illimity

BANCA OLTRE LA FORMA

Consolidated interim report
as of 30 September 2020

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illimity

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BOARD OF DIRECTORS

Chairman
Rosalba Casiraghi

Chief Executive Officer
Corrado Passera

Directors
Massimo Brambilla
Giancarlo Bruno
Elena Ciallië
Alessandro Gennari
Martin Ngombwa
Luca Rovati
Maurizia Squinzi

BOARD OF STATUTORY AUDITORS

Chairman
Ernesto Riva

Standing Auditors
Stefano Caringi
Nadia Fontana

Substitute Auditors
Riccardo Foglia Taverna
Michela Zeme

EXECUTIVE IN CHARGE OF FINANCIAL REPORTING

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

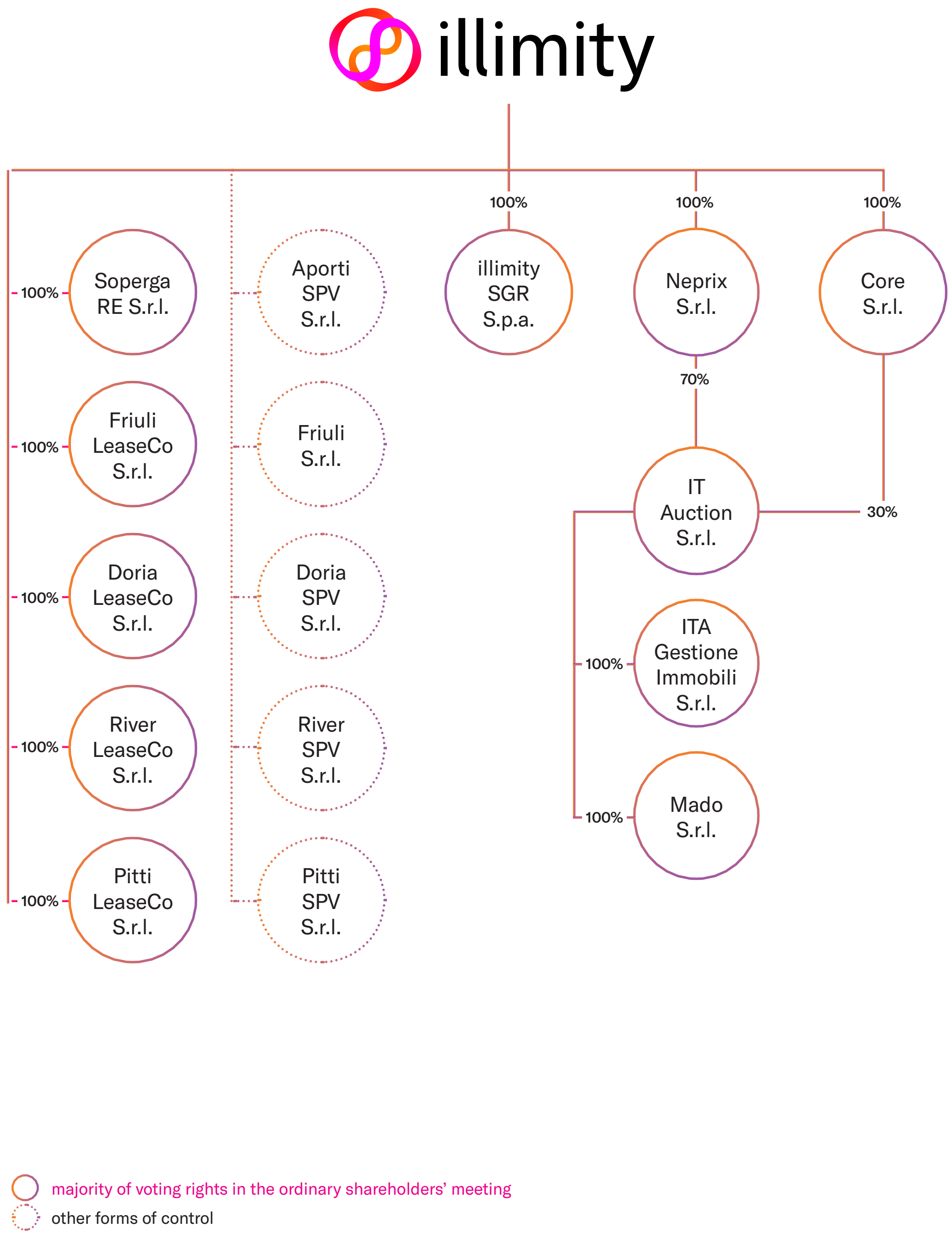
Consolidated interim report

as of 30 September 2020

CONSOLIDATED INTERIM REPORT AS OF 30 SEPTEMBER 2020

This Consolidated Interim Financial Report illustrates the performance and the related financial results for the first nine months of 2020 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 "Group"). illimity exercises the management and coordination of the Group and has its registered office in Milan, at Via Soperga 9[1].

Group Structure



1 The Bank also operates a branch office located in Modena at Via Emilia Est 107.

The Group 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 SPV 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 SPV 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 securitisations;

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 SPV 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 SPV 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 SPV 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 after obtaining authorisation from the competent authorities on 25 February 2020, will start operations in 2020 and will deal with the asset management of closed-end alternative investment funds (AIFs), established with own funds and the funds of third-party institutional investors;

xiii. IT Auction S.r.l. ("IT Auction"), an operator specialised in managing and selling moveable and immoveable property originating from insolvency and foreclosure proceedings, *leasing* and private sales through its own *network* of platforms/online auctions and a group of professionals operating nationwide;

xiv. ITA Gestione Immobili S.r.l. (“ITA Gestione”), a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties;

xv. Mado S.r.l. (“Mado”), IT Auction’s *software house*, which provides it with the in-house resources needed to intervene promptly and periodically improve online auction house portals, as well as to create and promote *software* on behalf of third parties;

xvi. Core S.r.l. (“Core”), a special purpose company established to acquire shareholdings and to plan, organise and exercise strategic and operating control over its investee companies.

