S.r.l.

For further information on changes in the scope of consolidation during 2021, reference is made to Section 5 - Other aspects.

Details of the type of control and consolidation method for the scope of consolidated entities as of 30 June 2021 are given below:

Name	Operating Office	Registered Office	Type of relationship (*)	Ownership relationship	
				Held by	Holding % (**)
Parent Company					
A.0 illimity Bank S.p.A.	Milan	Milan			
Companies consolidated on a line-by-line basis					
A.1 Aporti S.r.l. (SPV)	Milan	Milan	1-4	A.0	66.7%
A.2 Soperga RE S.r.l.	Milan	Milan	1	A.0	100.0%
A.3 Friuli LeaseCo. S.r.l.	Milan	Milan	1	A.0	100.0%
A.4 Friuli SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.5 Doria Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.6 Doria SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.7 River Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.8 River SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.9 neprix S.r.l.	Milan	Milan	1	A.0	100.0%
A.10 illimity SGR	Milan	Milan	1	A.0	100.0%
A.11 Pitti Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.12 Pitti SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.13 neprix Agency S.r.l.	Faenza	Faenza	1	A.9	100.0%
A.14 River immobiliare S.r.l.	Milan	Milan	1	A.0	100.0%
Companies consolidated on an equity basis					
A.15 Hype S.p.A.	Biella	Biella	5	A.0	50.0%
A.16 SpicyCo S.r.l.	Milan	Milan	6	A.0	49.0%

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

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

Section 4 – Subsequent events

No events occurred after the reporting date of the condensed interim consolidated financial statements having an effect on the financial position and performance and cash flows of the Bank and Group which need to be reported in the Notes, other than the information presented in the specific section.

Section 5 – Other aspects

Risks, uncertainties and impacts of the COVID-19 epidemic

As the evolution of the COVID-19 epidemic continues to have an impact both in economic and operational terms, the illimity Group has maintained the primary measures for mitigating the related risks, including the use of teleworking for employees and the factoring in of the framework of reference (macro forecasts, fiscal and monetary policy choices, regulatory developments, etc.), the management of credit strategies and policies and credit risk, the portfolio of financial assets, customer relations and the governance of its own business models.

The effectiveness of illimity's commercial and technological proposal has been a strength in understanding and meeting the increased demand for remote financial services, related to the logistical limitations that have continued during the first half of the year.

The Group's highly conservative approach to pricing investments and providing funding, continuous monitoring and its limited exposure to economic sectors or asset classes most affected by the pandemic, are all factors that demonstrate the resilience of the business model in a reference scenario still characterised by considerable risks.

The managerial committees and governing boards of the Group carry out assessments at regular intervals on the actual and potential economic, financial and operational impacts of the pandemic on the strategic and operational choices of the various business lines.

Finally, the macro scenarios that also take into account the evolution of the epidemiological context and the responses of the Authorities, markets, companies and consumers were used to guide the prospective capital adequacy (ICAAP) and liquidity (ILAAP) assessments and the preparation of the Recovery Plan, as required by the prudential supervisory regulations, for the update of the Risk Appetite Framework and the sustainability assessment of the new 2021-2025 Strategic Plan.

5.1 – Acquisition of the Joint Venture Hype

On 22 September 2020, the Boards of Directors of illimity, Banca Sella Holding S.p.A. ("Banca Sella Holding"), Fabrick S.p.A. ("Fabrick") and Hype approved the agreement for investment by illimity in Hype, giving rise to a 50-50 joint venture between illimity and Fabrick (until then 100% owner of Hype, and in turn owned by Banca Sella Holding S.p.A.). The purpose of the industrial transaction is to increase the project's ambitions and also to accelerate the growth of Hype.

On 22 December 2020, the Shareholders' Meeting of illimity, in an extraordinary session, following relative authorisations received from the Supervisory Authorities, unanimously approved the increase in share capital to serve agreements made with the Sella Group for the establishment of a joint venture in Hype. Illimity therefore signed a deed of assignment, effective from 1 January 2021, for the acquisition by Fabrick S.p.A. of 37.66% of the share capital of Hype; illimity subscribed in cash the capital increase in Hype and a deed was signed to assign the direct banking business unit to Hype, resulting in illimity holding 50% of Hype with effect from 1 January 2021.

On 5 January 2021, illimity, following its disclosure dated 29 December 2020, announced the new composition of its share capital, as follows: (i) a reserved capital increase for Fabrick S.p.A. totalling EUR 44,670,596.42 (of which EUR 3,491,882.89 as capital) freed up through the transfer to illimity of shares representing 37.66% of Hype (which took place on 29 December 2020, effective from 1 January 2021), the registration in the Company Register of the directors' statement pursuant to Article 2343-quater of the Italian civil code (made on 5 January 2021) and consequent issue of 5,358,114 new ordinary shares for this increase, as well as (ii) the cash increase in capital for Banca Sella Holding S.p.A. for a total of EUR 16,544,676.46 (of which EUR 1,293,290.83 as capital), subscribed on 29 December 2020 with effect from 1 January 2021 (with regulation dated 5 January 2021), and consequent issue of 1,984,488 new ordinary shares, for this increase.

Following the above events, in accordance with IFRS 11 the stake in Hype and its consolidation were reported according to the equity method, while it was reported in the separate financial statements at cost. Based on the value of the investment recorded at the time of acquisition with respect to the pro-rata shareholders' equity of Hype, an implicit goodwill of approximately EUR 65.1 million was determined.

According to FIRS, post-acquisition profits and losses are recognised in the Income Statement under the line item Gains (losses) from investments. Any distribution of dividends is also recognised minus the goodwill of the investment.

5.2 Merger of Core, IT Auction and Mado into neprix

On 13 January 2021, the deed was signed by which Core, IT Auction and Mado were merged into neprix. The merger became effective on 1 February 2021. The accounting and fiscal effects of the merger started from 1 January 2021. On 7 January 2021, the subsidiary ITA Gestione changed its company name to "NEPRIX AGENCY S.r.l" ("neprix Agency").

Following the merger, neprix holds 100% of the shares in the company neprix Agency (formerly ITA Gestione), previously held by IT Auction. This merger has no effects on the consolidated financial statements, as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

5.3 New documents issued by the IASB and endorsed by the EU, adoption of which is mandatory with effect from financial statements for years beginning on or after 1 January 2021

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4 Insurance Contracts)	June 2020	1 January 2021	15 December 2020	(EU) 2020/2097 of 16 December 2020
Interest Rate Benchmark Reform - phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	August 2020	1 January 2021	13 January 2021	(EU) 2021/25 of 14 January 2021

As shown in the above table, the adoption of several amendments to accounting standards endorsed by the European Commission in 2020 and January 2021 is mandatory with effect from 2021. These amendments are not particularly relevant to the Group. In further detail:

a. Commission Regulation (EU) 2020/2097: The amendments to IFRS 4 are aimed at remedying the temporary accounting impact of the time lag between the date of entry into force of IFRS 9 Financial instruments and the effective date of the future IFRS 17 Insurance contracts. In particular, amendments to IFRS 4 extend the temporary exemption from adopting IFRS 9 until 2023, in order to align the date of entry into force of IFRS 9 with the new IFRS 17;

b. Commission Regulation (EU) 2021/25: The change is to take into account the consequences of replacing the benchmark indexes used to determine interest rates, with alternative reference rates. These amendments require specific accounting treatment to allocate, over time, changes in the value of financial instruments or lease agreements due to the replacement of the benchmark to determine interest rates, thus avoiding immediate repercussions on profit (loss) for the year and pointless suspensions in hedging following the replacement of the benchmark to determine interest rates.

5.4 Use of estimates and assumptions in preparing the condensed interim consolidated financial statements

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

The estimates and related assumptions are based on the use of available management information and subjective assessments, also founded on historical experience. The use of reasonable estimates is thus an essential part of preparing the condensed interim consolidated financial statements. The items subject to significant use of estimates and assumptions are indicated below:

a. measurement of loans;
b. measurement of financial assets not quoted in active markets;
c. determination of the amount of accruals to allowances for risks and charges;
d. determination of the amount of deferred taxation;
e. assessments regarding the recoverability of goodwill;
f. definition of the depreciation and amortisation of property and equipment and intangible assets with finite useful lives.

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

A.2 Section on the main financial statement items

With regard to the classification and measurement criteria of the main financial statement items, please refer to Part A.2 of the Explanatory Notes to the "2020 Financial Statements and Report".
The accounting policies applicable to *Non-current assets held for sale and discontinued operations*, which are not present in the 2020 Financial Statements, are also shown below.

Non-current assets held for sale and discontinued operations

These categories include individual non-current assets (tangible, intangible and financial) or groups of assets held for sale, with their associated liabilities, as governed by IFRS 5.

The individual assets (or groups of assets held for sale) are recorded respectively under the items "Non-current assets held for sale and discontinued operations" and "Liabilities associated with non-current assets held for sale and discontinued operations" at the lower of book value and fair value net of disposal costs.

Valuation reserves relating to non-current assets held for sale, recorded as a contra entry for changes in value relevant for this purpose, are shown separately in the statement of comprehensive income.

The positive or negative balance of income (dividends, interest, etc.) and expenses (interest expense, etc.) relating to discontinued operating activities net of related current and deferred taxes is recognised under "Net income (Loss) (+/-) from discontinued operations after taxes" in the income statement. Gains and losses attributable to individual assets or groups of assets and liabilities held for sale that do not constitute discontinued operating activities are recorded in the most appropriate item of the income statement.

A.3 Information on transfers between portfolios of financial assets

There were no transfers between portfolios of financial assets in the first half of 2021.

A.4 Information on fair value

Qualitative information

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The following section contains a summary, divided by type of instrument, of the valuation techniques used for instruments classified at fair value level 2 and level 3.

Assessment of non-contributed shares and equity instruments

On the reporting date, there were no shares or equity instruments classified as level 2.

Items classified as level 3 are shares and equity instruments without market value contributions and for which it is not possible to identify transactions, in particular with reference to the M&A market, that, due to the time from the measurement date or nature of said provide significant information on the instruments being measured, nor are measurement techniques based on observable market multiples applicable.

In these cases, the measurement technique uses estimates of expected cash flows of the assessed entity and their expected value at the measurement date is determined. Significant exposures in non-contributed shares and equity instruments are, currently, ancillary to loan transactions, therefore the measurement techniques are consistent with the model used to measure loan transactions that evaluate the subject's capacity to repay the entire liability, including equity instruments and shares.

Measurement of loans

The most significant cases concern non-bearing receivables purchased at values below the nominal value. These were purchased as part of loan or re-financing transactions that also include interest-bearing instruments and their measurement is based on models that measure the capacity of the funded subject to repay their liability. Cash flows are therefore discounted to determine their value at the measurement date.

The measurement includes prudent assumptions on the subject's capacity to generate cash flows, preferring an inclusion of expected cash flows when there is a high probability of their occurrence.

Measurement of structured loan products

Structured loan products are attributable to two groups. The first relates to the subordinate tranches of securitisations of NPL portfolios, the second, to securitisations of investments in receivables linked to the energy market.

In the first case, the exposures are part of an investment strategy that requires the bank to underwrite the senior part and as promoter, it is required to underwrite a part of the subordinate tranches. The starting point for the valuation is the purchase transaction; the congruency of the price is based on an analysis of the portfolio's capacity to repay firstly the senior quota and thereafter the underlying tranches, according to a waterfall mechanism. This capacity is then monitored at subsequent payment events, to confirm the recovery expectations that were forecast at the origination stage.

In the second case, the exposures are known single tranches for which the capacity of collateral to repay contractually defined flows of principal and interest is measured. The variable returns related to collateral performance are incorporated with highly conservative assumptions.

The measurement includes prudent assumptions on the capacity of the underlying to generate cash flows, preferring an inclusion of expected cash flows when there is a high probability of their occurrence.

A.4.2 Processes and sensitivity of valuations

For a description of the process to measure instruments classified as having a level 3 fair value, reference is made to section A.4.1.

A.4.3 Fair value hierarchy

For transfers between the various fair value levels, the Group uses the following principles:

- the presence or absence of a price on a regulated market;
- the presence or absence of a price on a non-regulated market, or of one or more counterparties willing to commit to price the stock;
- the quantity of the financial instrument held, such that would allow the forecast, or not, of a negative fluctuation in its valuation or price;
- new elements on which a new methodology could be based;
- the timing (date of the event or change, start and end of year) will be common to all the changes among the various valuation classes.

For securities held at fair value level 2:

- no transfers have been made between different fair value levels:
- the method used was the market price (Bloomberg BGN bid on the last available day), without making any modifications or adjustments;
- as the financial instruments are only debt instruments (bonds) at fixed or variable rates, this method reflects the trends in market interest rates and the risk level associated with the instruments' counterparties and issuers;
- this is the same measurement method used last year, for the same securities.

For securities held at fair value level 3:

- no transfers have been made between different fair value levels;
- as the quantity of shares held and the accounting method have not changed, no gains or losses were recorded;

To summarise the characteristics of the different fair value levels:

Level 1

The measurement is based on observable inputs or listed prices (without adjustment) on active markets for identical assets or liabilities, which the entity can access on the measurement date. The presence of official prices on active market, namely a market where the listed prices reflect ordinary operations (not forced, readily and regularly available), is the best evidence of fair value. These prices are the prices to be used preferentially, for the purposes of an accurate measurement of these financial instruments (the Mark to Market Approach). To determine the fair value of financial instruments listed on an active market, the market prices on the last day of the period are used.

Level 2

The measurement takes place using methods used if the instrument is not listed on an active market, and is based on inputs other than those for Level 1. The measurement of the instrument is based on prices taken from the market prices for similar assets, or using measurement techniques whereby all the significant factors are deduced from market-observable parameters. The pricing is non-discretionary as the main parameters used are drawn from the market and the calculation methods replicate the prices on active markets. If there is no active market, the estimation methods will be based on the measurement of listed instruments with similar characteristics, on the amounts recognised in recent comparable transactions, or by using measurement models that discount future cash flows, also taking into account all the risk factors connected to the instruments, and which are based on market-observable data.

Level 3

The measurement methods will value a non-listed instrument using significant non-market observable data and therefore they require the adoption of estimates and assumptions by management (the "Mark to Model Approach").

With reference to the instruments classified at level 3, a sensitivity analysis was carried out which showed that the changes in fair values are not material.

A.4.4 Other information

As of the reporting date there is no information to be given in relation to IFRS 13, paragraphs 51, 93 (i), 96 as:

- there are no assets measured at fair value on the basis of "highest and best use";
- there was no measurement of fair value at the level of total portfolio exposure to take into account the set-off of credit risk and market risk for a certain group of financial assets or liabilities (an exception ex IFRS 13, para. 48).

Quantitative information

Fair value hierarchy

Below is the information required by IFRS 7, for portfolios of financial assets and liabilities measured at fair value based on the three-level hierarchy illustrated above.

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by levels of fair value

Financial assets / liabilities measured at fair value	30 June 2021			31 December 2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	57,054	-	81,923	106	-	18,396
a) financial assets held for trading	-	-	33	7	-	45
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	57,054	-	81,890	99	-	18,351
2. Financial assets measured at fair value through other comprehensive income	299,462	-	15,874	91,357	-	18
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**356,516**	**-**	**97,797**	**91,463**	**-**	**18,414**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

Instruments that are valued to a significant extent on the basis of non-observable parameters (Level 3) make up 21.53% of the total financial assets measured at fair value. On the reporting date they were mainly represented by investments classified in the portfolio of "*Financial assets mandatorily measured at fair value*", relating to the Turnaround, Senior Financing and Energy Area.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**18,397**	**45**	**-**	**18,352**	**18**	**-**	**-**	**-**
2. Increases	**65,033**	**-**	**-**	**65,033**	**15,856**	**-**	**-**	**-**
2.1 Purchases	63,373	-	-	63,373	15,856	-	-	-
2.2 Gains recognised in:	-	-	-	-	-	-	-	-
2.2.1 Income Statement	-	-	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	1,660	-	-	1,660	-	-	-	-
3. Decreases	**1,507**	**12**	**-**	**1,495**	**-**	**-**	**-**	**-**
3.1 Sales	1,454	-	-	1,454	-	-	-	-
3.2 Repayments	-	-	-	-	-	-	-	-
3.3 Losses charged to:	12	12	-	-	-	-	-	-
3.3.1 Income Statement	12	12	-	-	-	-	-	-
- of which capital losses	12	12	-	-	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	-	-	-	-
3.4 Transfers from other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	41	-	-	41	-	-	-	-
4. Closing balance	**81,923**	**33**	**-**	**81,890**	**15,874**	**-**	**-**	**-**

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

There are no liabilities measured at fair value on a recurring basis (level 3).