COMPOSITION AND ORGANISATIONAL STRUCTURE

illimity operates in the banking sector and is authorised to provide banking, investment and trading services. illimity is currently organised into operating divisions comprising the *Small Medium Entreprises* (“SME”), *Distressed Credit Investment & Servicing* (“DCIS”) and *Direct Banking & Digital Operations* (“DDO”) divisions.

Small Medium Enterprises Division

The objective of the *Small Medium Enterprises* (“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 SME 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*: 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 SME 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 unit responsible for monitoring loans, and, finally, manage the back-office processes with the greatest added value of the loan chain.

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the *Credit Machine* area is responsible for screening the credit operations proposed by Business areas and for analysing the data used in credit allocation processes; the *Organic NPE & Credit Monitoring* area is responsible for credit monitoring processes and managing positions classified as *non-performing* (NPLs); 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 the *Back Office* structure of the Division and oversees the loan portfolio of the former Banca Interprovinciale regarding a progressive divestment.

Distressed Credit Investment & Servicing Division

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

- purchase of secured and unsecured *corporate NPLs* 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 Investment & Servicing*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:

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, including all activities resulting from 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;
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, monitoring the Division's performance, and developing Research and Development initiatives together with other Bank units.
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 DCIS Division in business processes; it is also responsible for managing the *onboarding* process.

In more detail, the Investments Area, 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 non-performing 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 Area 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 debtor or, at most, a *cluster* of corporate counterparties, both *secured* and *unsecured*;
c) "*Special Situations – Energy*", recently launched and 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 impaired 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 Investment & Servicing* Division ("DCIS Division") and interact with the other areas of the Division (*Pricing, Business Operations, Servicing*) and the Bank (*General Counsel, Administration & Accounting, ALM & Treasury, 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 avails itself of the support of Neprix (a wholly owned subsidiary of the Bank acquired on 20 July 2019) and IT Auction (which was fully integrated into the Banking Group during the first half of 2020 as described in more detail within the section "Significant events in the first nine months of 2020") 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.

IT Auction is an operator specialised in 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 *distressed credit* concerning, illimity works with the vehicles Aporti SPV, Friuli SPV, Doria SPV, River SPV and Pitti SPV and with the subsidiaries Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo and Pitti LeaseCo.

Direct Banking & Digital Operations Division

The Direct Banking Division and the Digital Operations Division ("DDO") is divided into two complementary areas: the Direct Banking Division and the Digital Operations Division.

The *Digital Operations* Division manages the Bank's ICT services and sets the development strategy for its IT systems, identifying the most innovative technologies to propose technologically advanced solutions to the competent Business units. It is responsible for the *Contact Centre* structure, operational *back-office* activities and designing and optimising direct banking processes. It is also responsible for managing organisational activities involving supervision and coordination transversal to the Bank.

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 Bank's communications plan and brand development strategy to ensure positioning, customer acquisition results and optimal customer management. It does all this using a platform supported by the most innovative technologies available compliant with the new regulations (e.g., PSD2).

The *Direct Banking Value Proposition* currently extends to the following product categories:

1. Deposits accounts with competitive rates and a simple, customisable product structure;
2. Current accounts offered according to an innovative, digital *user experience*;
3. Payment services provided through a platform that combines the most innovative tools available on the market with household *budget* management services;
4. *Account Aggregator*, 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;
5. 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;
6. Amazon vouchers on instalment plans, 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 custom amounts and terms;
7. 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.

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 September 2020, the Bank's registered employees numbered 546 (348 as of 31 December 2019). A breakdown of the workforce is given below, divided by job level:

Category	30/09/2020		
	No. employees	No. employees %	Average age
Executives	53	10%	46
Middle managers	229	42%	37
White-collar	264	48%	33
Employees	**546**	**100%**	

MACROECONOMIC SCENARIO

Since the beginning of 2020, the coronavirus (COVID-19) pandemic has had severe repercussions for global economic activity and the entire Eurozone. Following the significant decline that occurred in the first quarter of 2020, GDP in real terms in the Eurozone, on the basis of the figures contained in the September 2020 *Eurosystem Macroeconomic Projections* ("the Projections"), declined by 11.8% in the second quarter, a result that nonetheless appeared stronger than that previously estimated by the Eurosystem's experts last June. The sharp decline in economic activity, entirely without precedent, reflects the negative impact of the rigorous safety measures implemented in most Eurozone countries around mid-March. This impact was later mitigated by the gradual easing of the measures starting in May, as well as by behavioural changes in response to the pandemic. On the basis of these considerations, the European Central Bank has forecast a strong, yet incomplete, rebound by real GDP.

After the third quarter of 2020, the base scenario formulated in the Projections rests on the fundamental assumption of partial success in containing the virus, albeit with some resumption of transmission in the following quarters. This would make it necessary to keep the containment measures in effect, although to a lesser extent than in the first wave, until a medical solution becomes available, expected to occur in mid-2021. These measures, along with the high uncertainty and deterioration of labour market conditions, are expected to continue to have a negative impact on supply and demand. The considerable substantial support from monetary, tax and labour market policies is expected to contribute to maintaining incomes and limiting the economic scars that could follow from the resolution of the health crisis. Under these assumptions, the September 2020 Projections call for real GDP in the Euro Area to fall by 8.0% in 2020 and to recover by 5.0% in 2021 and by 3.2% in 2022[2]. By the end of the forecasting horizon, the level of real GDP is therefore expected to come to approximately 3.5% below the level estimated by the Eurosystem's experts prior to COVID (19 December 2019).

The analyses conducted by the Bank of Italy confirm that during the summer the global economy entered a recovery, which, however, remains largely dependent on the exceptional stimulus measures introduced in all major economies. The outlook continues to be conditioned by uncertainty surrounding the course of the pandemic. Extensive monetary stimulus remains necessary in the Eurozone.

In the case of Italy in particular, in the Bank of Italy's view, due in part to demand stimulus measures the increase in GDP in the third quarter may have been more robust than estimated in July, driven above all by the sharp recovery by industry, whereas the outlook for services remains more uncertain and the household propensity to precautionary savings remains high.

Turning to employment, the use of redundancy schemes continues to mitigate the effects of the crisis: in July and August the number of hours of wage supplementation authorised, while half that of the April and May peak, remained at levels never seen before the health emergency.

On the financial markets, monetary policy interventions, the expansionary budgetary policy stance and *Next Generation EU* agreement permitted a significant improvement in market conditions. Demand for Italian securities from non-resident investors recovered beginning in June. The strong need for liquidity among companies was amply met by the robust increase in credit.

2 ECB estimates drawn from the*ECB staff macroeconomic projections for the euro area*, September 2020, published on the ECB website.

In the budget enacted in view of the use of the Next Generation EU resources, the Italian government implemented expansionary measures that provide a considerable macroeconomic boost to the economy, consistent with a composition of interventions in which there is considerable room for government investments. To obtain the full benefits of these measures, the Bank of Italy concludes, it is essential that steps be taken to expedite implementation and ensure the quality of the interventions.

SIGNIFICANT EVENTS IN THE FIRST NINE MONTHS OF 2020

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

The spread and management of the COVID-19 epidemiological emergency in the first nine months of 2020, in light of its systemic implications in social, political and economic as well as health terms, represents an unprecedented financial market shock in world economic history. Within this scenario, financial intermediaries and other institutions in the main countries are tasked with ensuring the liquidity required by the real economy and financial markets, while also ensuring the confidence levels essential to planning and embarking on a recovery.

As the virus spread rapidly in Western nations in the first half of 2020, in a state of uncertainty as to the timing and conditions of the course and resolution of the shock caused by the pandemic, analysts swiftly and on multiple occasions revised global GDP growth estimates for 2020 and subsequent years downwards. Financial markets were also significantly affected by the shock, as shown by the Volatility Index (VIX), which reached its highest levels in years.

The dramatic spread of the coronavirus, in Italy and the rest of the world, forced banking intermediaries to face a series of critical issues from an operational standpoint, including management of credit strategies and policies and credit risk, strategic management of financial asset portfolios, management of customer relations and their business continuity models. Also relevant in this connection are the measures taken by the Bank of Italy (recommendation that profits be put towards reinforcing own funds, in support of the stability of the financial system and real economy, postponement of the conduct of regulatory exercises such as ICAAP, ILAAP, Recovery Plan, etc., and the option for less significant banks to operate temporarily below the target levels assigned upon the conclusion of the SREP process, capital conservation buffers and liquidity coverage ratios).

In view of the related risks and uncertainties in terms of both personal health (employees, customers and suppliers) and the illimity Group's strategy and business, as well as of the legal and regulatory framework of reference, the following measures were taken at the end of February 2020:

- illimity immediately activated specific safety and monitoring protocols, and has used as a precautionary measure - graduating it in relation to the updates provided from time to time by the Public Authorities - the tool of full remote working. These actions also addressed the objective of ensuring the Group's business continuity, in order to mitigate potential strategic and business risks regarding the achievement of the 2020 budget targets. A gradual return to the workplace began in September 2020, according to varying schedules (above all in order to protect employees with school-age children) and all the necessary precautions (including a negative result of a swab/blood test and the use of the Immuni app). The return to the workplace, based on a combination of office and remote working, also includes a 50% reduction in desk availability per area and greater flexibility of working hours for better management of individuals at risk and to avoid gatherings. Despite these measures, in view of the increase in cases on the even of the winter season, as well as of the increased occupancy of intensive care units in various regions of Italy, with effect from Monday, 26 October full-time remote working was reinstated for all offices, with the exception of the Modena branch and external commercial activities;
- the offer of collection/employment services through the Digital Bank channel and the German digital platform "Raisin" has allowed illimity to continue to best serve its Retail and SME customers, even in the areas affected by the spread of the virus, without any interruption of business continuity;

- the possible impacts in terms of slowing down business processes as a result of endogenous and exogenous factors (e.g. the impact of the spread of the virus and the actions of public authorities on the operations of counterparties and courts and consequent repercussions on the effectiveness of recovery processes, or operational repercussions on the evaluation and origination processes of loans to unrated or high-risk counterparties or UTPs), are constantly monitored by the Bank's Management Committees and Governing Bodies, in order to reactively adapt strategies and policies (including risk) to the changing context;
- capital adequacy (ICAAP) and liquidity (ILAAP) assessments were conducted taking into account the economic and financial impacts associated with the spread of the virus, with the aim of incorporating the latest updates in terms of macro-economic and sectoral/geographical scenario into illimity's risk models, as well as conducting *assessments* with the Business Divisions in order to factor the specific impacts (e.g. increase in the probability of *default* of SME counterparties, or reduction in the recovery rates of portfolios purchased by the DCIS Division).

Finally, with regard to capital adequacy and liquidity, the Group is characterised by current and prospective profiles that, even considering the current scenarios relating to the coronavirus (incorporating, for example, stress scenarios based on regulatory indications), remain consistent with the minimum regulatory thresholds and its management limits as set in the Risk Appetite Framework.

Initiatives for stakeholders and measures relating to the COVID-19 emergency

Within the framework of the COVID-19 emergency, motivated by an awareness of its role in Italy's economy and society, the illimity Group has implemented a number of initiatives to support the efforts of the institutions committed to combating the virus.

In the light of the severity of the epidemic that has swept through the Italian population, illimity has sought to emphasise the value of timely support measures, identifying the following healthcare facilities as beneficiaries of total donations of EUR 270 thousand: Ospedale Maggiore Policlinico Milano; Ospedale San Paolo; Ospedale San Giuseppe; and Fondazione Istituto Sacra Famiglia ONLUS.