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by levels of fair value

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	30 June 2021				31 December 2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	2,944,963	9,923	2,993	3,028,806	2,845,823	4,525	-	2,915,262
2. Property and equipment held for investment	-	-	-	-	-	-	-	-
3. Non-current assets discontinued operations	61,402	-	-	61,402	-	-	-	-
Total	**3,006,365**	**9,923**	**2,993**	**3,028,806**	**2,845,823**	**4,525**	**-**	**2,915,262**
1. Amounts due to customers	3,551,095	316,110	-	3,380,348	3,410,034	304,716	2,234	3,161,491
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**3,551,095**	**316,110**	**-**	**3,380,348**	**3,410,034**	**304,716**	**2,234**	**3,161,491**

Key:

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

For the other financial instruments recognised at amortised cost and mainly classified among credits to banks or customers and among the financial liabilities, a fair value has been determined for the purposes of the Explanatory Notes, as required by the reference accounting standard, IFRS 7.

PART B – INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

Section 2 – Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown

Items/values	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	-	-	33	7	-	45
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**33**	**7**	**-**	**45**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial derivatives	-	-	-	-	-	-
1.1 held for trading	-	-	-	-	-	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**-**	**-**	**33**	**7**	**-**	**45**

Key:

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

2.3 Financial assets at fair value: breakdown by product type

The Group does not hold financial assets carried at fair value.

2.5 *Other financial instruments mandatorily measured at fair value: breakdown*

Items/values	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**71,711**	**-**	**-**	**11,660**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	71,711	-	-	11,660
2. Equity securities	**-**	**-**	**6,691**	**-**	**-**	**6,691**
3. Units of UCIs	**57,054**	**-**	**2,983**	**99**	**-**	**-**
4. Loans	**-**	**-**	**505**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	505	-	-	-
Total	**57,054**	**-**	**81,890**	**99**	**-**	**18,351**

Key:

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

Financial assets mandatorily measured at fair value through profit or loss amounted to EUR 138.9 million as of 30 June 2021, and include two investments in equity instruments/earnouts for EUR 7.2 million and a loan in foreign currency for EUR 0.5 million, quotas of an illimity SGR investment fund for EUR 3.0 million attributable to the Growth Credit Division, an energy business operation and investments in junior and mezzanine investments in securitisation vehicles for EUR 2.4 million attributable to the Distressed Credit Division, as well as two investments in ETFs held for the purpose of hedging interest rate risk and credit risk for EUR 57.0 million attributable to the CFO Division.

Section 3 – Financial assets measured at fair value through other comprehensive income – Item 30

3.1 *Financial assets measured at fair value through other comprehensive income: breakdown by type*

Items/values	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**299,462**	**-**	**-**	**91,357**	**-**	**-**
1.1 Structured securities	2,025	-	-	-	-	-
1.2 Other debt securities	297,437	-	-	91,357	-	-
2. Equity securities	**-**	**-**	**18**	**-**	**-**	**18**
3. Loans	**-**	**-**	**15,856**	**-**	**-**	**-**
Total	**299,462**	**-**	**15,874**	**91,357**	**-**	**18**

Key:

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

The debt securities in the financial statement item were issued by governments (EUR 173 million), credit institutions (approximately EUR 73 million), financial companies (approximately EUR 30 million) and non-financial companies (EUR 23 million).

Equity instruments classified as "Financial assets measured at fair value through other comprehensive income (IAS)" are represented by equity holdings not qualifying as investments in subsidiaries, associates or joint ventures.

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

Type of operations/ Values	Total 30/06/2021						Total 31/12/2020					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	-	-	-	X	X	X	-	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**444,780**	**-**	**-**	**-**	**-**	**444,922**	**530,922**	**-**	**-**	**-**	**-**	**531,064**
1. Loans	444,780	-	-	-	-	444,922	530,922	-	-	-	-	531,064
1.1 Current accounts and on-demand deposits	6,177	-	-	X	X	X	8,776	-	-	X	X	X
1.2 Time deposits	67,467	-	-	X	X	X	114,477	-	-	X	X	X
1.3 Other loans:	371,136	-	-	X	X	X	407,669	-	-	X	X	X
- Reverse repurchase agreements	362,626	-	-	X	X	X	395,167	-	-	X	X	X
- Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Others	8,510	-	-	X	X	X	12,502	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**444,780**	**-**	**-**	**-**	**-**	**444,922**	**530,922**	**-**	**-**	**-**	**-**	**531,064**

Key:

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

The obligations to maintain the Compulsory reserve are fulfilled through BFF Bank, the balance is recognised in the sub item "Time deposits". As can be seen from the above table, the financial statement item largely consists of Reverse Repurchase Agreements.

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of operations/ Values	Total 30/06/2021						Total 31/12/2020					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
1. Loans	**1,198,526**	**1,063,766**	**1,013,578**	**-**	**-**	**2,357,472**	**991,155**	**1,073,833**	**1,024,612**	**-**	**-**	**2,137,267**
1.1 Current accounts	17,781	247,282	240,396	X	X	X	28,311	245,659	240,981	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Mortgages	174,381	497,121	456,384	X	X	X	289,055	537,954	492,831	X	X	X
1.4 Credit cards and personal loans, including wage assignment loans	767	2,441	2,377	X	X	X	673	2,525	2,468	X	X	X
1.5 Loans for leases	-	122,049	122,049	X	X	X	-	118,371	118,371	X	X	X
1.6. Factoring	176,700	185	-	X	X	X	151,850	276	-	X	X	X
1.7 Other loans	828,897	194,688	192,372	X	X	X	521,266	169,048	169,961	X	X	X
2. Debt securities	**237,891**	**-**	**-**	**9,923**	**2,993**	**226,412**	**249,913**	**-**	**-**	**4,525**	**-**	**246,931**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	237,891	-	-	9,923	2,993	226,412	249,913	-	-	4,525	-	246,931
Total	**1,436,417**	**1,063,766**	**1,013,578**	**9,923**	**2,993**	**2,583,884**	**1,241,068**	**1,073,833**	**1,024,612**	**4,525**	**-**	**2,384,198**

"Other debt securities" include securities related to securitisation transactions for a total amount of EURO 237.9 million, of which EUR 225.2 million are senior financing notes of the Distressed Credit division and EUR 12.7 million are high-yield bonds of the Growth Credit division.

4.4 Financial assets measured at amortised cost: gross amount and total adjustments/ recoveries

	Gross amount				Total adjustments/recoveries		
	Stage one	of which: instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three
Debt securities	238,387	-	-	-	496	-	-
Loans	1,583,446	164,608	70,491	1,082,454	9,265	1,366	18,688
Total 30/06/2021	**1,821,833**	**164,608**	**70,491**	**1,082,454**	**9,761**	**1,366**	**18,688**
Total 31/12/2020	**1,721,933**	**149,793**	**61,412**	**1,092,179**	**9,480**	**1,875**	**18,347**
of which: purchased or originated impaired financial assets	X	X	4,469	1,009,673	X	563	-

4.4a Loans measured at amortised cost receiving COVID-19 support measures: gross amount and total adjustments/recoveries

	Gross amount				Total adjustments/recoveries			Total partial write-offs
	Stage one	of which: instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
1. Loans granted in accordance with GL	2,804	-	-	1,042	15	-	50	-
2. Loans subject to other forbearance measures	-	-	1,202	580	-	22	45	-
3. New funding	344,255	-	2,526	5,196	2,035	29	222	-
Total 30/06/2021	**347,058**	**-**	**3,728**	**6,818**	**2,051**	**51**	**317**	**-**
Total 31/12/2020	**225,680**	**-**	**6,187**	**6,397**	**1,799**	**179**	**314**	**-**

The table above shows the only positions that meet the definition of "*EBA compliant*" moratoria, including with regard to those positions that involve forbearance measures.
As of 30 June 2021, the total exposures subject to suspension moratoria in connection with the COVID-19 emergency amounted to approximately EUR 47 million.

Section 9 – Property and equipment – Item 90

9.1 Property and equipment with functional use: breakdown of assets measured at cost

Assets/Values	Total 30 June 2021	Total 31 December 2020
1. Proprietary assets	**1,986**	**2,531**
a) land	-	-
b) buildings	600	943
c) furniture and fittings	646	715
d) electronic systems	585	700
e) others	155	173
2. Rights of use acquired through leases	**18,797**	**19,754**
a) land	-	-
b) buildings	17,552	18,422
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	1,245	1,332
Total	**20,783**	**22,285**
of which: obtained by enforcement of guarantees received	-	-

The depreciation is calculated on the basis of the estimated useful life of the asset starting from the date of first use. The useful life, estimated in months for the main asset classes, is shown in the table below:

Description	Useful life (in months)
Buildings	400
Plant and machinery	84
Furnishings	84
Electronic systems	60
Alarm systems	36
Internal telecom systems	48
Secure counters and reinforced glass	60

9.5 Inventories of property and equipment governed by IAS 2: breakdown

Assets/Values	Total 30 June 2021	Total 31 December 2020
1. Inventories of assets obtained by the enforcement of guarantees received	**58,264**	**56,148**
a) land	-	-
b) buildings	58,264	56,148
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	-	-
2. Other tangible assets inventories	**-**	**-**
Total	**58,264**	**56,148**
of which: measured at fair value net of costs to sell	-	-

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown

Assets/Values	Total 30 June 2021		Total 31 December 2020	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**36,257**	**X**	**36,224**
A.1.1 attributable to the group	X	36,257	X	36,224
A.1.2 attributable to minorities	X	-	X	-
A.2 Other intangible assets	**37,067**	**-**	**33,158**	**-**
A.2.1 Assets measured at cost:	37,067	-	33,158	-
a) internally generated intangible assets	4,284	-	3,903	-
b) other assets	32,783	-	29,255	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**37,067**	**36,257**	**33,158**	**36,224**

Section 11 – Tax assets and tax liabilities – Item 110 of assets and Item 60 of liabilities

Deferred tax assets as of 30 June 2021 amounted to EUR 25.3 million, down compared to EUR 32.2 million as of 31 December 2020.

11.1 Deferred tax assets: breakdown

Main deductible temporary differences: IRES	30 June 2021	31 December 2020
Depreciation of loans and receivables with customers	1,449	1,573
Tax losses	5,217	11,437
ACE	4,353	5,469
Write-down of securities HTCS	1,242	134
Goodwill	7,971	8,566
Others	2,949	2,887
Total	**23,181**	**30,066**

Main deductible temporary differences: IRAP	30 June 2021	31 December 2020
Depreciation of loans and receivables with customers	178	194
Write-down of securities HTCS	251	27
Goodwill	1,510	1,631
Others	252	279
Total	**2,191**	**2,131**

Specifically, deferred tax assets include the benefits from the previous losses and the ACE surplus generated by the Bank in previous years, as well as the tax exemption of the goodwill arising from the merger by absorption of SPAXS with Banca Interprovinciale and the exemption, by neprix, of the goodwill and other intangible assets arising from the Consolidated Financial Statements, following the acquisition of 70% of the stake in IT Auction (now merged into neprix).

11.2 Deferred tax liabilities: breakdown

Deferred tax liabilities as of 30 June 2021 amounted to Euro 1.3 million, up compared to Euro 0.7 million as of 31 December 2020.

Main taxable temporary differences: IRES	30 June 2021	31 December 2020
Revaluation of securities HTCS	291	55
Others	797	586
Total	**1,088**	**641**

Main taxable temporary differences: IRAP	30 June 2021	31 December 2020
Revaluation of securities HTCS	59	11
Others	144	95
Total	**203**	**106**

Deferred tax liabilities are recognised to reflect the temporary differences between the book value of an asset or liability, and its fiscal value. This recognition takes place in accordance with current tax laws.

11.8 Other information

Current taxes for the year and for prior years, where unpaid, are recognised as liabilities; any surplus paid in terms of an advance on the amount due, is recognised as an asset. The current fiscal liabilities (assets) for the current year and for prior years are determined at the value expected to be paid/recovered from the tax authorities, applying the current tax rates and regulations. Current fiscal assets and liabilities are cancelled in the year in which the assets are realised or the liabilities are discharged.

The tables below show the amounts of the current fiscal assets and liabilities.

Current fiscal assets: breakdown

Type of operations/Values	30 June 2021	31 December 2020
Deferred taxes paid to tax authority	2,787	1,995
Withholding taxes	1	1
Other receivables from the Treasury	1,289	1,210
Total	**4,077**	**3,206**

Current fiscal liabilities: breakdown

Main taxable temporary differences: IRAP	30 June 2021	31 December 2020
Balance for the previous year	3,460	53
Provision for taxes	3,977	3,460
Withdrawals to pay taxes	(3,460)	(53)
Total	**3,977**	**3,460**

LIABILITIES

Section 1 – Financial liabilities measured at amortised cost – Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of amounts due

Type of operations/Values	Total 30 June 2021				Total 31 December 2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**184,256**	**X**	**X**	**X**	**184,721**	**X**	**X**	**X**
2. Amounts due to banks	**397,372**	**X**	**X**	**X**	**349,624**	**X**	**X**	**X**
2.1 Current accounts and on-demand deposits	1,795	X	X	X	81	X	X	X
2.2 Time deposits	27,415	X	X	X	30,353	X	X	X
2.3 Loans	361,129	X	X	X	308,551	X	X	X
2.3.1 Repurchase agreements - payable	361,129	X	X	X	308,546	X	X	X
2.3.2 Others	-	X	X	X	5	X	X	X
2.4 Debts for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	7,033	X	X	X	10,639	X	X	X
Total	**581,628**	**-**	**-**	**581,628**	**534,345**	**-**	**-**	**534,345**

Key:

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

1.2 Amounts due to customers: breakdown of amounts due to customers

Type of operations/Values	Total 30 June 2021				Total 31 December 2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	823,073	X	X	X	770,556	X	X	X
2. Time deposits	1,809,620	X	X	X	1,769,012	X	X	X
3. Loans	7,778	X	X	X	10,418	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	7,778	X	X	X	10,418	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	22,093	X	X	X	22,547	X	X	X
6. Other payables	2,836	X	X	X	2,176	X	X	X
Total	**2,665,400**	**-**	**-**	**2,798,720**	**2,574,709**	**-**	**-**	**2,627,146**

Key:

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

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

Type of securities/Values	Total 30 June 2021				Total 31 December 2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	304,067	316,110	-	-	300,980	304,716	2,234	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	304,067	316,110	-	-	300,980	304,716	2,234	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**304,067**	**316,110**	**-**	**-**	**300,980**	**304,716**	**2,234**	**-**

Key:

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

Securities issued were equal to EUR 304 million, related to the completion of the EMTN transaction in the fourth quarter of last year.

Section 10 - Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: breakdown

Items/Components	Total 30 June 2021	Total 31 December 2020
1. Allowances for credit risk relating to commitments and financial guarantees given	4,085	3,296
2. Provisions for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	8	7
4. Other allowances for risks and charges	1,238	1,178
4.1 legal and tax disputes	14	14
4.2 Personnel cost	704	674
4.3 others	520	490
Total	**5,331**	**4,481**

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 30 June 2021	Total 30 June 2020
1. Financial assets measured at fair value through profit or loss	**276**	**3**	**-**	**279**	**-**
1.1 Financial assets held for trading	80	-	-	80	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial instruments mandatorily measured at fair value	196	3	-	199	-
2. Financial assets measured at fair value through other comprehensive income	**2,120**	**-**	**X**	**2,120**	**1,257**
3. Financial assets measured at amortised cost:	**5,574**	**84,757**	**X**	**90,331**	**63,891**
3.1 Due from banks	-	433	X	433	331
3.2 Loans to customers	5,574	84,324	X	89,898	63,560
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**64**	**64**	**8**
6. Financial liabilities	**X**	**X**	**X**	**684**	**117**
Total	**7,970**	**84,760**	**64**	**93,478**	**65,273**
of which: interest income on impaired assets	-	65,916	-	65,916	47,811
of which: interest income on finance leasing	-	-	-	-	-

The increase in interest income, attributable specifically to impaired financial assets, is closely linked to the increase in assets and business operations compared to the same period of the previous year.

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debt	Securities	Other transactions	Total 30 June 2021	Total 30 June 2020
1. Financial liabilities measured at amortised cost	**(21,540)**	**(5,337)**	**X**	**(26,877)**	**(18,929)**
1.1 Amounts due to central banks	(16)	X	X	(16)	(9)
1.2 Amounts due to banks	(2,614)	X	X	(2,614)	(3,343)
1.3 Amounts due to customers	(18,910)	X	X	(18,910)	(15,478)
1.4. Securities issued	X	(5,337)	X	(5,337)	(99)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**-**	**-**	**(11)**
5. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
6. Financial assets	**X**	**X**	**X**	**(1,981)**	**(1,008)**
Total	**(21,540)**	**(5,337)**	**-**	**(28,858)**	**(19,948)**
of which: interest expense relative to leasing liabilities	(753)	-	-	(753)	(796)

The increase in interest expense on securities issued (EUR 5,337 thousand as of 30 June 2021 compared to EUR 99 thousand as of 30 June 2020) is attributable in particular to the bond issue in the fourth quarter of 2020.

Section 2 – Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 30 June 2021	Total 30 June 2020
a) guarantees given	25	29
b) credit derivatives	-	-
c) management, brokerage and advisory services:	494	281
1. trading in financial instruments	-	-
2. currency trading	28	12
3. portfolio management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and administration of securities	1	1
5. custodian bank	-	-
6. placement of securities	2	5
7. reception and transmission of orders	-	-
8. advisory services	-	-
8.1. related to investments	-	-
8.2. related to financial structure	-	-
9. distribution of third party services	463	263
9.1. portfolio management	396	-
9.1.1. individual	-	-
9.1.2. collective	396	-
9.2. insurance products	65	256
9.3. other products	2	7
d) collection and payment services	176	94
e) servicing of securitisation transactions	-	-
f) factoring services	1,306	784
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	214	160
j) other services	13,594	5,248
Total	**15,809**	**6,596**

The "other services" sub-item of fee and commission income mainly includes commissions from the specific business of Group companies referred to neprix and neprix Agency - and in particular commissions from auctions and related services, accrued for the use of the companies' property portals - for approximately EUR 5.9 million, as well as commissions on the operations of the Distressed Credit and Growth Credit Divisions as well as the activity of Capital Markets launched by the Bank in H1 2021, for approximately EUR 2 million.

2.2 Fee and commission expenses: breakdown

Service/Amount	Total 30 June 2021	Total 30 June 2020
a) guarantees received	(1)	-
b) credit derivatives	-	-
c) management and brokerage services:	(268)	(66)
1. trading in financial instruments	(198)	-
2. currency trading	-	-
3. portfolio management:	-	-
3.1 proprietary	-	-
3.2 delegated to third parties	-	-
4. custody and administration of securities	(70)	(66)
5. placement of financial instruments	-	-
6. off-site distribution of financial instruments, products and services	-	-
d) collection and payment services	(441)	(426)
e) other services	(1,925)	(1,478)
Total	**(2,635)**	**(1,970)**

Section 4 – Profits (losses) on trading – Item 80

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) – (C+D)]
1. Financial assets held for trading	**-**	**425**	**(12)**	**(141)**	**272**
1.1 Debt securities	-	15	-	-	15
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	410	(12)	(141)	257
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**318**
4. Derivatives	**854**	**-**	**(35)**	**-**	**819**
4.1 Financial derivatives:	854	-	(35)	-	819
- On debt securities and interest rates	854	-	(35)	-	819
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	-
Total	**854**	**425**	**(47)**	**(141)**	**1,409**

Section 6 - Profits (losses) on disposal/repurchase – Item 100

6.1 Profits (losses) on disposal/repurchase: breakdown

Item/Income item	Total 30 June 2021			Total 30 June 2020		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortised cost	306	(4)	302	-	-	-
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	306	(4)	302	-	-	-
2. Financial assets measured at fair value through other comprehensive income	3,496	(313)	3,183	6,185	(765)	5,420
2.1 Debt securities	3,496	(313)	3,183	6,185	(765)	5,420
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**3,802**	**(317)**	**3,485**	**6,185**	**(765)**	**5,420**
Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Amounts due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	(1)	(1)
Total liabilities (B)	**-**	**-**	**-**	**-**	**(1)**	**(1)**

Section 7 – Profit (loss) on other financial assets and liabilities measured at *fair value* through profit or loss – Item 110

7.1 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

The Group has no hedge accounting operations.

7.2 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transaction/Income items	Capital gains (A)	Realised profits (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) – (C+D)]
1. Financial assets	**1,236**	**1**	**(1,110)**	**(125)**	**2**
1.1 Debt securities	1,236	1	(42)	(1)	1,194
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	(1,068)	(124)	(1,192)
1.4 Loans	-	-	-	-	-
2. Financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**1,236**	**1**	**(1,110)**	**(125)**	**2**

Section 8 – Net losses/recoveries for credit risk – Item 130

8.1 Net losses/recoveries for credit risk relating to financial assets measured at amortised cost: breakdown

Transaction/Income items	Adjustments (1)			Recoveries (2)		Total 30 June 2021	Total 30 June 2020
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Due from banks	**(21)**	**-**	**-**	**18**	**-**	**(3)**	**119**
- Loans	(21)	-	-	18	-	(3)	119
- Debt securities	-	-	-	-	-	-	-
of which: purchased or originated credit impaired	-	-	-	-	-	-	-
B. Loans to customers	**(773)**	**-**	**(67,240)**	**989**	**104,086**	**37,062**	**20,320**
- Loans	(630)	-	(67,240)	974	104,086	37,190	20,760
- Debt securities	(143)	-	-	15	-	(128)	(440)
of which: purchased or originated credit impaired	-	-	(64,388)	-	102,421	38,033	24,365
Total	**(794)**	**-**	**(67,240)**	**1,007**	**104,086**	**37,059**	**20,439**

The sub-item "purchased or originated credit impaired" refers to the amount of adjustments/recoveries of loans classified as purchased or originated credit impaired as a result of collections or revisions of business plans.

8.1a Net losses/recoveries for credit risk relating to loans measured at amortised cost subject to COVID-19 support measures: breakdown

Transaction/Income items	Net adjustments/recoveries			Total 30 June 2021
	Stage one and Stage two	Stage three		
		Write-offs	Others	
1. Loans granted in accordance with GL	-	-	-	-
2. Loans subject to other forbearance measures	(2)	-	(19)	(21)
3. New funding	(185)	-	(222)	(407)
Total 30/06/2021	**(187)**	**-**	**(241)**	**(428)**

8.2 *Net losses/recoveries for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown*

Transaction/Income items	Adjustments (1)			Recoveries (2)		Total 30 June 2021	Total 30 June 2020
	Stage one and Stage two Write-offs	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Debt securities	**(1,945)**	**-**	**-**	**802**	**-**	**(1,143)**	**(353)**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
Total	**(1,945)**	**-**	**-**	**802**	**-**	**(1,143)**	**(353)**

8.2A *Net losses/recoveries for credit risk relating to loans measured at fair value through other comprehensive income which are receiving COVID-19 support measures: breakdown*

The Group does not hold financial assets measured at fair value through other comprehensive income subject to COVID-19 support measures.

Section 12 – Administrative expenses – Item 190

12.1 *Personnel expenses: breakdown*

Type of expense/Amount	Total 30 June 2021	Total 30 June 2020
1) Employees	(33,521)	(22,710)
a) wages and salaries	(19,354)	(13,850)
b) social security contributions	(5,515)	(4,141)
c) provision for employee severance pay	-	-
d) pension costs	-	-
e) provision for employee severance pay	(650)	(493)
f) provision for post-employment benefits and similar provisions:	(20)	-
- defined contribution	(20)	-
- defined benefits	-	-
g) payments to external supplementary pension funds:	(475)	(332)
- defined contribution	(475)	(332)
- defined benefits	-	-
h) costs related to share-based payments	(474)	(114)
i) other employee benefits	(7,033)	(3,780)
2) Other personnel in service	(963)	(807)
3) Directors and statutory auditors	(1,056)	(978)
4) Early retirement costs	-	-
Total	**(35,540)**	**(24,495)**

12.5 *Other administrative expenses: breakdown*

Items / Technical forms	30 June 2021	30 June 2020
Insurance	(1,557)	(681)
Various consulting services	(4,025)	(4,291)
Sundry contributions	(1,972)	(376)
Cost of services	(1,741)	(1,831)
Financial information	(1,152)	(493)
Adverts and advertising	(1,270)	(1,470)
Financial statement audit	(321)	(324)
IT and software expenses	(10,255)	(8,697)
Legal and notary's fees	(2,879)	(2,310)
Property management expenses	(1,126)	(811)
Expenses for professional services	(4,564)	(3,517)
Utilities and services	(789)	(954)
Other indirect taxes and duties	(6,606)	(2,819)
Others	(722)	(1,026)
Total other administrative expenses	**(38,979)**	**(29,600)**

Section 14 – Net adjustments/recoveries on property and equipment - Item 210

14.1. *Net adjustments/recoveries on property and equipment: breakdown*

Asset/Income items	Amortisation (a)	Adjustments for impairment (b)	Recoveries (c)	Net profit/loss (a + b – c)
A. Property and equipment				
1 For business use	(1,391)	(331)	-	(1,722)
- Owned	(238)	(331)	-	(569)
- Rights of use acquired through lease agreements	(1,153)	-	-	(1,153)
2 Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through lease agreements	-	-	-	-
3 Inventories	X	-	-	-
Total	**(1,391)**	**(331)**	**-**	**(1,722)**

Section 15 – Net adjustments/recoveries on intangible assets – Item 220

15.1 *Net adjustments/recoveries on intangible assets: breakdown*

Asset/Income item	Amortisation (a)	Adjustments for impairment (b)	Recoveries (c)	Net profit/loss (a + b – c)
A. Intangible assets				
A.1 Owned	(3,463)	-	-	(3,463)
- Generated internally by the company	(423)	-	-	(423)
- Other	(3,040)	-	-	(3,040)
A.2 Rights of use acquired through lease agreements	-	-	-	-
Total	**(3,463)**	**-**	**-**	**(3,463)**

Section 17 – Profits (losses) on equity investments – Item 250

The item includes the negative economic results recorded by the companies Hype S.p.A. and SpicyCo S.r.l. for the respective shares belonging to the illimity Group, in accordance with their consolidation using the equity method. The item includes the negative effects of EUR 3,971 thousand attributable to the consolidation of Hype.

Section 21 – Income tax for the period on continuing operations – Item 300

Income taxes for the period on continuing operations at 30 June 2021 amounted to EUR 14.1 million, as follows: a charge of EUR 3.4 million relating to current taxes, a charge of EUR 10.8 million relating to the change in IRES and IRAP prepaid taxes, and an income of EUR 0.1 million relating to the change of IRES deferred taxes.

21.2 Reconciliation of theoretical tax charge with actual tax charge

The theoretical tax charge considered on an individual basis was equal to 33.07% (24% ordinary IRES, 3.5% additional IRES and 5.57% IRAP) for banks and financial entities, and equal to 27.9% (24% ordinary and additional IRES and 3.9% IRAP) for industrial and service companies. The effective tax rate for the half-year was 33.9%, which was mainly influenced by the negative effect resulting from Hype's shareholding, as well as the positive IRES effects deriving from the rules on economic growth aid ("ACE") and the non-taxable capital gain on the contribution of the Fluid branch.

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

Basic earnings (loss) per share are calculated by dividing the Group's profit for the period by the weighted average number of ordinary shares in issue. The diluted profit per share as of 30 June 2021 coincides with the basic profit per share.

(amounts in thousands of euros)

Basic and diluted earnings per share	Profit/(Loss) for the period	Average number of shares	Basic and diluted earnings (loss) per share
Period ended 30 June 2021	27,418	73,276,910	0.37
Period ended 30 June 2020	14,838	65,311,441	0.23

25.2 Other information

There is no other information as of the reporting date.

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Preamble

Risk Management Process and Internal Control System

The illimity Group has a Risk Management Process (RMP), used as a reference model in the organisational and process-related development and systematic execution of all operational and business activities carried out - which may be standard, or non-systematic or contingent - that involve the undertaking and ongoing management of risks, in line with the assigned mission, strategies and objectives pursued in order to contribute to a sustainable value creation process, while also ensuring regulatory compliance.

At a general level, the Group implements the aforementioned process through an organisation model that requires the coordinated use of human resources, technologies and methodologies based on a set of internal rules that define the structure of management controls, the policies (rules, authorities, objectives and limits in governing risks of various operating and business segments), and the processes in which the activities are carried out, including the control activities.

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

The Board of Statutory Auditors, in its control capacity, oversees the efficiency and adequacy of the risk management and control system and of internal auditing, as well as compliance with the regulations that govern banking business and the functioning and adequacy of the overall System of Internal Controls. For the performance of its duties, this body has adequate information flows from the other corporate bodies and control functions.

The Control Body, pursuant to Italian Legislative Decree no. 231/01 is the body, identified by the Group in the Board of Statutory Auditors as being responsible for supervising the operation and compliance with the Organisation, Management and Control Model that the Group has adopted and, precisely, verifying the efficiency, effectiveness, as well as the adequacy of the model itself with respect to the prevention of the commission of the crimes provided for by the decree itself.

The Chief Risk Officer oversees the so-called second level control activities as a Risk Management Function, ensuring, through the support of the technical functions concerned, constant control of the risks assumed by the Group in terms of both monitoring and control and governance.

The Compliance & AML Department oversees the so-called second level control activities in terms of the Regulatory Compliance Function and the Anti-Money Laundering and Prevention of Terrorist Financing Function, with a view to preventing and managing the risk of incurring legal or administrative penalties, major financial losses or damage to reputation resulting from violations of mandatory regulations or self-regulation, or preventing and combating violations of regulations on money laundering and terrorist financing. In addition, it fulfils the Group's legal obligations regarding the processing of personal data by appointing a Data Protection Officer in accordance with current legislation.

The Internal Audit Department oversees the so-called “third level” control activities as the Internal Audit Function. Specifically, it monitors the regular performance of operations and the evolution of risks as well as assesses the completeness, adequacy, functionality, reliability of the components of the internal control system and information system, the risk management process, the RAF, thereby contributing to the improvement of the effectiveness and efficiency of the organisation, control processes, policies and risk management processes.

Finally, the Organisation & Projects Area, defines - with the support of the business units and the Control Functions – the organisational and control measures for the significant risks that characterise, in current and prospective terms, the Group.

To contribute to the efficient and effective function of the Risk Management Process with regard to all existing or potential risks, in accordance with regulatory requirements, the Group has implemented a system of risk limits and objectives (RAF), the process of self-assessment of the adequate capital (so called ICAAP), a process for the self-assessment of the liquidity profile (so-called ILAAP) and a process for the ex ante assessment of Major Transactions (OMR), with a prior opinion on their sustainability at a credit and income level and coherence with the RAF.

The RAF represents an organic and structured approach that has implications to the governance and integrated management processes of risks and impacts on almost all company departments. It is structured and expressed at operational level for the Division and operational teams, and covers escalation processes, metrics and quantitative limits, as well as qualitative guidelines set out annually in the Risk Appetite Statement (RAS).

The formalisation, through the definition of the RAF, of risk limits and objectives that reflect the maximum acceptable risk, the business model and strategic guidelines, are essential in determining and adopting a risk governance policy and risk management process based on the principles of sound, prudent company management.

The objective of the ICAAP and the ILAAP is to provide an internal assessment of the current and forward-looking adequacy, under ordinary and stress conditions, of available assets in relation to exposure to operational risks, and of the operational liquidity and structural profile.

In conjunction with these processes, adopted by the Group to manage and control risk (risk management framework) in normal operating conditions, the Group has implemented a Recovery Plan, the instrument that governs the management of crisis situations, and strategies designed to restore ordinary operation, as well as the Contingency Funding Plan procedure, that defines the emergency plan to manage liquidity in crisis situations.

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

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

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

The process (at least annual) to identify material risks for the Group is overseen by the Chief Risk Officer, together with the CFO & Central Functions and the support of other organisational units of the Parent Company and subsidiaries.

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

Below is specific information about the risk management system and specific information about material risks, indicated below, and the related management, control and hedging policies adopted by the Group:

- credit risk;
- market risk (interest rate risk and price risk - regulatory trading portfolio);
- interest rate (interest rate risk and price risk of banking portfolio);
- liquidity risk;
- operational risk.

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

As from this year, a process has been adopted to trace risks identified after risk mapping with the risks related to the dimensions of ESG (Environment, Social and Governance) sustainability, in order to assess their significance and identify governance, control and mitigation safeguards. For further information, reference is made to information published in the Consolidated Non-Financial Statement of the illimity Group (pursuant to Italian Legislative Decree 254/2016).

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

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

Section 1 - Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

Portfolio/quality	Bad loans	Unlikely-to-pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	719,173	343,015	1,578	58,701	1,822,496	2,944,963
2. Financial assets measured at fair value through other comprehensive income	15,855	-	-	-	299,462	315,317
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	72,217	72,217
5. Financial assets held for sale	-	-	-	-	61,402	61,402
Total 30/06/2021	**735,028**	**343,015**	**1,578**	**58,701**	**2,255,577**	**3,393,899**
Total 31/12/2020	**750,367**	**322,959**	**506**	**10,618**	**1,864,390**	**2,948,840**

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total adjustments/ recoveries	Net exposure	Total partial write-offs*	Gross exposure	Total adjustments/ recoveries	Net exposure	
1. Financial assets measured at amortised cost	1,082,455	(18,688)	1,063,767	-	1,892,325	(11,129)	1,881,196	2,944,963
2. Financial assets measured at fair value through other comprehensive income	15,855	-	15,855	-	300,720	(1,258)	299,462	315,317
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	72,217	72,217
5. Financial assets held for sale	-	-	-	-	61,402	-	61,402	61,402
Total 30/06/2021	**1,098,310**	**(18,688)**	**1,079,622**	**-**	**2,254,447**	**(12,387)**	**2,314,277**	**3,393,899**
Total 31/12/2020	**1,092,179**	**(18,347)**	**1,073,832**	**-**	**1,874,815**	**(11,468)**	**1,875,008**	**2,948,840**

B. Disclosure of structured entities (other than securitisation vehicles)

The Group does not have any structured entities as of the reporting date.