In response to the epidemiological emergency, the Italian government enacted two laws, the provisions of which include two general interventions designed to provide liquidity to companies affected by the crisis through the banking system:

- Italian Decree Law no. 18/2020 ("Decreto Cura Italia", converted into Italian Law no. 27/2020) introduced a legal suspension, initially until 30 September 2020, subsequently extended until 31 January 2021, for maturing loans and lines of credit contracted by SMEs, as an urgent measure to contain the effects of the business shutdowns ordered in response to the emergency – similar measures have been implemented at a private level, with the renewal of the agreements between the Italian Banking Association and trade associations;
- Italian Decree Law no. 23/2020 ("Decreto Liquidità", converted into Italian Law no. 40/2020) modifies the rules governing public guarantees, expanding the scope of application of the traditional subsidies provided through the SME Central Guarantee Fund (CGF) and introducing the government guarantee issued by SACE (the "Italy Guarantee"), intended to secure loans of more than EUR 5 million or loans to companies too large to be eligible for the Central Guarantee Fund.

illimity acted promptly to implement the measures introduced by lawmakers, immediately designing a streamlined, simplified process for granting the suspensions provided for in the Cura Italia Decree Law and the Italian Banking Association moratorium programmes.

Following the conclusion of the period for access to the legal suspensions, in September the suspension was extended from 30 September 2020 to 31 January 2021 for all counterparties who have not expressly waived the extension (a wholly residual number of cases).

At present suspensions and moratoria have been finalised for approximately 180 positions, for a total amount of approximately EUR 86 million; 52% of exposure in a moratorium is attributable to suspensions for companies provided for in article 56 of the Cura Italia Decree Law, with a further 44% referring to bilateral interventions, since the conditions required by law to activate legal suspensions have not been met; the remainder (4%) are ABI moratoria and those with individuals pursuant to Article 54 of the Cura Italia Decree Law[3].

Around half (48% of loan volumes) the restructuring interventions affected concerned the ex-BIP portfolio, with the remainder represented by the *Crossover* and *Turnaround Areas* plus one Senior Financing position.

Specific contact activity is in progress with customers affected by the suspension or moratoria measures to verify whether, in future, there may be problems with resuming payments, so as to take prompt management measures (e.g., preparation of forbearance measures, classification as higher risk, etc.). These control activities extend to all moratoria implemented, whether legislative or bilateral. Measures involving the restructuring of customer debt positions, including through the granting of guaranteed loans, are currently being prepared or have already been completed for all larger positions.

Other events

The following is a discussion of the significant events that occurred in the third quarter of 2020. Refer to the consolidated interim report at 30 June 2020 for information regarding the events that occurred in the first half of the year.

On 21 July 2020, illimity announced that it had finalised a new *non-performing* loan transaction with a major credit institution for a total gross book value (GBV) of approximately EUR 477 million. The new portfolio comprises *unsecured* loans to corporate debtors. The Bank has also finalised a new *Senior Financing* transaction for a total amount of approximately EUR 11 million. The financing is guaranteed by a portfolio of *non-performing* loans, mainly *corporate secured*.

In execution of the Shareholders' Meeting resolution of 22 April 2020, as already disclosed to the market, and after it came before the Board of Directors on 3 August 2020, on 5 August 2020 illimity announced that it had commenced a share buy-back programme for up to 87,951 illimity own shares (ISIN: IT0005359192 – ticker "ILTY"), equivalent to approximately 0.133% of the Bank's share capital, to be placed in service of the Long-Term Incentive Plan ("LTIP") for the Bank's top management, approved by the aforementioned Shareholders' Meeting of 22 April 2020. On 10 August 2020 illimity then announced that it had concluded its share buy-back programme.

3 As explicitly established by regulators, the legislative suspensions and Italian Banking Association moratoria are not considered forbearance measures. Accordingly, they do not have any effects on the classification of loans. For bilateral measures, case-by-case assessments have been performed to verify whether the financial difficulty requirement established for classification as forborne has been met.

On 7 August 2020 Banca Ifis and illimity Bank announced that they had concluded a purchase transaction involving non-performing loans ("NPLs") with a total value of approximately EUR 266 million (gross book value) attributable to approximately 4,000 debtors. In particular, the portfolio sold by illimity to Ifis NPL, a company controlled by the Banca Ifis Group, is composed of unsecured loans relating to granular retail and corporate positions acquired by illimity, primarily in 2019, within the framework of investment transactions involving large portfolios on the primary market.

On 25 August 2020, illimity announced that it had closed a financing transaction in support of the development plan of a leading Italian group in the design, manufacture and installation of cutting-edge warehouse logistics solutions. illimity structured and closed a medium-term financing transaction of EUR 10 million, provided with a 90% SACE guarantee.

On 3 September 2020 illimity announced that by order of Borsa Italiana no. 8688 of 2 September 2020 it had been granted admission of its ordinary shares to trading on the STAR Segment (High Requirements Securities Segment) of the Mercato Telematico Azionario ("MTA") market organised and managed by Borsa Italiana. illimity ordinary shares – which had been admitted to trading on Borsa Italiana's MTA since 5 March 2019 – began to trade on the STAR Segment of Borsa Italiana's MTA, dedicated to companies meeting requirements of excellence in terms of transparency, communication, liquidity and corporate governance, on 10 September.

On 16 September 2020, CONSOB, the National Commission for Companies and the Stock Exchange, by agreement with the Bank of Italy for the relevant aspects, authorised illimity SGR S.p.A., in procedure no. 117252/20, to market the reserved Italian securities AIF illimity *Credit & Corporate Turnaround*, concluding that there were no impediments to the marketing of the AIF in question.