Section 2 - Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

Credit risk is the risk of incurring losses due to the breach of contractual obligations by a counterparty unable to repay interest and/or capital (default risk), expressed as the difference between the value of the credit and the value effectively recovered, or losses associated with impairment of the counterparty's credit rating (risk of migration).

Credit risk also includes the case of risk of concentration, arising from exposures to counterparties including central counterparties, groups of related parties and parties operating in the same economic sector, in the same geographical region, or exercising the same activity or dealing in the same goods, and from the application of techniques to mitigate credit risk including risks of indirect exposures, such as those towards individual guarantors. There are two main components of concentration risk:

- *single name*, arising from the fact that significant parts of the portfolio are allocated to a single counterparty (or groups of counterparties that share specific characteristics in terms of legal and economic ties);
- geo-sectorial, arising from concentrations with counterparties that have a high correlation terms of the *default* risk as they come from the same economic sector or the same geographical area.

The Group attributes great importance to the control of credit risk and to the relative control systems, which are necessary to create the conditions to:

- ensure a structural, significant creation of value in a controlled risk environment;
- protect the Group's asset and financial solidity, as well as its image and reputation;
- allow a proper, transparent representation of the risk level inherent in its lending portfolio.

The main operational factors that contribute to determining and managing credit risk relate to:

- loan application processes;
- credit risk management;
- monitoring of exposures;
- debt recovery.

Improvements in the quality of the lending portfolio are pursued by adopting specific operational methods at every stage of the loan management process (contact, application stage, decision and disbursement, monitoring and litigation). Credit risk is controlled right from the first stage of the application process, by means of:

- checking creditworthiness, with particular attention to the customer's current and forward-looking capacity to produce income and, above all, sufficient cash flows to honour the debt;
- an assessment of the nature and scope of the required loan in relation to the actual needs and the financial and economic capacity of the applicant, the performance of the account if already in existence, and the sources of repayment;
- the membership in Legal and Economic Groups.

Surveillance and monitoring activity is based on a system of internal controls aimed at optimising the management of credit risk. This is done by using measurement and control methods called "performance". These methods take into consideration every aspect of the customer relationship, such as the general details (information about the customer's place of residence, business, legal status, the last decision taken on their account, adverse events, corporate structure, irregularities in the Central Risk Register, status and doubtful outcome, the persons managing the account and finally, information about whether the account has been in default), information about credit facilities (form of loan, authorised credit limit, overdraft credit line, utilisation, overrun/availability and credit expiry date), details of the guarantees backing the loans, plus information about any other significant factors. "Performance" monitoring interacts with the credit control and management procedures, making the credit monitoring process more efficient by allowing valorisation of the information available, and makes the recovery process more effective.

The opening and granting of a new line of credit is based on a process of analysing the applicant's financial and business data supported by qualitative information about their company, the purpose of the loan, the market they operate in, and the presence and assessment of any collateral guarantees.

Impacts of the COVID-19 pandemic

The illimity Group's credit risk management strategy has adopted, on the one hand, measures introduced by the legislator in response to the epidemiological emergency in order to provide liquidity for companies affected by the crisis through the banking system, and specifically suspensions and moratoria/remodulations relative to loans and credit lines of SME with contractual expiry (Decree Law 18/2020, "Cura Italia Decree), and the disbursement of loans with extensive public guarantees (Decree Law 23/2020, "Liquidity Decree").

To assess forward-looking credit risk scenarios related, in particular, with suspension or moratoria measures being stopped, the Business areas began specific monitoring of credit lines (suspension pursuant to Decree Law 18/2020) and/or ABI moratoria) and contracts with affected customers to quickly identify any problems with resuming payments, so as to take appropriate management measures (e.g., the preparation of forbearance measures, classification as higher risk, etc.).

Measures involving the restructuring of customer debt positions, involving the granting of guaranteed loans, have been defined for larger positions.

As regards risk measurement and control systems, updates were made to PD models during 2020 (update in March with the first impacts, update at the end of the year with the most recent macro forecasts), in line with the forward-looking approach required by IFRS 9, in order to take into account the worsening macro-economic outlook and its impact on the prospective risk level of the performing portfolio.

In addition, the analysis models and tools used for second level risk management controls and relative reporting processes continued their consolidation in H1 2021, along with the analysis of main drivers determining the asset quality of the credit portfolio.

2 Credit risk management policies

2.1 Organisational aspects

Refer to the following paragraph.

2.2 Management, measurement and control systems

Growth Credit Division

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

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

The Growth Credit Division is active in the following segments:

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

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

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the Legal SME Area supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support Area manages the annual reporting of the Division, monitors relations with tutors, manages the Modena branch and oversees the portfolio of the former Banca Interprovinciale regarding progressive divestment.

The Credit Machine Area (credit transaction screening) and Operations, Credit Monitoring & NPE Area (credit monitoring and non-performing loan management), previously within the Growth Credit Division now report to the new Chief Lending Officer (CLO) Department, with effect from 1 January 2021.

The responsibility for managing credit risk, to ensure the regular progress of the loans and execute first level controls, is initially entrusted and within the limits of their authority, to managers of various business areas of the Division (Crossover, Turnaround, Factoring and Business Operations & Credit Support Areas for exposures stemming from ex Banca Interprovinciale), which have direct contact with the market and adequate knowledge of the customer in question. The control of the loan performance, which is overseen by individual Areas and centrally by the Business Operations & Credit Support Area of the Division, is intended to control the management of positions that show irregularities, even if of minor importance. The Division uses a computerised procedure that uses specific parameters and indicators to identify accounts that have various irregularities (by identifying overruns and past, adverse entries, CPC - Credit Position Control, reports from the Central risks register, deterioration in the internal rating, forborne exposures, and any reported financial difficulties, etc.).

The Operations, Credit Monitoring & NPE Area is, therefore, responsible for managing credit positions originated by the Group's Growth Credit Division (i.e. organic credit) that migrate to non-performing status during its life cycle, analysing positions and evaluating the strategy to be adopted for the recovery of the credit. Non-performing loans are evaluated in detail, for each position, at the time of inclusion among non-performing loans, to ensure adequate levels of coverage of expected losses.

Distressed Credit Division

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

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

To optimise and streamline activities in the Distressed Credit Division, in addition to the changes already implemented in 2019, with effect from the third quarter of 2020 the organisational structure was further enriched, as a result of which the Division is now structured as follows:

i. Portfolios, Senior Financing, Special Situations – Real Estate – Energy Areas, responsible for the origination of the investment opportunities in NPL portfolios and Senior Financing, as well as the coordination of the entire negotiation and bidding process, until the final closing phase;
ii. The Servicing Area, responsible for performing due diligence procedures and for adapting, implementing and monitoring recovery strategies through the coordination of internal and external servicers. The Servicing Unit neprix, tasked with debt recovery, reports to the Area;
iii. The Portfolio Optimisation Area, which is responsible for optimising portfolio and single name management by identifying market opportunities for their sale, in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase, including all activities resulting from post-sales;
iv. The Pricing Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models for portfolios/single names/senior financing and the capital structure of all investments;
v. The Business Operations Area, tasked with coordinating and monitoring the Division’s activities, overseeing relations with other Bank units and decision-making bodies, providing legal advice related to individual investment opportunities and initiatives, and monitoring the Division’s performance;
vi. The DCIS Data Architecture & Analytics Area, responsible for governing and managing the process of acquiring, transforming and using the data originated and used by the Distressed Credit Division in business processes; it is also responsible for managing the onboarding process.

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

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

At the organisational level, the aforementioned areas report to the Head of the Distressed Credit Division and interact with the other areas of the Division (Pricing, Business Operations, Servicing) and the Bank's structures (General Counsel, Administration & Accounting, Finance, Risk, Budget & Control, Compliance & AML), acting as an interface between internal units and investors.

In line with illimity's business model of internalising the entire value chain, the Bank is supported by neprix for the management of distressed loans, and forms commercial agreements with servicers selected from time to time on the basis of the characteristics of the assets acquired.

neprix, the company where servicing activities for NPLs acquired by illimity, are centralised, relies on the services of professionals with specific experience and know how in due diligence and in managing non-performing loans. Following the merger with IT Auction (the company acquired by the Group in 2020 and merged into neprix with effect from 1 February 2021), the neprix Sales Area was created, for managing and selling property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a network of professionals operating nationwide.

To carry out its operations concerning distressed credit, illimity works with the vehicles Aporti, Friuli SPV, Doria SPV, River SPV and Pitti SPV and with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, River Immobiliare and SpicyCo.

Chief Risk Officer and CFO & Central Functions

The pricing structure of all credit transactions proposed, prepared by specific areas of the business, is first submitted to the CRO for an independent assessment of the main underlying risks, in ordinary and stress conditions, and also considering the regulatory compliance and reputational factors, and the connected impact on RAF indicators (Risk Opinion), with the formalisation of sustainability and coherence analyses, in particular for Major Transactions. The CFO & Central Functions are also involved in considerations on the control and compliance with the capital and liquidity limits allocated to each Division, the funding structure associated with the transaction and accounting treatment of the transaction, as well as the start of the income recognition phase according to the accounting principle of amortised cost adjusted for credit risk.

The approval of the above pricing structure to be submitted to the decision-making body identified on the basis of the approval thresholds is the responsibility of the head of the proposing business Division.

The controls and relative reporting of the CRO also operate, an overall Group portfolio level, as regards compliance with the credit risk limits and objectives defined in the RAF, through indicators referred to different analysis profiles (for example the cost of credit, expected loss, hedging rates, effectiveness of the recovery process, the concentration profiles of credit exposures).

For management purposes in order to support the assessment of own client reliability, as well as for the calculation of collective write-downs related to performing loans, internal rating models are used.

The Chief Risk Officer also carries out second-level controls, through the Risk Management and Risk Strategy Areas, for example in terms of portfolio quality evolution (transition matrices), capital absorptions, monitoring compliance with the objectives and risk limits (RAF) and effectiveness of the recovery process (comparing the estimated recovery rates and those achieved).

2.3 Methods of measuring expected losses

Among the main elements characterising this principle are:

- the classification of credits into three different levels (or “Stages”) to which different methods of calculating the losses to be recognised correspond: Stage 1 includes performing positions that have not undergone a significant increase in credit risk since they were disbursed, Stage 2 includes performing exposures that have undergone a significant increase in credit risk compared to their first entry in the Bank's books and Stage 3 includes all exposures classified as non-performing;
- for Stage 2 exposures, it is necessary to assess the expected loss over the entire residual life of the credit (i.e. and not only with a time horizon of one year as for Stage 1 exposures);
- whereas, it is necessary to take into account the conditions of the current business cycle (Point in Time) in place of a calibration of parameters along the business cycle (Through the Cycle) required for regulatory purposes;
- the introduction of forecast information regarding the future dynamics of the macroeconomic factors (forward looking) considered potentially able to influence the situation of the borrower.

The staging methodology has been defined on the basis of qualitative and quantitative drivers, identified for the analysis of the significant increase in credit risk and, therefore, for the identification of the exposures to be included in the different stages. It should be noted that, when verifying the increase in credit risk compared to origination, no account is taken of the guarantees that assist the individual exposure, which play a key role in determining adjustments/recoveries. Below are the criteria adopted by the Group to capture the significant increase in credit risk.

Changes due to COVID-19

As regards changes in the models to assess and measure financial instruments connected with the pandemic, with particular reference to aspects concerning the adoption of IFRS 9, the following is noted:

- assessment of the significant increase in risk (SICR): staging criteria adopted (management of the transition from stage 1 to stage 2), and in particular the adoption of the “principle of the significant increase in risk” (SICR), were not changed following the COVID-19 pandemic. In adopting the SICR, the Group carries out an analytical assessment, position by position, taking into account both the outlook of each borrower and impact of the government support measures (e.g. moratoria), in the light of the specific internal policy governing the adoption of criteria to classify forborne loans in the context of a systemic crisis;
- measurement of expected losses: the economic scenarios provided by the info provider Oxford Economics and used in the process of calculating collective impairment were updated in 2020 in order to capture the potential increase in portfolio risk due to the effects of the COVID-19 pandemic. The scenarios used show in particular the marked decrease in GDP during 2020 (around -9%), with a general recovery in 2021 (+5%). Consequently, the risks and uncertainties related to the pandemic, of a worsening in the macro-economic scenario resulted, in overall terms, in an initial worsening in the average default probabilities for 2020 estimated for the portfolio (affected by the aforesaid scenarios based on a satellite model) by approximately +50% (in relative terms), with a positive effect on their containment due to an improved economic context in the first half of 2021 (approximately 10% in relative terms). Moreover, the analyses and estimates carried out were not broken down by sector or segment, but instead an add-on was applied at a provision level for some counterparties that were particularly affected by the pandemic. During the first half of 2021 there was a substantial recovery in macroeconomic indicators compared to the strongly recessive levels of 2020. Given the delay induced by the moratoria in the transfer of the effects of the 2020 scenario on companies' default rates, it was decided to also postpone the inclusion of the 2021 positive scenario in the expected loss estimates for the year;
- financial assets covered by business renegotiations and exposures subject to concessions: the effect of measures supporting the economy is included in the process to assess SICR, by adopting a forborne policy, as mentioned previously, that regulates the various types of concession granted to customers as a result of temporary financial difficulties caused by the pandemic, in order to define cases in which these concessions must be considered as forbearance measures or otherwise.

Significant increase in credit risk

Below are the criteria adopted by the Group to capture the significant increase in credit risk.

Quantitative criteria

Negative change in the rating class (so-called delta notch): in order to identify the "significant increase in credit risk", for the exposures of the credit portfolio, an approach was used that determines the classification in Stage 2 if the change in rating classes between the origination and the detection date shows a worsening above certain thresholds.

Qualitative criteria

- Rebuttable presumption - 30 days past due: consistent with IFRS9, there is a relative presumption that the credit risk of the financial asset has increased significantly - compared to the initial recognition – when contractual payments have expired for more than 30 days. The accounting standard provides that this presumption can be contradicted in the presence of reasonable information demonstrating that the credit risk has not significantly increased since the initial recognition, even if the contractual payments have expired for more than 30 days. To date, the Group has not used this possibility;
- Forbearance: this criterion provides that a credit exposure is allocated to Stage 2 when a concession measure (forbearance) is granted for that exposure;
- POCI: performing credit exposure classified as "Purchased or Originated Credit Impaired" is classified in Stage 2;
- Watchlist: the management classification (so-called Watchlist) aims to identify, on the basis of expert based indications, situations of significant increase in credit risk.

Once the financial assets have been classified in the different Stages, for each exposure, it is necessary to determine the relative adjustments/recoveries following the logic of Expected Credit Loss ("ECL"), using appropriate calculation models. The principle on which the ECL is based is to create a connection between improvement or worsening of the risk profile of the exposure compared to the date of initial recognition in the financial statements, respectively with the increase or decrease in the provision funds.

IFRS 9 defines loss on a financial instrument as the present value of the difference between the contractual cash flows due to the entity and the cash flows it expects to receive. The average of all losses weighted for the respective default risk represents the value of the expected loss.

The calculation method provides for two different measurement criteria based on the time horizon for calculating expected losses:

- limit to a time horizon of 12 months, if the financial assets are classified in Stage 1 (ECL 12 months);
- residual life of the financial asset, for positions classified in Stage 2 (Lifetime ECL).

With reference to debt securities, the methodology used by the Group for the allocation of relationships in the different Stages is based, contrary to the above for credit exposures, only on quantitative drivers (so-called delta notch) as well as on a practical rule expressly permitted by IFRS 9 (Low Credit Risk Exemption). With respect to the latter, the legislation provides that an entity may use its own internal credit risk ratings or other methodologies consistent with a globally shared definition of low credit risk to determine whether a financial instrument is low credit risk, taking into account the risks and type of financial instruments being measured. In particular, an exposure is considered to have "low credit risk" if the financial instrument presents a low risk of default, i.e. if the borrower has a strong ability to meet its obligations regarding short-term contractual cash flows and if unfavourable changes in longer-term economic and commercial conditions could reduce, but will not necessarily reduce, the borrower's ability to meet its obligations regarding contractual cash flows.

Consistent with the provisions of the standard, the Group has decided to adopt, even in the presence of information on credit risk measures at the date of origination, the assumption according to which the credit quality of a government "investment grade" rating can be assumed not to have significantly deteriorated, thus making use of the Low Credit Risk Exemption (LCRE) option. Therefore, only securities that, on the reporting date, have an "investment grade" rating are allocated to Stage 1, while tranche associated with defaulting securities are classified in Stage 3.

Specifically, the impairment calculation formula for Stage 1 and 2 tranches of securities is consistent with the approach adopted for credit exposures. The Stage allocation of performing debt securities presupposes the use of an external rating of the issue; the classification in the Stages is defined according to specific criteria related to this type of portfolio. Debt securities exposures are classified in Stage 3 in cases where credit risk has deteriorated to the point where the security is to be considered non-performing, i.e. classified as non-performing.

In accordance with IFRS9, the Group has defined a specific methodological framework aimed at modelling the following risk parameters, which are relevant for the calculation of IFRS 9 impairment:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD);
- stage allocation criteria;
- calculation of expected losses including point-in-time elements.

The methodologies developed for the estimation and calibration of the above parameters have been defined taking into account the current and prospective complexity of the Group's portfolio. In fact, illimity Bank's credit portfolio is divided between the new exposures originated by illimity and the legacy portfolio originated by the former Banca Interprovinciale, which have very different characteristics in terms of, for example, size, risk profile, management rules.

For this purpose, the illimity Bank Group has developed a model (hereinafter, the “Main Model”) that implements the following approaches, differentiated by type of portfolio:

- application of an evolved model for the shadow rating of exposures originating from illimity, and attribution of the relative probabilities of default based on the expected default rates for Italian SMEs, also considering the expected macroeconomic scenario;
- application of an external rating to the remaining exposures (former Banca Interprovinciale Portfolio) and attribution of the relative probabilities of default based on historical default rates and expectations also linked to the macroeconomic scenario, using the PD forward looking Model;
- adoption of the LGD model based on the estimate of recovery percentages in the case of non-performing loans calibrated based on the business plans of non-performing loans of the Distressed Credit Division.

2.4 Credit risk mitigation techniques

To mitigate credit risk, when the loan is granted, various types of guarantee are usually required. These mainly consist of secured guarantees on property or assets, and personal guarantees, consortium guarantees or other types of commitments and covenants related to the structure and reason for the operation.

In general, the decision to obtain a guarantee is based on the customer’s credit rating and the characteristics of the operation. After that, it may be appropriate to obtain additional guarantees to mitigate the risk, taking into account the presumed recoverable value offered by the guarantee.

The value of secured financial guarantees is periodically monitored. This involves comparing the current value of the guarantee with the initial value to allow the manager to intervene promptly if there is a significant reduction in the amount of the guarantee.

3. Non-performing credit exposures

3.1 Strategies and management policies – 3.2 Write-offs – 3.3 Purchased or originated impaired financial assets

The default portfolio is classified according to the regulatory definitions. In particular:

- non-performing past due exposures;
- Unlikely-to-pay positions;
- Bad loans.

The "non-performing past due exposures" correspond to on-balance sheet credit exposures other than those classified under bad loans or unlikely-to-pay positions, which on the reporting date were past-due or have been overrun continuously for more than 90 days.

The "unlikely-to-pay" positions, rather, correspond to exposures for which it is considered unlikely that the borrower will fulfil their loan obligations without the recourse to actions such as enforcement of guarantees. This assessment is made regardless of whether or not there are any amounts or instalments overdue and unpaid. There is thus no need to wait for an express signal such as non-repayment, if there are factors that imply a risk of the borrower defaulting (for example a crisis in the industry they operate in). The total on- and off-balance sheet exposures to the same borrower in the above situation will be termed an unlikely to pay position unless there are conditions for classifying the borrower among bad loans.

Finally, "bad loans" correspond to on- and off-balance sheet exposures to a borrower in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Group. They do not, therefore, take into account any secured or personal guarantees given in respect of the loan. They exclude exposures where the irregularity relates to country risk aspects.

The EBA's Implementing Technical Standard (ITS) also introduced the concept of "forborne" which refers to exposures where a concession has been granted, in other words a change to the previous contractual conditions and/or a partial or total refinancing of the debt, given the customer's financial difficulties at the time of the concession.

When implementing the EC regulation, the Bank of Italy introduced, with reference to non-performing loans, what is known as "non-performing forborne exposures" means individual on-balance sheet exposures and revocable and irrevocable commitments to disburse funds, which are subject to a concession that meets the rules in paragraph 180 of the ITS. These exposures are cross-category and depending on the situation, they are included in bad loans, unlikely-to-pay positions or non-performing past due exposures. They do not form a separate category of non-performing assets.

The main forborne exposures or support measures are:

- changes to the terms and conditions of a loan that the counterparty cannot repay, by including new conditions that would not have been granted if the customer had not been in financial difficulty;
- total or partial refinancing, meaning the use of a loan disbursement intended to ensure the full or partial repayment of other existing loan agreements, which would not have been granted if the counterparty had not been in financial difficulty.

It should be noted that the forborne attribution distinguishes the individual line of credit and may relate to performing or non-performing lines.

In addition, as indicated by IFRS 9, in some cases a financial asset is considered to be non-performing at the time of initial recognition because the credit risk is very high and, in the case of acquisition, it has been acquired at a large discount compared to the initial loan value. If the financial assets in question, based on the application of the classification driver (the SPPI test and Business model), can be classified among assets measured at amortised cost or at fair value through other comprehensive income, they are classified as "Purchased or Originated Credit Impaired Asset" and undergo a special treatment with regard to the impairment process. In addition, for assets classified as POCI, a credit-adjusted effective interest rate is calculated on the date of initial recognition, the so-called "credit-adjusted effective interest rate", which requires the inclusion of the expected initial losses, in the estimates of cash flows. To apply the amortised cost and the resulting calculation of interest, this credit-adjusted effective interest rate is applied.

The Group structures that manage the relationship with the borrower use objective and subjective criteria for the purpose of proposing the classification of credit exposures to non-performing exposures. The first objective criteria are triggered by the overrun of specific limits (as defined in the Bank of Italy Circular 272), while the second subjective criteria relate to other irregularities on the credit relationship, such as adverse events, central risk register irregularities, other sources of information, etc.

In 2021 criteria (sometimes stricter than in the past) required by prudential regulations for the identification of exposures in default were introduced. Among others, these include materiality thresholds for past due exposures, a criterion for onerous restructuring, and a prohibition on netting different credit lines. The impact of the new regulation on the cost of credit for the illimity group has been very limited.

Bad loans correspond to on- and "off-balance sheet" credit exposures to a borrower in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, independently of any loss forecasts made by the Group.

These two statuses described above are determined independently of any consideration about the nature and extent of any guarantees supporting the loans. The adjustments/recoveries, which are valued in detail on each account, reflect prudential criteria relating to the possibility of recovery, which may also relate to any collateral guarantees. They are periodically verified.

A loan account will be reclassified as performing in accordance with the legal provisions.

4. Financial assets subject to commercial negotiations and forborne exposures

Reference is made to the section "Changes due to COVID-19", reported above.

Quantitative information

A. Credit quality

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.4 Prudential consolidation – On and off-balance sheet credit exposures to banks: gross and net

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure
	Non-performing	Performing		
A. On-balance sheet credit exposures				
a) Bad loans	-	X	-	-
- of which: forborne exposures	-	X	-	-
b) Unlikely-to-pay	-	X	-	-
- of which: forborne exposures	-	X	-	-
c) Non-performing past due exposures	-	X	-	-
- of which: forborne exposures	-	X	-	-
d) Performing past due exposures	X	589	3	586
- of which: forborne exposures	X	-	-	-
e) Other performing exposures	X	642,202	270	641,932
- of which: forborne exposures	X	-	-	-
Total (A)	**-**	**642,791**	**273**	**642,518**
B. Off-balance sheet credit exposures				
a) Non-performing	-	X	-	-
b) Performing	X	-	-	-
Total (B)	**-**	**-**	**-**	**-**
Total (A+B)	**-**	**642,791**	**273**	**642,518**

A.1.5 Prudential consolidation – On and off-balance sheet credit exposures to customers: gross and net

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure
	Non-performing	Performing		
A. On-balance sheet credit exposures				
a) Bad loans	748,811	X	13,783	735,028
- of which: forborne exposures	-	X	-	-
b) Unlikely-to-pay	347,634	X	4,619	343,015
- of which: forborne exposures	43,745	X	1,597	42,148
c) Non-performing past due exposures	1,864	X	286	1,578
- of which: forborne exposures	-	X	-	-
d) Performing past due exposures	X	58,736	621	58,115
- of which: forborne exposures	X	182	5	177
e) Other performing exposures	X	1,750,349	11,833	1,738,516
- of which: forborne exposures	X	26,321	341	25,980
Total (A)	**1,098,309**	**1,809,085**	**31,142**	**2,876,252**
B. Off-balance sheet credit exposures				
a) Non-performing	47,395	X	3,657	43,738
b) Performing	X	105,161	337	104,824
Total (B)	**47,395**	**105,161**	**3,994**	**148,562**
Total (A+B)	**1,145,704**	**1,914,246**	**35,136**	**3,024,814**

A.1.5a Loans subject to COVID-19 support measures: gross and net

Type of exposures/values	Gross exposure	Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs
A. Bad loans:	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New funding	-	-	-	-
B. Loans unlikely to pay:	**6,818**	**317**	**6,501**	**-**
a) Subject to forbearance in accordance with GL	1,042	50	992	-
b) Subject to other forbearance measures	580	45	535	-
c) New funding	5,196	222	4,974	-
C. Non-performing past-due loans:	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New funding	-	-	-	-
D. Past due performing loans:	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New funding	-	-	-	-
E. Other non-performing loans:	**350,786**	**2,101**	**348,685**	**-**
a) Subject to forbearance in accordance with GL	2,804	15	2,789	-
b) Subject to other forbearance measures	1,202	22	1,180	-
c) New funding	346,780	2,064	344,716	-
Total (A+B+C+D+E)	**357,604**	**2,418**	**355,186**	**-**

The table above shows the only positions that meet the definition of "*EBA compliant*" moratoria, including with regard to those positions that involve forbearance measures.
As of 30 June 2021, the total exposures subject to suspension moratoria in connection with the COVID-19 emergency amounted to approximately EUR 47 million.

B.4 Large exposures

	30 June 2021
Book value	1,903,259
Weighted value	431,431
Number	8

According to the regulations in force, the number of large exposures shown in the table is determined by referring to unweighted “exposures” exceeding 10% of the Eligible Capital, as defined by EU Regulation no. 575/2013 (so-called CRR), where "exposures” means the sum of on-balance sheet risk assets and off-balance sheet transactions (excluding those deducted from Eligible Capital) towards a client, or a group of connected clients, without the application of weighting factors. These exposure criteria lead to including subjects in the financial statements table relating to large exposures who - although weighted at 0% – have an unweighted exposure exceeding 10% of the Eligible Capital for the purposes of large risks.

1.2 Market risk

1.2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

General aspects

Market risk is the risk of changes in the market value of financial instruments held, as a result of unexpected changes in market conditions (adverse changes in market parameters such as interest rates, exchange rates, prices and volatility) and of the Group's credit rating.

Measurement and control of market risks are activities conducted daily by the Risk Management Area, taking as reference all positions subject to remeasurement at fair value through income statement and equity. The scope of the positions subject to this measurement is broader than the "regulatory trading book" (e.g. Trading book), also involving, in fact, part of the positions of the banking book.

The measurement and control of the market risks is performed with the Value at Risk methodology (hereinafter "VAR"); VAR is a probability indicator that measures the probable maximum loss of value (fair value) which the Group might be affected by with reference to a given time horizon and a specific confidence level, confirmed by historic scenarios (historic simulation approach).

The daily VAR measurement is accompanied by periodic stress test analyses, which simulate the impacts on the income statement and statement of financial position in the event of an unexpected shock in market values. These shocks can consist of scenarios based on extreme market events that actually happened (historical scenarios), or ad-hoc created scenarios (EBA scenarios).

The reliability of the risk measurement outputs through the VAR methodology is verified daily through the execution of back testing tests.

VAR measures are compared with the risk limits and objectives formalised in the RAF and with the operational limits, on a daily basis by the CRO Division. VAR measures are used together with other indicators such as sensitivities and greeks, as well as position measures, that form the basis of level two and early warning limits.

Processes for managing and methods for measuring interest rate risk and price risk

For instruments classified in the trading book, the IAS/IFRS require a fair value measurement, with a contra entry in the income statement. For financial instruments listed on active markets, the best estimate of the fair value is represented by the prices themselves (Mark to Market), taken from the information providers (Bloomberg, Thomson Reuters, etc.).

The value expressed by the relevant market for a listed financial instrument, even if admitted for trading on an organised market, should still be considered insignificant, for illiquid instruments. Illiquid instruments are financial products for which there are no suitably liquid or transparent trading markets available, which can provide immediate, objective reference benchmarks for the transactions. Therefore, due to the low volumes traded, the low frequency of trades and the concentration of free float, the Mark to Market does not express the actual "presumable realisation value" of the instrument.

For unlisted or illiquid financial instruments, the fair value is determined by applying measurement techniques aimed at determining the price that the instrument would have had on the market where freely negotiated between the parties motivated by usual commercial considerations. The techniques include:

- reference to market prices of similar instruments with the same risk profiles as those being valued (comparable approach);
- valuations based on generally accepted pricing models (i.e. Black & Scholes, Discount Cash Flow Model, etc.) or internal models, based on market input data and possibly on estimates or assumptions (Mark to Model).

For mutual investment funds not traded on active markets, the fair value is determined on the basis of the published NAV (net asset value).

Some complex financial products (structured or synthetic) can be valued on the basis of:
- the breakdown of the product into its elementary components;
- valuation models that can generate numerical scenarios defined on the basis of a probability density function that identifies the simulated pay-offs for the complex product to be valued;
- valuation models used to value the components described in the previous points (elementary components or assimilated pay-offs), together with the operational market prices used to parametrise the models or to know the valuation of some of their components (for example implicit inflation, for inflation linked components).

Some complex financial products for which there is no commonly accepted valuation model nor the availability of all the descriptive information about the product, can be particularly hard to value. These products can be valued: (i) through the Bank's internal valuation models able to produce a fair value for comparison, in any case, with the operating BIDs obtained by independent counterparties; (ii) if there are no validated internal models, reference is made to the operational BIDs obtained from independent market counterparties.

Impacts of the COVID-19 pandemic

Faced with the COVID-19 pandemic, a communication channel was set up with the Management Committee by the treasury management and ALM units and the risk control function, with daily updates on market trends and an update on the RAF limits at times of greater financial tension.

No significant changes in risk management objectives and strategies took place, save for an adjustment to the asset allocation initially planned to maintain the risk profile within defined limits.

No changes to risk measurement and control systems, related to the pandemic, took place.

1.2.2 Interest rate risk and price risk – banking book

The banking book consists of all the financial instruments, receivable and payable, not included in the trading book referred to in the "Market risks section".

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Banking portfolio interest rate risk consists of the risk that unexpected changes in interest rates will be negatively reflected on:
- formation of the net interest margin, and thus, the bank's earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk);
- relative to the assets other than those allocated to the trading book, in relation to the non-timing between the maturity and the re-pricing of assets and liabilities and the short and long term off-balance sheet positions (re-pricing risk), the risk arising from changes to the slope and shape of the yield (yield curve risk), the hedging of interest rate risk of an exposure using an exposure with

a rate that reprices in different conditions (basis risk) and risks arising from options (for example, consumers redeeming fixed-rate products when the market rates change).

To measure, control and manage interest rate risk and the prices of all the cash flows in the banking book, the impact of any unexpected changes in market conditions will be analysed, and the risk-return alternatives will be evaluated, so that management decisions can be taken.

Exposure to interest rate risk is assessed from two different perspectives. In the short term view, the "earnings perspective" approach is adopted, which focuses on the impact of changes in interest rates on the profits accrued or recognised (cash flow risk), as regards the component represented by the net interest margin. For a long term view of the effects of changes in interest rates, the "economic performance perspective" approach is used, representing a method, in accordance with prudential supervisory regulations, used to assess the sensitivity of the Group's shareholders' equity to changes in rates (fair value risk).

Interest rate risk management is intended to limit the impact of adverse changes to the rates curve, both in financial terms and in terms of the cash flow generated by the financial statement items, and is achieved primarily through the indexing of assets and liabilities to money market benchmarks, typically the Euribor, and the balancing of the duration of the asset and liability.

Fair value hedging activities

No specific hedges have been put in place through financial derivative instruments to reduce exposure to adverse changes in fair value (Fair Value Hedge) due to interest rate risk.

Cash flow hedging activity

There are no cash flow hedges.