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 S.p.A. ("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, which already serves 1.3 million customers. For the two partners the transaction is also intended to accelerate illimity's development plans in the specific segment, making the young fintech the highest-potential Italian company in the development of light banking services, along with Fabrick's development plans as an enabler of open banking and novel fintech projects.

illimity will acquire the 50% equity interest in HYPE through a series of corporate transactions involving the contribution of an illimity business unit encompassing various open banking activities (without changing the positioning or goals of illimitybank.com), the subscription in cash of a capital increase by HYPE of EUR 30 million functional to HYPE's business plan and newly issued shares of illimity reserved for Fabrick for a value of approximately EUR 45 million. Under the agreements, when the transaction closes the Sella Group will reach a 10% interest in illimity through a further reserved capital increase at the price of EUR 8.337 per share subscribed by the parent company, Banca Sella Holding S.p.A., for the amount of EUR 16.5 million. They also provide for an earn-out in illimity shares, conditional on the achievement by HYPE of certain profitability targets in 2023-2024, which would bring the Sella Group's equity interest in illimity to a maximum of 12.5%.

On 28 September 2020 illimity announced that it had finalised two new transactions in the Senior Financing segment for a total amount of approximately EUR 12 million. The first transaction amounted to approximately EUR 4 million and was in addition to the financing of EUR 5 million previously closed in support of Borgosesia S.p.A. The second loan, disbursed to a Luxembourg vehicle attributable to Zetland Capital and amounting to EUR 8 million, has as its underlying corporate loans with a gross nominal value of approximately EUR 20 million, acquired in 2019 by Zetland and secured by a primarily residential real-estate complex in a well-known tourist destination in Veneto. Through the transactions announced today, illimity consolidates its position as a lender to specialised players that help develop collateral properties and high-potential areas by investing in distressed loans.

On 1 October 2020 illimity announced that in September 2020 it had closed a financing transaction for an important high-tech player operating in electric mobility, energy trading and demand response. illimity's SME Division structured and closed a financing transaction with a term of six years and a total value of EUR 14 million, of which EUR 8.5 million backed by a SACE Italy Guarantee and EUR 5.5 million by the Central Guarantee Fund.

Small Medium Enterprises Division

As of 30 September 2020, SME portfolio gross credit exposures totalled EUR 794 million, up by EUR 63 million (+8.6%) on 30 June 2020. Hence, the SME portfolio can be broken down as follows:

- former BIP portfolio, amounting to EUR 163 million (20%);
- *Turnaround* amounting to approximately EUR 173 million (22%);
- Crossover and Acquisition Finance, amounting to EUR 334 million (42%), including EUR 23.8 million of corporate bonds;
- Factoring, amounting to EUR 124 million (16%).

This growth is mainly attributable to the new disbursements by the Crossover & Acquisition Finance and Turnaround areas, largely owing to transactions secured by public guarantees from the Central Guarantee Fund and SACE pursuant to the Liquidity Decree-Law.

In particular, in the third quarter of 2020 the Crossover segment reported growth of approximately EUR 59 million, due mainly to:

- new purchases of corporate bonds on the secondary market of approximately EUR 10 million;
- additional disbursements on positions approved in previous months.

In the Turnaround segment, mention should be made of two disbursements with SACE guarantees totalling EUR 25 million and the closing of a transaction with a leading Italian packaging company with a value of EUR 6 million.

In addition, in the third quarter two exposures were repaid, one for EUR 12 million (Turnaround) and the other for EUR 10 million (Crossover).

In factoring, after the slowdown in activity in April and May due to the lockdown, there was a recovery in June, followed by consolidation of the recovery in the third quarter of 2020: turnover for the period ended 30 September 2020 amounted to EUR 446 million, net of contract advances of approximately EUR 73 million, to be followed by the associated invoicing and ensuing factoring in the coming months; the exposure amounted to approximately EUR 124 million as of 30 September 2020.

The run-off of the former BIP portfolio continues; in 3Q20 it saw a further decline in exposures of approximately EUR 15 million.

Distressed Credit Investment & Servicing Division

Investments

During the third quarter of 2020, the Bank completed, both on its own account and through securitisation vehicles established pursuant to and for the purposes of Italian Law no. 130/1999, several agreements for the purchase of distressed loans for a total gross value of approximately EUR 485 million.

A detailed description of the loan purchases concluded during the reporting period is provided below:

a) On 20 July 2020 the Bank signed an agreement for the purchase of a portfolio of distressed loans with a nominal value of approximately EUR 477 million, represented by unsecured exposures to corporate counterparties classified as non-performing. The purchase was concluded by the securitisation vehicle Aporti SPV pursuant to Italian Law no. 130/1999. The portfolio includes additional positions subject to conditions precedent with a nominal value of approximately EUR 7 million;

b) On 14 September 2020, the Bank signed an agreement for the purchase of *distressed* loans with a nominal value of approximately EUR 8 million, consisting of *unsecured* exposures to a single corporate counterparty ("*single name*") in an agreement with creditors. The purchase was completed by the Bank directly without using securitisation vehicles pursuant to Italian Law no. 130/99.

In the light of the above, in terms of GBV declared by assigning parties and also considering investments made during 2018 and 2019, the total volume acquired by the Bank as of 30 September 2020 amounted to approximately EUR 6.2 billion, against a consideration of approximately EUR 869 million. It is understood that, in relation to the portfolio of leasing receivables described above, the values of the overall portfolio include only the tranches purchased up to 30 September 2020.

(amounts in thousands of euros)

Investment transactions in Distressed Loans	Price	GBV
Acquisitions as of 31/12/2018	90	1,147
Q1 2019	21	79
Total as of 31/03/2019	**111**	**1,226**
Q2 2019	48	143
Total as of 30/06/2019	**159**	**1,369**
Q3 2019	346	1,806
Total as of 30/09/2019	**505**	**3,175**
Q4 2019	215	2,126
Total as of 31/12/2019	**720**	**5,301**
Q1 2020	37	174
Total as of 31/03/2020	**757**	**5,475**
Q2 2020	100	282
Total as of 30/06/2020	**857**	**5,757**
Q3 2020	12	485
Total as of 30/09/2020	**869**	**6,242**

Senior Financing

In the third quarter of 2020, four financing transactions with underlying assets of non-performing loans (i.e. Senior Financing) were finalised for a total amount disbursed of approximately EUR 27 million.

A brief description of the transactions concluded during the reporting period is provided below:

a) On 8 July 2020 the Bank closed a transaction to provide financing to a distressed credit investor with an amount disbursed of EUR 11.4 million. The loan is secured by a portfolio of non-performing loans, primarily secured corporate loans, with a total gross nominal value of over EUR 1 billion;

b) On 7 August 2020 the Bank closed a financing transaction of EUR 4.2 million through the subscription of 95% of the senior notes issued by a securitisation vehicle formed pursuant to Law No. 130/99. The underlying is represented by loans to corporate counterparties with a gross nominal value of approximately EUR 30 million. The real estate assets backing the receivables involved in the loan are residential properties located mainly in Lombardy;

c) On 28 September 2020 the Bank closed a loan of approximately EUR 3 million, completing the transaction structured in Q3 2019, involving the purchase of a portfolio of non-performing loans lease receivables with a gross nominal value of approximately EUR 13 million, secured by real properties and to corporate counterparties. The financing transaction involved the subscription of all the senior notes and 5% of the junior notes issued by a securitisation vehicle formed pursuant to Law No. 130/99;

d) On 30 September 2020 the Bank disbursed financing of EUR 8 million to a Luxembourg vehicle attributable to Zetland Capital, secured by a pledge on the single-tranche bond issued by a securitisation vehicle pursuant to Law No. 130/99, which purchased loans to a corporate counterparty with a gross nominal value of approximately EUR 20 million, purchased in 2019 by the investor and secured by a primarily residential real-estate complex located in a well-known tourist destination in Veneto.

In light of the above, and also taking into account investments made by the Senior Financing area during 2018, 2019 and the first two quarters of 2020, as well as the transaction finalised in 2019 by the Special Situations Real Estate area through illimity's subscription of 100% of the senior notes and 5% of the junior notes issued by a securitisation vehicle pursuant to Italian Law no. 130/99, as of 30 September 2020 the Bank had entered into 16 asset-backed loan agreements on distressed loans for a total amount of approximately EUR 441 million, as shown below.

(amounts in thousands of euros)

Asset-backed financing on Distressed Loans	Amount paid
Investments as of 31/12/2018	51
Q1 2019	3
Total as of 31/03/2019	**54**
Q2 2019	192
Total as of 30/06/2019	**246**
Q3 2019	112
Total as of 30/09/2019	**358**
Q4 2019	32
Total as of 31/12/2019	**390**
Q1 2020	11
Total as of 31/03/2020	**401**
Q2 2020	13
Total as of 30/06/2020	**414**
Q3 2020	27
Total[4] as of 30/09/2020	**441**

In the table above, the total loans disbursed as of 30 September 2020 include the financing transaction completed in 2019 with the support of the Special Situations Real Estate area, as described in more detail in the previous paragraph.

4 As of 30 September 2020, the accounting balance amounted to approximately EUR 330.6 million, of which EUR 272.6 million of notes and EUR 58 million of loans.

Direct Banking & Digital Operations Division

<u>Direct Banking</u>

Direct Banking projects

In addition to what was already presented to customers in the first half of the year (including the illimity Hubs, the American Express credit card offering, the insurance products and PISP operations, which allows credit transfers on other banks to be ordered from the illimity home banking platform), over the last three months the Direct Bank ensured the necessary evolutionary development of assets already brought to market, in addition to releasing additional projects.

In the stream relating to the partnership with Santander Consumer Bank (already engaged in 2019 for personal loans), the Amazon Lending product was activated, enabling the purchase of products on Amazon through the disbursement of interest-free loans without additional expenses (annual nominal rate of 0% and annual percentage rate of 0%), which can be personalised by amount and term.

On 22 September 2020, a little over one year after the launch of the Direct Bank, the Hype fintech joint venture was formalised with Fabrick (a Sella group company for the development of open banking and the fintech ecosystem in Italy). The transaction is intended to pursue various objectives:

- From a strategic standpoint, accelerating Hype's growth through integration with the open banking business unit that illimity was about to launch on the same segment of the market (with support from Fabrick itself) and attracting a growing public, through a complete value proposition (payments, open banking services and deposit account), channelled through partnerships with third operators;
- From a technological standpoint, the integration will be more immediate than generally is the case for transactions of this kind, sharing key components of the open banking system (Fabrick) with the core banking system (Centrico) and similar architectural decisions in the management of both banking and non-financial products;
- From a sustainability standpoint, the transaction will ensure profit for both parties due to synergies relating to advertising investments, commercial partnerships with financial and industrial operators and technological development.

In parallel, illimitybank.com will continue its autonomous development process in accordance with its business plan. The transaction does not modify the Digital Bank's market positioning or goals, and at the level of results it ensures a positive impact on illimity's net profit of around EUR 10 million in 2023 and of around EUR 20 million in 2025.

According to the work masterplan set by the Division, the fourth quarter of the year will be dedicated to:

- evolutionary development, such as the development of further improvements to the illimitybank.com user experience and its features, or evolutionary work on CRM in the smart care area;
- the release of important new projects focused on expanding the retail business, such as the ability for a single customer to open a second account, and the consolidation of the open banking process and of intersections with other partners with the same vision of illimity.

Alongside all this, a customer communications campaign plan was also drawn up in view of the main market launches.

Retail Business performance

As of 30 September 2020, the Bank's funding continued to receive important contributions from all available sources:

- the partnership with the German fintech platform Raisin, operational since May 2019, contributes EUR 329 million to funding thanks to its 9,915 customers;
- the strategic partnership with Azimut, a leading advisory and wealth management firm, contributes EUR 39 million to the Bank's funding, up by 11% compared to 30 June;
- the digital bank illimitybank.com, presented to the market on 12 September 2019, contributes EUR 916 million to funding (of which EUR 809 million on a term basis, with an average term of 40 months). The funding raised by illimitybank.com increased by approximately EUR 80 million during the last quarter. Compared to the same period of 2019, funding volumes were over ten times higher, as the customer base rose from 11,000 a to 36,000 customers;
- Compared to the second quarter of 2020, the number of direct customers (36,000) was up by 9%, an increase of over 3,000 new customers.