Hedges of foreign investments

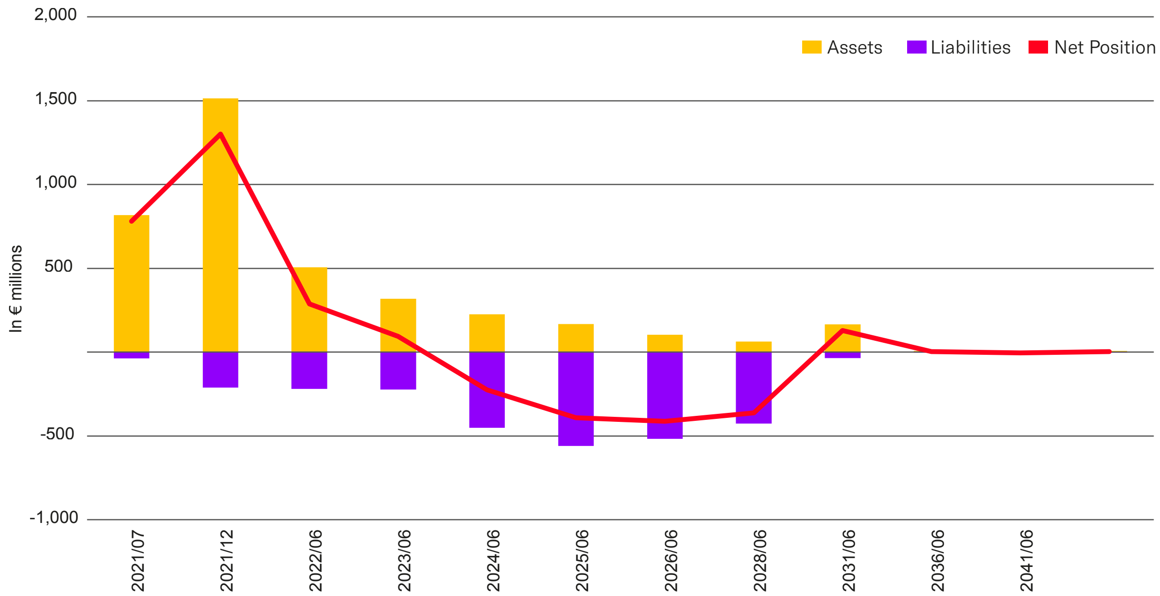
There are no hedges of foreign investments.

2. Bank portfolio: internal models and other methods of sensitivity analysis

There are no internal models and other methods of sensitivity analysis. However, the construction of a series of internal models, even if not validated (which do not consider scenarios of early termination) enable the bank to carry out sensitivity tests, usually associated with a parallel shifts in the rates curve of +/-200 bps.

To monitor compliance with the limit set in the RAF, and to ensure that risk is limited to 20% of the ratio between the change in economic performance and own funds, a value analysis is periodically carried out on the banking book (simplified methodology referred to in Annex C of Circular no. 285 issued by the Bank of Italy), both for a stress scenario with a parallel rate shock of +/- 200 bps, and in ordinary conditions using as a shock the 99th percentile (in the case of a rates rise) or the 1st percentile (in the case of a rates reduction). The interest rate risk of the banking book is therefore quantified based on gap analysis and sensitivity analysis models that identify all assets and liabilities of the banking book and group them based on the repricing period of the interest rate.

The following graphic shows the distribution by maturity bands of net imbalances of assets and liabilities in the banking book as of 30 June 2021, based on which the exposure to the interest rate risk was estimated.



On the reporting date, the measurements indicated a decrease in the value of equity equal to approximately 4.5 million euros in relation to a parallel shock of the interest rates curve of 200 basis points; banking book exposure to interest rate risk is, therefore, marginal in terms of the ratio compared to the value of own funds, amounting to a minor level of approximately 0.8%.

In addition to the Sensitivity analysis, an estimate of the change in interest income is also carried out. The sensitivity of the margin is measured using a methodology that estimates the expected change in the net interest margin following a curve shock, produced by items that are sensitive to a change in the rate, within a gapping period set at 12 months from the date of the analysis. The analysis considers both the change in the margin of the exposed and term deposits. This measurement is carried out from a static financial statement perspective (constant assets and liabilities), thus excluding potential effects from new operations or future changes in the mix of assets and liabilities. In the scenario of positive rate shock of +100 bps, the change in the margin would amount to approximately EUR +4.6 million, while in the negative shock scenario of -100 bps, the estimated change would be equal to EUR -4.6 million.

1.2.3 Exchange risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk

The exchange risk is determined on the basis of the existing mismatching between currency assets and liabilities (spot and forward), for each currency other than the euro. The main sources of risk are:

- loans and deposits in foreign currency with corporate and retail customers;
- the holding of foreign currency financial instruments;
- the holding of any shares or units in UCIs still denominated in euros, for which it is not possible to determine the foreign currency composition of the underlying investments and/or for which the maximum foreign currency investment is not known and is binding;
- the trading of foreign banknotes.

The exchange risk is determined on the basis of the methodology proposed by the Bank of Italy and is quantified at 8% of the net foreign exchange position. This is determined as the highest component (in absolute values) between the sum of the net long positions and the sum of the net short positions (position per currency) to which is added the exposure to the exchange rate risk implied in any investments in UCIs. The internal VAR-based model is therefore not used in the calculation of capital requirements on market risks.

Exposure to exchange risk is thus determined on the basis of the net foreign exchange position using a methodology based on the supervisory regulations. Equity investments and property and equipment are not included in the net foreign exchange position

B. Exchange rate risk hedging

The exchange risk arising from exposures on the banking book is generally cancelled using systematic balancing with funding/loan operations in the same currency as the original transaction.

Quantitative information

2. Internal models and other methods of sensitivity analysis

Foreign currency activity is extremely limited, according to policy, and the net daily position tends to be zero, excluding any foreign currency cash deposits held at the Modena branch. There are no internal models and other methods of sensitivity analysis.

1.3 Derivative instruments and hedging policies

During the reference period no derivatives transactions have been carried out.

1.4. Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is the risk of defaulting on payment obligations due to the inability to source funds or to source them at above-market costs (funding liquidity risk) or by the presence of limits on the mobilisation of assets (market liquidity risk) thus incurring capital losses. The liquidity risk derives from the misalignment in terms of amount and/or date of realisation, of the inflows and outflows relating to all the assets, liabilities and off-balance sheet items and is correlated to the conversion of expiry date which is typically done by the banks.

The reference framework of the measurement, monitoring and management of liquidity risk is defined in the liquidity risk policy, which sets out the rules aimed at pursuing and maintaining a sufficient diversified level of funding and an adequate structural balance of sources and invested assets, by means of coordinated, efficient funding and investment policies. The short-term liquidity risk management system set out in the policy is based on a series of early warning thresholds and limits that reflect the general principles on which liquidity management is based. The policy therefore defines the company functions and bodies responsible for liquidity management.

The ALM & Treasury Department, with the assistance of the Budget & Control Area, aims to maintain a low level of exposure to liquidity risk, by putting in place a system of controls and limits which are based on a gap analysis of financial inflows and outflows, according to categories of residual life. The primary objective of liquidity risk management is to meet payment obligations and to source additional funds from the market, while minimising costs and without affecting potential future earnings.

The liquidity risk is controlled by the Risk Management Area through the measurement, monitoring and management of the liquidity requirement using a model that analyses the net liquidity balance, supplemented by stress tests that assess the bank's capacity to cope with a series of crisis scenarios ranked by increasing levels of severity. The net liquidity balance is obtained from the operational maturity ladder, by comparing the projection of expected cash flows against the Counterbalancing Capacity over a period of up to 12 months. The cumulative sum of the expected cash flows and the counterbalancing capacity for each time band quantifies the liquidity risk, evaluated in different stress scenarios.

The stress tests are intended to assess the bank's vulnerability to exceptional but possible events, and give a better assessment of the exposure to liquidity risk, of the systems used to mitigate and control that risk and of the survival period in the case of adverse scenarios. In defining the stress scenarios, a series of risk factors are considered, that can either impact the cumulative imbalance in inflows and outflows, or the liquidity reserve, for example the risk that future unexpected events may require a liquidity that is far higher than expected (contingent liability risk), or the risk of not being able to obtain necessary funds or of obtaining them at costs above market costs (funding liquidity risk).

The monitoring of the level of coverage of the expected liquidity requirements through an adequate level of liquidity reserve is accompanied by the daily monitoring of exposure on the interbank market.

When these limits and early warnings are exceeded, the Contingency Funding Plan is also activated.

In line with the supervisory provisions, the Group performs daily monitoring of the Liquidity Coverage Ratio (LCR) indicator for the purpose of strengthening the short-term liquidity risk profile by ensuring that enough high-quality liquid assets (HQLA) are available and can be immediately converted into cash on the private markets to meet the 30-day liquidity, requirements in a liquidity stress scenario.

The monitoring of structural balance is also pursued through the daily measurement and monitoring of the Net Stable Funding Ratio (NSFR) structural requirement, which is aimed at promoting greater recourse to stable funding, preventing that medium and long-term operations give rise to excessive imbalances, to be funded in the short term. It establishes the minimum "acceptable" amount of funding longer than a year, in relation to the liquidity requirements and residual term of assets and off-balance sheet exposures.

On the reporting date, the Group does not present any significant risk profile in terms of liquidity requirements; the liquidity profile of the Group is adequate in both the short and medium/long term, reflecting the coherence between the process to construct assets and the adoption of relative funding policies, while complying with internal and regulatory risk limits.

Impacts of the COVID-19 pandemic

Faced with the COVID-19 pandemic, a communication channel was set up with the Management Committee by the treasury management and ALM units and the risk control function, with two daily updates on market trends and an update on the RAF limits at times of greater financial tension.

The initial increase in volatility at the beginning of 2020 with respect to the collection of some short-term funding components and the release of some term deposits by corporate customers had a negligible impact on the Group's overall funding, with a subsequent return to normal pre-COVID-19 market conditions.

No changes to the risk management strategy and objectives were recorded, nor changes to risk measurement and control systems, related to the pandemic.

1.5 Operational risks

Qualitative information

A. General aspects, management processes and methods used to measure operational risk

Operational risk is the risk of incurring losses due to inadequate or malfunctioning procedures, human resources or internal systems, or due to exogenous events. It includes among other things losses from fraud, human error, business interruptions, and availability of systems, contractual breaches and natural disasters. This definition does not include strategic, business and reputation risk, while it does include IT and legal risk, intended as the risk of violating laws and other regulations in force, or of failing to fulfil contractual and extra-contractual responsibilities, as well as deriving from other disputes that may arise with contractual counterparties in the course of operations.

Operational risk is characterised by a cause and effect, such that an adverse event is generated by one or more triggers that directly results in a financial loss. Operational loss can thus be defined as all the adverse economic effects resulting from operations, recorded on the company's accounts, and impacting the income statement.

The most common sources of operational risk are, for example, inefficient or inadequate operational processes and monitoring systems, internal and external fraud, operational error, an inadequate physical and logical security, inadequacy of the information technology system with respect to the volume of operations and operating requirements, outsourcing of business functions, the presence of inappropriate management or staff training policies, and finally, social and environmental impacts.

The Group's overall operational risk management framework consists of a set of shared resources (human, technological and organisational), procedures and rules aimed at identifying, analysing and mitigating all operational risks inherent in the current and prospective operations of the various organisational units.

The primary objective of the framework is, in fact, the prevention and containment of the frequency and impact on business functions of such risk events through the ex ante implementation of organisational and preventive measures, and ex-post mitigation measures, inspired by the following guiding principles:
- increase overall IT and operational security and efficiency;
- ensure the compliance of activities in regulatory and organisational terms, to reduce the probability of the occurrence of events that could potentially generate operational losses
- mitigating the likely effects of such events;
- transfer any risks that are not to be maintained, where possible, using insurance-type contracts;
- protecting relations with stakeholders, reputation and the brand.

Among the mitigation tools available are insurance policies that, first and foremost, offer broad coverage against various types of adverse event. The Group has taken out adequate insurance policies to cover different types of operational risk (in particular: cyber risk, property risk, employee infidelity, protection of the integrity of the real estate repossessed by the Group and the value of the properties received as collateral in the purchase of non-performing loans, risk of disregard for advanced electronic signatures and graphometrics), which are subject to continuous assessment and adjustment also due to the progressive operational and structural evolution of the Group.

The management of critical information technology risks include the disaster recovery plan, which sets out the technical and organisational measures necessary to deal with events that would cause the unavailability of the IT systems and structures. The aim of the plan is to enable the functioning of key IT procedures at alternative sites to those of production, and forms an integral part of the business continuity plan, and ensures the return to normal operativity within reasonable timing. In accordance with the regulatory instructions issued by the Bank of Italy, and based on the integration logic required by the control functions, this system is managed both internally by the ICT security unit, and externally by the outsourcer Centrico, and by front-end service providers (Fabrick, Kalyera, Nexi, Experian).

To control the economic risks arising from legal proceedings against the Group, a provision is made in the financial statements, which is appropriate for and consistent with international accounting standards. The amount of the provision is estimated on the basis of multiple factors, which mainly concern the predicted outcome of the dispute, and in particular the likelihood of losing the proceedings and an order being made against the Group, as well as the amount that the Group may be required to pay to the adverse party.

As regards key processes for the proper management of operational risk, the Group has put in place a structured loss data collection (LDC) process and process to determine the Group's forward-looking exposure to operational risk, based on a Risk Self Assessment (RSA).

Through the Loss Data Collection process, the main information related to the Group's operational risk events and their economic effects is collected and analysed in a timely manner. The process extends throughout the entire banking group, also involving the subsidiaries for which illimity carries out risk management activities as an outsourcer. The data collection process also uses computer applications and processes that ensure the orderly and systematic collection of events and data on operational loss, and that allow the logging of such information for the purposes of monitoring and evaluating appropriate mitigation actions.

RSA activity instead aims to assess and quantify exposure to the Group's operational risks in the year following the assessment, based on a forward-looking self assessment which is conducted from main operating areas. The activity is based on a structured process that starts from the assessment of the frequency and expected impact of main operational risk events that may characterise each organisational unit. These forward-looking estimates are then screened by the control functions based on objective criteria which are then combined to provide an overall vision of expected operational losses at an individual Company or Group level.

Both key processes to identify and manage operational risk cover all illimity Group companies on a uniform basis, so as to effectively supplement the operational and IT risk control systems, and therefore ensure a unique management framework adopted by the Parent Company. Ongoing actions are planned for the future, to consolidate the integration of subsidiaries in terms of risk supervision and measurement and to update internal regulations.

The operational risk data collection process in the first half of 2021 benefited from the active contribution of all illimity Bank Divisions, and from the subsidiary neprix.

In the first half of the year, operating losses were recorded related to the initial phases of the Group's activity (end of 2018 and beginning of 2019), specifically to the migration of the databases of the new Bank (first the former Interprovincial Bank, then Illimity Bank) towards the systems currently adopted by the outsourcer, and the setting up of some operating procedures related to the Group's business, mainly to ET 4 (Customers, products and professional practices). As also observed in previous years, these events can in fact produce economic effects even after a few months or years from the date of their occurrence, and therefore lead to an extended recognition. At the same time, there were new losses that fall within the normal operations of the Bank, which are divided between the cases of ET 4 (especially with regard to the configuration of operating or business processes) and ET7 (errors in the execution, delivery and management of processes).

However, during the first half of 2021 there were no operational losses relating to internal fraud (ET1) or to employment practices and workplace safety (ET3).

Impacts of the COVID-19 pandemic

The "fully digital" nature of the illimity Group has helped to minimise potential operational problems related to the transition to remote working on an ongoing basis, without therefore causing slowdowns in operations or interruptions of critical processes.

Similarly, the Group's strategies, operational risk measurement and identification techniques did not change in particular in relation to remote working procedures, as these procedures are based on engineering IT processes using the Cloud and have been conceived to extensively cover all Bank Areas.

Moreover, during the first half of 2021 there were no operational losses directly or indirectly related to the pandemic, while measures to protect employees' health and safety adopted by the Group in response to the epidemiological situation have been in place since the second quarter of 2020.

In any case the advent of the COVID-19 pandemic led to a new focus on formulating new risk scenarios during the Risk Self Assessment (RSA), to include possible operational risks and the economic effects of the pandemic and its continuation during 2021, within the Group's various business units.

In terms of the potential impact of IT risk, no episodes of IT system or customer banking service unavailability due to the impacts of the spread of the virus were reported. Specifically, in terms of IT security and cyber attacks, no particular risk events were detected, nor were any changes in the safeguards present within the Group as a response to the pandemic found to be necessary (e.g. firewalls, multi-factor authentication, conditional access, the least privilege principle, tokens, etc.), apart from extending the use of the VPN to guarantee remote access to company data.

Similarly, no phishing campaigns targeting customers or Group employees were recorded, nor attacks on the VPN for remote access, or disclosure of false information with negative impacts on intermediaries, or advanced persistent threats, directly attributable to the health emergency.