Total direct deposits from customers, including former customers of Banca Interprovinciale, amounted to approximately EUR 2 billion at the end of the quarter.

Digital Operations

In the third quarter of the year, the Division's operations continued according to plan without slowdowns due to the continuing Covid-19 pandemic. All "*illimiters*" worked remotely until mid-September, ensuring business continuity by taking advantage of a flexible, robust IT architecture. In support of the HR plan designed for the return to the workplace (Milan, Faenza and Modena), illimity IT developed an app dedicated to reserving desks and meeting rooms. The goal was to offer a simple operating tool to facilitate the return to the workplace and observance of office shift schedules, in compliance with the measures for coexisting with the virus.

IT platform projects

To complete Digital Operations, Smart Care activities are proceeding, in view of increasing digitalisation of activities in support of Direct Banking and facilitating relations between customers and operators. From this perspective, in continuity with projects in the first half of the year, various features are being implemented to enrich CRM, the onboarding procedure and the finalisation of case management tools by Smart Care.

Projects in support of the other divisions

In addition, the IT Function is supporting the SME and DCIS Divisions in developing the projects identified in their respective masterplans:

- SME Division
  - In the fourth quarter the main technology initiatives will relate to the necessary IT additions and reporting within the framework of loan agency transactions.
  - Streams relating to the development of new interfaces in support of users and customers of the factoring business are also being completed.

- DCIS Division
  - The application that will guide the user throughout the phases of the NPL process, from origination to management, reducing manual intervention to a minimum, is being formalised and the first modules will be released by the end of the year. The goals are to develop credit management according to an increasingly proactive approach, revising and digitalising the supporting processes and tools, optimising the management of credit risk and responding effectively to the authorities' requests.
  - To consolidate the Bank's strategy, in line with the size and dynamics of the markets in which illimity operates, the initial project activities aimed at providing access to a digital, fully dedicated platform for the management of UTP positions – loan portfolios the market for which has just been formed and is destined to become very large – will be finalised by December. The project is being carried out by taking advantage of the competitive advantage provided by the combination of experience and competency offered by the DCIS and SME Divisions.

The Division's project situation is rounded out by the IT initiatives in support of internal company functions (including *Budget & Control*, *Treasury & ALM*, *Administration & Accounting*, *Risk Management* and *Compliance*), many of which are set to be completed by year-end.

ALTERNATIVE PERFORMANCE MEASURES AS OF 30 SEPTEMBER 2020

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 Recommendation on alternative performance measures.

(amounts in thousands of euros)

PERFORMANCE MEASURES	30/09/2020	30/09/2019	Chg.	Chg. (%)
Total net operating income	116,441	37,556	78,885	>100%
Operating costs	(88,407)	(60,176)	(28,231)	47%
Operating profit (loss)	28,034	(22,620)	50,654	N/A
Total net write-downs/write-backs	2,375	(7,173)	9,548	N/A
Profit (loss) from operations before taxes	30,369	(29,916)	60,285	N/A
Profit (loss) for the period	24,321	(18,194)	42,515	N/A

(amounts in thousands of euros)

BALANCE SHEET MEASURES	30/09/2020	31/12/2019	Chg.	Chg. (%)
Net non-performing loans - organic[5]	**19,861**	**19,457**	**404**	**2%**
of which: Bad loans	5,825	5,232	593	11%
of which: Unlikely-to-pay positions	9,787	13,016	(3,229)	(25%)
of which: Past-due positions	4,249	1,209	3,040	>100%
Net non-performing loans - inorganic (POCI)[6]	**804,234**	**705,421**	**98,813**	**14%**
of which: Bad loans	601,760	544,765	56,995	10%
of which: Unlikely-to-pay positions	202,474	160,657	41,817	26%
Net impaired securities - inorganic (POCI)	**51,549**	**50,363**	**1,186**	**2%**
of which: Unlikely-to-pay positions	51,549	50,363	1,186	2%
Net performing HTC securities	**295,810**	**299,390**	**(3,580)**	**(1%)**
of which: SME securities – High Yield	23,223	-	23,223	N/A
of which: DCIS securities - Senior Financing	272,587	299,390	(26,803)	(9%)
Net loans to financial entities	**139,974**	**-**	**139,974**	**N/A**
Net performing loans to customers	**659,515**	**563,232**	**96,283**	**17%**
Financial instruments (HTCS + FV)	**153,823**	**134,453**	**19,370**	**14%**
Direct funding from customers	**2,125,474**	**1,978,589**	**146,885**	**7%**
Total Assets	**3,392,058**	**3,025,222**	**366,836**	**12%**
Shareholders' equity	**574,515**	**544,455**	**30,060**	**6%**

5 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.

6 POCI = Purchased or Originated Credit Impaired.

RISK RATIOS	30/09/2020	31/12/2019
Gross Organic NPE Ratio[7]	3.8%	4.2%
Net Organic NPE Ratio[8]	2.0%	2.2%
Coverage ratio for organic non-performing loans[9]	48.4%	48.4%
Coverage ratio for organic bad-debt positions[10]	68.4%	70.0%
Coverage ratio for performing loans[11]	1.28%	0.96%
Cost of organic credit risk (BPS)[12]	58	86

STRUCTURAL INDICATORS	30/09/2020	31/12/2019
Shareholders' equity/Total Liability	16.9%	18.0%
Interbank Funding/Total Funding	20.3%	15.8%
Liquidity coverage ratio	697%	>3000%
Net Stable Funding Ratio	>100%	>100%
Net loans with customers[13]/Total assets	54.0%	54.1%
Customer funding/ Total Liability	62.7%	65.4%

(amounts in thousands of euros)

CAPITAL RATIOS	30/09/2020	31/12/2019
Tier I capital ratio (Tier I capital/Total weighted assets)	19.15%	21.35%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	19.15%	21.35%
Own Funds	478,259	461,699
of which: Tier I capital	478,259	461,699
Risk-weighted assets	2,497,038	2,162,485

7 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.