Lastly, with reference to legal risk, no claims/complaints or other notices from customers sent by email/certified email were received, related to the contingent situation caused by the pandemic.

OTHER IMPORTANT RISKS

Risk of over-leverage

This risk of over-leverage is defined by the prudential regulations as the risk that a particularly high level of indebtedness compared to the amount of own funds making the Group vulnerable, and requiring the adoption of corrective measures to the Strategic Plan, including the sale of assets and the recognition of impairment losses or adjustments/recoveries.

Risk exposure is measured by the Leverage Ratio (the financial leverage index, measured as the ratio between own assets and total on- and off-balance sheet assets that, not including corrections/weighting for the risk, serves as supplement to the capital requirements of the first pillar) and through other indicators that can identify any imbalances between assets and liabilities (structural and operational liquidity ladder). The strategic and operational objective is to control the risk by keeping asset trends within limits that are compatible with long-term equilibrium in order to avoid jeopardising the Group's stability.

The over-leverage risk relates to the entire financial statements, to the exposures arising from derivatives and the off-balance sheet assets, and is accepted as part of the exercise of core business. It is closely connected to planning and capital management activities; the level of exposure to risk is an expression of the guidelines and development lines elaborated by the Board of Directors. Risk exposure is mitigated through capital management and asset management allocation measures, which remain within the guidelines set out in the current Strategic Plan. Consideration is also given to the potential increase in risk connected to the recognition of expected or realised losses which reduce capital.

Settlement risk

Settlement risk is the risk connected to non-simultaneous settlements, in other words for operations on debt instruments, equity instruments, foreign currencies and goods (apart from sales with repurchase clauses or operations for the granting and acceptance on loan of securities or goods that are not liquidated after expiry of the related delivery date). Article 378 of the CRR requires a bank to calculate its requirements in terms of own funds for settlement risk by calculating the price difference it would be exposed to if that difference could result in a loss. The difference between the agreed liquidation price and the current market value would determine the risk related to operations where settlement is not simultaneous with the actual delivery.

Counterparty risk

Counterparty risk is the risk that the counterparty in an operation defaults before the final payment of the cash flows of an operation. In particular transactions concerning financial derivatives and credit instruments traded on unregulated markets (OTC), repurchase operations and operations with deferred settlement are subject to counterparty risk.

The losses involved with this type of risk are generated when the transactions with a certain counterparty have a positive value at the time of the insolvency.

Transfer risk

Transfer risk is the risk that a bank, which has exposure towards a party funded in a currency other than that of its main source of income, realises losses due to the borrower's difficulties in converting its currency into the currency of the exposure.

Sovereign risk

Sovereign risk is the risk of a reduction in the value of bonds of an issuer State, almost all of which are included in the Held to Collect and Sell (HTC&S) portfolio category, in relation to a decrease in the credit rating, or in an extreme scenario, the insolvency of the State. Exposure is regularly monitored and reported to the executive bodies.

Strategic and business risk

Strategic and business risk is the current or forward-looking risk of falling profits or capital resulting from changes to the operational context or from incorrect business decisions, the inadequate implementation of decisions, or lack of response to changes in the competitive environment.

The two components refer to strategic risk related to business interruption (for example entry on new markets or the adoption of significant operating changes) and business risk, which is the risk of a potential reduction in profits as a result of changes in the operational environment within the normal course of business (for example volatility of volumes or changes in customer preferences).

Exposure to strategic and business risk is not connected to specific operations but to the adequacy of the decisions and the efficiency of their implementation. In particular the risk relates to the stages of defining the business strategies and the related phases of implementation consisting of the definition of the strategic plan, commercial planning, budgeting, management control and the monitoring of markets and the competitive environment, capital allocation and capital management.

By defining, approving and monitoring the annual planning and progress of the Strategic Plan, top management carries out strategic checks on the evolution of the various areas of business and the risks connected to its activities. The Chief Risk Officer continually monitors and controls the level of exposure to risk, providing adequate reporting on a quarterly basis to company bodies and top management.

Compliance risk

Compliance risk is the risk of incurring legal or administrative penalties, major financial losses or damage to reputation as a result of breaches of mandatory laws (laws and regulations), or codes of self-governance (such as bylaws, codes of conduct etc.). The Group pays particular attention to compliance risk, considering that the adoption of the highest standard of conformity to laws and regulations is a way of maintaining its reputation over time.

Money laundering risk

Money laundering risk is the risk of incurring legal or reputation risks as a result of potential involvement in illegal operations connected to money laundering or the financing of terrorism. The Group has set up a specialised function within its organisational structure, in accordance with the current regulatory requirements that is responsible for overseeing, in a general perspective, the aforementioned management of AML risk, and for providing the necessary support and advice to business Divisions.

Reputation risk

Reputation risk is the current or forward-looking risk of a decline in profits or equity due to a negative perception of the Group's image by customers, counterparties, the Group's shareholders, investors or regulators, local communities and employees. Likewise, reputation is an intangible asset of essential importance and is a distinctive feature which forms the basis for a long-term competitive advantage.

The risk relates primarily to the area of stakeholder relations. It can originate from factors outside of the business perimeter and beyond the bank's operations (for example the publication of inaccurate information or rumours, or phenomena affecting the banking system that may affect all banks indiscriminately). The primary, essential control on the management of reputation risk is the sharing by all staff, suppliers, partners and consultants of the system of values, standards and rules of conduct inspiring all.

The Bank's reputation is overseen by specific communication strategies, policies and processes and is continually monitored, for example through "sentiment analysis" instrument that identify how its image is perceived by the media, market operators and social media.

PART F -INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - consolidated shareholders' equity

A. Qualitative information

Shareholders' equity is defined by the International accounting standards as "what remains of the company's assets after deducting all the liabilities". From a financial viewpoint, equity is the monetary amount of the funds contributed by the proprietors, or generated by the business.

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by type of enterprise

Items in shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	48,473	-	-	-	**48,473**
2. Share premium reserve	543,803	-	-	-	**543,803**
3. Reserves	62,982	-	-	-	**62,982**
4. Equity instruments	-	-	-	-	**-**
5. (Treasury shares)	(832)	-	-	-	**(832)**
6. Valuation reserves:	(1,502)	-	-	-	**(1,502)**
- Equities measured at fair value through other comprehensive income:	(1,572)	-	-	-	**(1,572)**
– Hedging of equity instruments measured at fair value through other comprehensive income	-	-	-	-	**-**
- Financial assets (other than equity instruments) at fair value through other comprehensive income	-	-	-	-	**-**
- Property, plant and equipment	-	-	-	-	**-**
- Intangible assets	-	-	-	-	**-**
- Hedging of foreign investments	-	-	-	-	**-**
- Cash flow hedges	-	-	-	-	**-**
- Hedging instruments [undesignated elements]	-	-	-	-	**-**
- Foreign exchange differences	-	-	-	-	**-**
- Non-current assets and asset groups held for sale	-	-	-	-	**-**
- Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)	-	-	-	-	**-**
– Actuarial gains (losses) relating to defined benefit plans	70	-	-	-	**70**
– Shares of valuation reserves for equity investments measured at equity	-	-	-	-	**-**
- Special revaluation laws	-	-	-	-	**-**
7. Profit (loss) (+/-) for the financial year attributable to the Group and minority interests	27,418	-	-	-	**27,418**
Total	**680,742**	**-**	**-**	**-**	**680,742**

Section 2 – Own funds and capital ratios

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

On 19 March 2020 illimity Bank, following the Supervisory Review and Evaluation Process (SREP) performed on the illimity Banking Group, received notification from the Bank of Italy of the prudential requirements to be observed at the consolidated level with effect from 31 March 2020. To ensure compliance with the binding requirements even in the event of a deterioration in the economic and financial scenario (Pillar 2 Guidance - P2G), the Bank of Italy identified the following capital levels, which the illimity Banking Group was invited to maintain on an ongoing basis:

- Common Equity Tier 1 (CET1) ratio of 9.20%;
- Tier 1 ratio of 11.10%;
- Total Capital ratio of 13.70%.

The supervisory authority also indicated a need – without prejudice to the additional supervisory requirements set out in the notification sent – for observance of the commitment to keep the CET1 ratio over 15% on an ongoing basis.

On 29 March 2021, the Bank of Italy, considering the complex evaluation aspects available to the regulatory authorities concerning the corporate situation of the illimity Group, confirmed the outcome of the SREP 2020.

Considering the result for the period, net of any foreseeable charges and dividends pursuant to Article 26 (2) (b) of the CRR and Articles 2 and 3 of Commission Delegated Regulation (EU) no. 241/2014, the composition of own funds at the reporting date would be as follows:

(amounts in thousands of euros)

Capital ratios	30 June 2021	31 December 2020
Common Equity Tier 1 (CET1) capital	**543,387**	**509,127**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**543,387**	**509,127**
Credit risk	243,652	*218,290*
Credit valuation adjustment risk	-	-
Settlement risks	-	-
Market risks	11	*17*
Operational risk	9,739	*9,739*
Other calculation factors	-	-
Total minimum requirements	**253,402**	**228,046**
Risk-weighted assets	**3,167,529**	**2,850,572**
Common Equity Tier 1 ratio	**17.15%**	**17.86%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**17.15%**	**17.86%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**17.15%**	**17.86%**
(Total own funds/Risk-weighted assets)		

As of 30 June 2021, the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds. If special shares had been included in CET1 capital, the CET1 ratio would have been 17.61%.

PART G – BUSINESS COMBINATIONS

Section 1 - Transactions completed during the half year

1.1 Transactions of business combinations

As of 30 June 2021, no business combinations were carried out within the scope of IFRS 3.

1.2 Transactions between subjects under common control

On 13 January 2021, the deed was signed by which Core, IT Auction and Mado were merged into neprix. The merger became effective on 1 February 2021. The accounting and fiscal effects of the Merger started from 1 January 2021. On 7 January 2021, the subsidiary ITA Gestione thus changed its company name to "NEPRIX AGENCY S.r.l" ("neprix Agency"). In addition, following the merger, neprix holds 100% of the shares in the company neprix Agency (formerly ITA Gestione), previously held by IT Auction.

This merger, classified as a business combination between entities under common control and therefore outside the scope of IFRS 3, has no effects on the consolidated financial statements as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

Section 2 – Business combinations carried out after the period

1.1 Transactions of business combinations

There were no business combinations governed by IFRS 3 after the end of H1 2021.

Section 3 – Retrospective adjustments

During H1 2021 no retrospective adjustment was made to business combinations taking place in previous years.

PART H – TRANSACTIONS WITH RELATED PARTIES

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

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which was then amended by Resolution no.17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions. In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

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

Throughout 2021, there were no minor or material related party transactions, which significantly affected the Group's capital or profit and loss.

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

According to IAS 24, related parties are parties:

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

On 12 December 2011 the Bank of Italy issued the IX update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

The Bank’s Board of Directors has approved the “Regulation for the management of transactions with entities covered by the Bank's Single Perimeter and of transactions” which defines the Group’s internal policies on the control of risk activities and conflicts of interest with connected parties. That document is published on the bank’s website in the section “*Corporate Governance*”, in accordance with current regulations.

With regard to operations performed by the Group with all its related parties, there have been no atypical or unusual operations.

Atypical and/or unusual operations are any operation that due to its materiality or significance, the nature of the counterparties, the object of the transaction, the method used to determine the transfer price and the timing (for example proximity to year-end) could give rise to doubts about the fairness or completeness of the information about the financial statements, a conflict of interest, about the safeguarding of company assets or the protection of minority shareholders.

1. Information on remuneration of key senior managers

The total remuneration and other benefits paid pertaining to the half-year to directors, statutory auditors and other key senior managers is EUR 5,442 thousand. As required by the new IAS 24, paragraph 17, further information has been provided about the following categories of remuneration for senior managers with strategic responsibilities and employees:

Category	Amount
a) short-term employee benefits	(4,051)
b) post-employment benefits	(113)
c) share-based payments for employees	(278)
d) compensation of members of the Board of Directors and the Board of Statutory Auditors	(1,000)

2. Information on related party transactions

With regard to the financial relations, and remembering that key senior managers also include the directors and statutory auditors of the Bank and of the companies of the Group, the situation on the date of the condensed interim consolidated financial statements is that shown in the following table, expressed in thousands of euros.

In the reference period, no particularly important transactions with related parties took place. All such operations are carried out at market conditions in accordance with the relevant policy.

Under the terms of CONSOB Communication no. 6064293 of 28 July 2006, the effects on the condensed interim consolidated financial statements of transactions with related parties as referred to in the table below, are highlighted in the relevant line.

Assets	Book value	of which with related parties	Impact of related parties
20. Financial assets measured at fair value through profit or loss	**138,977**	**77**	**0.06%**
c) other financial assets mandatorily measured at fair value	138,944	77	0.06%
- To other related parties		77	
40. Financial assets measured at amortised cost	**2,944,963**	**6,219**	**0.21%**
a) due from banks	444,780	1,780	0.40%
- To other related parties		1,780	
b) loans to customers	2,500,183	4,439	0.18%
- To other related parties		3,062	
- To key senior managers		1,378	
110. Non-current assets and groups of assets held for disposal	**61,402**	**61,402**	**100.00%**
- To other related parties		61,402	
120. Other assets	**96,876**	**4**	**0.00%**
- To other related parties		4	

Liabilities	Book value	of which with related parties	Impact of related parties
10. Amounts due to customers	**3,551,095**	**52,882**	**1.49%**
b) due to customers	2,665,400	52,882	1.98%
- To key senior managers		2,882	
- To other related parties		50,000	
80. Other liabilities	**85,422**	**5,443**	**6.37%**
- To key senior managers		1,180	
- To other related parties		4,263	
90. Employee severance pay	**2,896**	**214**	**7.39%**
- To key senior managers		189	
- To other related parties		25	
100. Allowances for risks and charges	**5,331**	**264**	**4.95%**
c) other allowances for risks and charges	1,237	264	21.34%
- To key senior managers		264	
140. Reserves	**62,980**	**551**	**0.87%**
- To key senior managers		549	
- To other related parties		2	

Income Statement items	Book value	of which with related parties	Impact of related parties
10. Interest income and similar income	**93,478**	**6**	**0.01%**
20. Interest expenses and similar charges	**(28,858)**	**(17)**	**0.06%**
130. Net losses/recoveries for credit risk	**35,916**	**(1)**	**0.00%**
190. Administrative expenses	**(74,519)**	**(9,542)**	**12.81%**
a) personnel expenses	(35,540)	(5,442)	15.31%
b) other administrative expenses	(38,979)	(4,100)	10.52%
200. Other operating income/expenses	**5,587**	**8**	**0.14%**

PART I – SHARE-BASED PAYMENTS

Qualitative information

1. Description of payment agreements based on own equity instruments

As to the variable component, the Group Remuneration Policy provides that this can be serviced by:

- a long-term "*Stock Option Plan*" (SOP) for up to 40 employees of the Issuer and/or of its subsidiaries, with the aim of bringing the interests of management and of employees in general in line with those of the long-term shareholders;
- an "*Employee Stock Ownership Plan*" (ESOP), intended for all the employees of the Bank and/or of its subsidiaries, who have, either with the Company or with one of its direct or indirect subsidiaries (i) a permanent contract of employment, or (ii) a fixed term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment");
- a "*Long Term Incentive Plan*" ((LTIP), for the Managing Director and other top management of illimity ("Beneficiaries").

Quantitative information

1. Annual changes

Items/Number of options and exercise prices	30 June 2021			31 December 2020		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balances	**1,771,199**	**7.23**	**30 April 2024**	**1,530,837**	**7.13**	**30 April 2024**
B. Increases					-	X
B.1 New issues	39,780	8.56	30 April 2024	335,836	7.60	30 April 2024
B.2 Other changes					-	X
C. Decreases						**X**
C.1 Derecognised	(179,013)	7.14	30 April 2024	(95,474)	6.94	30 April 2024
C.2 Exercised	-	-	-	-	-	X
C.3 Past-due	-	-	-	-	-	X
C.4 Other changes	-	-	-	-	-	X
D. Closing balance	**1,631,966**	**7.28**	**30 April 2024**	**1,771,199**	**7.23**	**30 April 2024**
E. Options exercised as of the end of the financial year	-	-	-	-	-	X

2. Other information

"Stock Option Plan" (hereinafter also "SOP")

The SOP plan was classified, in accordance with IFRS 2, as equity-settled, because the benefits are not cash settled, nor does the Bank have an obligation to buy back shares assigned to beneficiaries after options have been exercised.

The beneficiaries' entitlement to the option rights is subject to the following conditions being met:

a) the reaching of so-called gate objectives linked to, among other things, the maintenance of certain capital and liquidity ratios, earnings, and the absence of any individual violations of laws or regulations;
b) the attainment of performance targets linked to, among other things, the profitability of the Bank and the maintenance of certain financial ratios (Cost/Income Ratio, ROE – ratio between net profits for the period and average shareholders' equity for the year, Gross Organic NPE ratio and the CET1 Capital ratio); and
c) the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiaries on the *vesting* date of the option rights.

The *gates* thus have *performance* conditions, and have influenced the estimate of the number of options that may be acquired by beneficiaries. On a prudential basis, the CFO area considered that the estimate was made assuming that the objectives will be met, save for the obligation to conduct a periodic review at each reporting date.

"Employee Stock Option Plan" (hereinafter also "ESOP")

The ESOP provides for the free allocation of up to 700,000 Ordinary Shares, which will be issued in execution of the decision article 2443 of the Italian civil code for the free increase of share capital, Article 2349, paragraph 1, of the Italian civil code up to a maximum of EUR 498,890, authorised by the Meeting on 18 January 2019. The Ordinary Shares will be allocated in five annual cycles.

The ESOP is intended for all the employees of the Bank and/or of its subsidiaries, who have, either with the Company or with one of its direct or indirect subsidiaries (i) a permanent contract of employment, or (ii) a fixed term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment").

As decided by the Meeting on 18 January 2019, the body currently responsible for implementing and managing the ESOP is the Bank's Board of Directors which on 18 January 2019 approved the "*Employee Stock Ownership Plan* Regulation", without affecting the characteristics of the Plan which is examined and approved by the Meeting (the "ESOP Regulation").

The beneficiaries' entitlement to the Ordinary Shares is subject to the following conditions being met:

- admission for trading on the MTA of the Ordinary Shares and Conditional Share Rights;
- the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiary on the allocation date of the Ordinary Shares;
- the maintenance of certain capital and liquidity requirements (so-called *gates*), in line with the applicable laws and regulations on the date of allocation of the Ordinary Shares.

The fulfilment of these conditions for the purposes of awarding the Ordinary Shares will be verified by the Board of Directors and/or the body or persons authorised for that purpose by the Board itself.

The ESOP Regulation requires that the Ordinary Shares be held in a restricted account for each employee, for at least three years. The Ordinary Shares will become available to the employee on conclusion of the three-year restriction period.

Each allocation is related to performance conditions relative to the financial statements of the previous year being attained at the allocation date. Therefore, each annual assignment will be independently recognised at the specific grant date. The SOP plan was classified, in accordance with IFRS 2, as *equity-settled*, because the benefits are not cash settled.

"Long Term Incentive Plan" (hereinafter also "LTIP")

On 22 April 2020, the illimity Bank S.p.A. Ordinary Shareholders' Meeting, on the premise that remuneration represents one of the most important factors for attracting and retaining individuals with the professional expertise and skills appropriate to the company's medium- and long-term needs, approved a *Long Term Incentive Plan* (“LTIP”, “the Plan”) for the 2020-2023 period, awarding the Board of Directors all necessary and/or opportune powers to execute said Plan.

Specifically, the LTIP – which was approved on 5 March 2020 by the Board of Directors and is intended for the CEO and the rest of illimity’s Senior Management team (the “Beneficiaries”), namely key senior managers – makes provision, subject to certain conditions and the achievement of specific targets, for awarding the Beneficiaries variable remuneration consisting of 50% cash and 50% illimity ordinary share options, starting in 2024. The Plan will be implemented in the 2020-2028 period, according to a schedule consisting of a single award cycle, a *vesting* period from 2020-2023, followed by a deferment of three years and a six-month *lock-up* period for the equity portions, whether these are awarded *upfront* or deferred.

PART L – SEGMENT REPORTING

illimity Group operating segments

For segment reporting purposes, as provided for by IFRS 8, the identification of operating segments is consistent with the business activities of the segments, the organisational structure of the Group and internal reporting used by management to periodically review results and allocate resources.

Reference is made to the report on operations for further details of the Group's organisational structure and mission of the Divisions, the operating segments identified and criteria for producing the Reclassified Financial Statements.

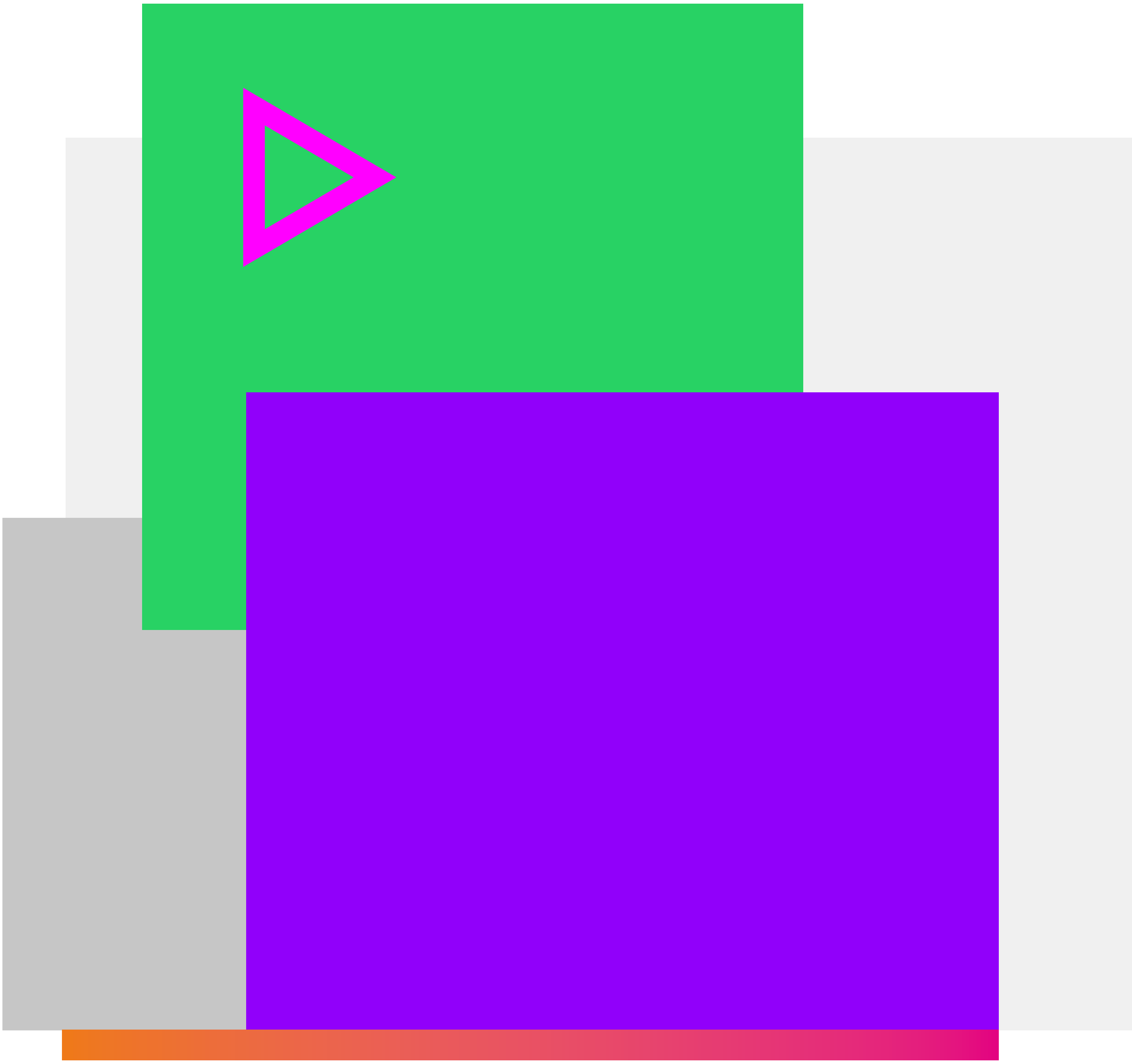
Financial data broken down by operating segment

	Distressed Credit	Growth Credit	Digital Bank	SGR	Corporate Center (*)	Consolidated
Economic performance						
Total net operating income	101.5	20.3	4.1	0.5	0.4	126.8
Operating expenses	(32.8)	(12.2)	(10.4)	(1.2)	(21.9)	(78.5)
Operating profit (loss)	68.7	8.1	(6.3)	(0.7)	(21.5)	48.3
Gross Profit	66.2	7.7	(10.3)	(0.7)	(21.4)	41.5
Other financial data						
Loans to customers	1,029.1	1,063.4	-	-	-	2,092.5
Securities at amortised cost	225.2	12.7	-	-	-	237.9
Property and Equipment	58.2	-	-	-	20.7	78.9
Amounts due to customers and Securities issued	-	-	2,460.1	-	509.4	2,969.5
RWAs	**2,054.8**	**855.9**	**27.7**	**-**	**229.1**	**3,167.5**

(*) Intersector eliminations are carried out at the Corporate Center.

Information on geographical areas

The illimity Group mainly operates in Italy.



Certifications and other Reports

Certification of the condensed interim consolidated financial statements pursuant to Article 154 bis of Italian Legislative Decree no. 58/1998

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in relation to the characteristics of the enterprise and
   - the effective application of the administrative and accounting procedures used to prepare the condensed interim consolidated financial statements during the first half of 2021.

2. The adequacy of the administrative and accounting procedures used to draft the condensed interim consolidated financial statements as of 30 June 2021 is checked according to an internally defined model that refers to the principles of the "Internal Control – Integrated Framework" (CoSO) and the "Control Objective for IT and related Technologies" (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.

3. We can also certify that:
   3.1 the condensed interim consolidated financial statements:
      a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) N° 1606/2002 of the European Parliament and Council, of 19 July 2002;
      b) correspond to the accounting records;
      c) provide a true and fair view of the financial position and performance and cash flows of the issuer and the group of companies included in the consolidation.

   3.2 The consolidated interim financial report includes a reliable analysis of the references to important events that occurred in the first six months of the year and their impact on the condensed interim consolidated financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The consolidated interim financial report also includes a reliable analysis of the material transactions with related parties.

Milan, 05 August 2021

Signature of the Chief Executive Officer	Signature of the Financial Reporting Officer
Corrado Passera	Sergio Fagioli
Signature	Signature

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

To the shareholders of
illimity Bank S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the illimity Bank Group, comprising the consolidated statement of financial position as at 30 June 2021, the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended and notes thereto. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the illimity Bank Group as at and for the six months ended 30 June 2021 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 6 August 2021

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

Annex 1 – Reconciliation between the reclassified statement of financial position and income statement and financial statements

Below are the reconciliation schemes used for the preparation of the reclassified statement of financial position and income statement. Any discrepancies between the figures presented are due solely to rounding.

Reclassified Consolidated Statement of Financial Position

Assets	Values as of 30/06/2021
Property portfolio - Securities at FV	**299,513**
Item 20. a) Financial assets held for trading	33
Item 30. Financial assets measured at fair value through other comprehensive income	315,336
To be deducted:	
Loans to customers - HTCS	*(15,856)*
Loans to customers - HTCS	**15,856**
Financial instruments mandatorily measured at fair value	**138,439**
Item 20. c) Other financial assets mandatorily measured at fair value	138,944
To be deducted:	
Loans mandatorily measured at fair value	*(505)*
Financial instruments mandatorily measured at fair value	**505**
Due from banks	**444,780**
Item 40. a) Due from banks	444,780
Loans to financial entities	**169,842**
Loans to financial entities	*169,842*
Loans to customers - HTC	**2,092,450**
Item 40. b) Loans to customers	2,500,183
To be deducted:	
Loans to financial entities	*(169,842)*
Loans to customers - Securities	*(237,891)*
Securities at amortised cost – Growth Credit	**12,743**
Item 40. b) Loans to customers	2,500,183
To be deducted:	
Loans to customers	*(2,092,450)*
Loans to financial entities	*(169,842)*
Distressed Credit Business senior financing instruments	*(225,148)*
Securities at amortised cost – Senior Financing	**225,148**
Item 40. b) Loans to customers	*2,500,183*
To be deducted:	
Loans to customers	*(2,092,450)*
Loans to financial entities	*(169,842)*
Business Growth Credit securities	*(12,743)*
Investments in equity	**83,727**
Item 70. Equity investments	83,727
Property and equipment and intangible assets	**152,371**
Item 90. Property and equipment	79,047
Item 100. Intangible assets	73,324
Tax assets	**29,449**
Item 110. Tax assets	29,449
Other assets	**665,931**
Item 10. Cash and cash equivalents	507,653
Item 110. Non-current assets held for sale and discontinued operations	61,402

Assets	Values as of 30/06/2021
Item 130. Other assets	96,876
Total assets	**4,330,754**

Liabilities and shareholders' equity	Values as of 30/06/2021
Due to banks	**581,628**
Item 10. a) Due to banks	581,628
Amounts due to customers	**2,643,308**
Item 10. b) Due to customers	2,665,400
To be deducted:	
Lease Liability (IFRS 16)	*(22,092)*
Securities issued	**304,067**
Item 10. c) Securities issued	304,067
Tax liabilities	**5,268**
Item 60. Tax liabilities	5,268
Other liabilities	**115,741**
Item 80. Other Liabilities	85,422
Increase:	
Lease Liability (IFRS 16)	*22,092*
Item 90. Employee severance pay	2,896
Item 100. Allowances for risks and charges	5,331
Shareholders' equity	**680,742**
Capital and reserves	
Item 120. Valuation reserves	(1,502)
Item 150. Reserves	62,980
Item 160. Share premium reserves	543,803
Item 170. Share capital	48,870
Item 180. Treasury shares (-)	(832)
Item 190. Equity attributable to minority interests (+/-)	5
Item 200. Profit (loss) for the period	27,418
Total liabilities and shareholders' equity	**4,330,754**

Reclassified consolidated income statement

Income Statement items	Values as of 30/06/2021
Net interest margin	**64,422**
Item 10. Interest income and similar income	93,478
Item 20. Interest expenses and similar charges	(28,858)
Reclassification of Raisin operating components	*(951)*
To be deducted:	
IFRS 16 interest expenses	*753*
Net fee and commission income	**13,642**
Item 40. Fee and commission income	15,809
Item 50. Fee and commission expense	(2,635)
To be deducted:	
Raisin operating components	*468*
Gains/losses on financial assets and liabilities	**4,896**
Item 80. Net trading result	1,409
Item 100. Profits (losses) from disposal or repurchase	3,485
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	2
Net write-downs/write-backs on closed positions - HTC Clients - POCI	**37,427**
of which: Net write-downs/write-backs on closed positions - HTC Clients - POCI	*37,427*
Other profits (losses) from the disposal of investments	**2,278**
Item 280. Profits (losses) on disposal of investments	2,278
Other operating expenses and income	**4,141**
Item 140. Profits/losses on changes in contracts without derecognition	-
Item 230. Other operating income/expenses	5,587
To be deducted:	
Reclassification of recovery of other operating charges/income to Other administrative expenses	*(1,446)*
Total net operating income	**126,806**
Personnel expenses	**(35,599)**
Item 190. Administrative expenses: a) Personnel expenses	(35,540)
To be deducted:	
Reclassification of HR expenses from other administrative expenses	*(59)*
Other administrative expenses	**(37,744)**
Item 190. Administrative expenses: b) Other administrative expenses	(38,979)
Reclassification of IFRS 16 interest expenses	*(753)*
Reclassification of HR expenses to personnel expenses	*59*
Reclassification of recovery of other operating charges/income to Other administrative expenses	*1,446*
Raisin operating components	*483*
Net adjustments/recoveries on property and equipment and intangible assets	**(5,185)**
Item 210. Net adjustments/recoveries on property and equipment	(1,722)
Item 220. Net adjustments/recoveries on intangible assets	(3,463)
Operating expenses	**(78,528)**
Operating profit (loss)	**48,278**
Net losses/recoveries for credit risk - HTC Banks	**(3)**
Net losses/recoveries for credit risk - HTC Financial entities	**(129)**
Net losses/recoveries for credit risk - HTC Clients	**(236)**
Item 130. Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost	37,059
To be deducted:	
Net losses/recoveries for credit risk - HTC Banks	*3*
Net losses/recoveries for credit risk - HTC Financial entities	*129*
Net write-downs/write-backs on closed positions - HTC Clients	*(37,427)*

Income Statement items	Values as of 30/06/2021
Net losses/recoveries for credit risk - HTCS	**(1,143)**
Item 130. Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through other comprehensive income	(1,143)
Net losses/recoveries for commitments and guarantees	**(1,317)**
Item 200. Net allowances for risks and charges: a) commitments and guarantees given	(1,317)
Total net adjustments/recoveries	**(2,828)**
Other net provisions	**-**
Item 200. Net allowances for risks and charges: b) other net provisions	-
Other income (expenses) on investments	**(3,974)**
Item 250. Profits (losses) on equity investments	(3,974)
Profit (loss) from operations before taxes	**41,476**
Income tax for the period on continuing operations	**(14,058)**
Item 300. Income tax for the period on continuing operations	(14,058)
Profit (loss) for the period	**27,418**