8 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.

9 Ratio between write-downs on organic non-performing loans and gross exposure of non-performing organic loans.

10 Ratio between write-downs on organic bad loans and gross exposure of organic bad loans.

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

12 Ratio between the sum of annualised write-downs 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.

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

RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS OF 30 SEPTEMBER 2020

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. This consolidated interim report therefore includes a reconciliation between the financial statements presented and the mandatory financial reporting format laid down in Bank of Italy Circular no. 262, the values from which have been included 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 consolidated interim report. Additional details useful to this end are provided below:

- recoveries of taxes recognised among other operating costs/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;
- 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 value adjustments/write-backs for credit risk.

In the case of the balance sheet, various assets and liabilities have been grouped together as follows, in addition to the restatement of the data relating to the transactions discussed in the foregoing paragraphs:

- the inclusion of cash and cash equivalents in the residual item other assets;
- the aggregation in a single item of material and intangible assets;
- the aggregation of financial assets designated at fair value through other comprehensive income and financial assets held for trading;
- separate display of loans measured mandatorily at fair value;
- separate display of loans to financial entities;
- the reclassification of *Leasing* agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes[14];
- the inclusion of the Provision for Risks and Charges and post-employment benefits in residual items of other liabilities;
- the aggregate indication and items comprising shareholders’ equity.

14 The comparative figure at 31 December 2019 has been restated.

Reclassified consolidated balance sheet

(amounts in thousands of euros)

Components of official items of the Balance Sheet	Assets	30/09/2020	31/12/2019	Chg.	Chg. (%)
20 a) + 30	Treasury portfolio - Securities at FV	139,861	125,851	14,010	11%
20 c)	Financial instruments mandatorily measured at fair value	13,962	8,602	5,360	62%
40 a)	Due from banks	504,806	344,858	159,948	46%
40 b)	Loans to financial entities	139,974	-	139,974	N/A
40 b)	Loans to customers	1,483,610	1,288,111	195,499	15%
40 b)	Securities at amortised cost – SME	74,772	50,363	24,409	48%
40 b)	Securities at amortised cost – Senior Financing	272,587	299,390	(26,803)	(9%)
90 + 100	Property and equipment and intangible assets	137,264	66,199	71,065	>100%
	of which: Goodwill	36,224	21,643	14,581	67%
110	Tax assets	35,368	37,061	(1,693)	(5%)
10 + 130	Other assets	589,854	804,787	(214,933)	(27%)
	of which: Cash and cash equivalents	542,952	772,125	(229,173)	(30%)
	Total assets	**3,392,058**	**3,025,222**	**366,836**	**12%**

(amounts in thousands of euros)

Components of official items of the Balance Sheet	Liabilities	30/09/2020	31/12/2019	Chg.	Chg. (%)
10 a)	Amounts due to banks	540,953	376,747	164,206	44%
10 b)	Amounts due to customers	2,123,218	1,963,237	159,981	8%
10 c)	Securities issued	2,256	15,358	(13,102)	(85%)
60	Tax liabilities	4,627	770	3,857	>100%
10 b) + 80 + 90 + 100	Other liabilities	146,489	124,655	21,834	18%
120 + 150 + 160 + 170 + 180 + 190 + 200	Shareholders' equity	574,515	544,455	30,060	6%
	Total liabilities and shareholders' equity	**3,392,058**	**3,025,222**	**366,836**	**12%**

Summary of consolidated statement of financial position data

The Group's total assets amounted to EUR 3,392.1 million as of 30 September 2020, compared to EUR 3,025.2 as of 31 December 2019, and primarily include financial assets deriving from loans to customers of EUR 1,483.6 million, up compared to the EUR 1,288.1 million recorded as of 31 December 2019. The increase is primarily attributable to the new transactions of the SME Division and DCIS Division concluded during the period (for further information, refer to the contents of the section "Significant events in the first nine months of 2020").

Financial assets at amortised cost – due from banks – amounted to EUR 504.8 million as of 30 September 2020, up from EUR 159.9 million as of 31 December 2019, primarily due to the new subscriptions of repurchase agreements receivable and deposits receivable with banking counterparties. Taking loans to financial entities into account, as of 30 September 2020, total net exposure to banks and financial entities was EUR 644.8 million. The cash and cash equivalents component decreased from EUR 772.1 million as of 31 December 2019 to EUR 543.0 million as of 30 September 2020.

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, primarily represented by government instruments due from other banking institutions and government bonds, amounted to approximately EUR 139.9 million and were up by approximately EUR 14.0 million compared to 31 December 2019. As of 30 September 2020 the Group had a negative valuation reserve of approximately EUR 1.9 million, mainly due to the performance of the markets.

Financial instruments mandatorily measured at fair value with an impact on profit or loss amounted to EUR 14.0 million as of 30 September 2020 and mainly include an investment in an equity instrument of EUR 6.7 million attributable to a transaction concluded by the SME Division and a EUR 4.4 million investment attributable to a transaction concluded by the DCIS Division, in addition to the investments in the junior tranches of securitisation vehicles.

Property and equipment and intangible assets of EUR 137.3 million increased by approximately EUR 71.1 million on 31 December 2019. Intangible assets include the goodwill on the SPAXS-Banca Interprovinciale *business combination* transaction, already described in financial year 2019, in the amount of EUR 21.6 million; the item also includes the measurement of the provisional goodwill recognised on the acquisition of IT Auction and its subsidiaries (amounting to EUR 14.6 million), in addition to the intangibles identified in the *purchase price allocation* (PPA) undertaken in accordance with the accounting standard IFRS 3. Property and equipment were up sharply compared with 31 December 2019 and consist mainly of assets covered by IAS 2, namely *datio in solutum* real estate involved in the lending business. Property and equipment with functional use was broadly unchanged on the comparative period, consisting of the *Right of Use* of assets acquired through leasing (IFRS 16).

Consolidated total liabilities and shareholders' equity amounted to EUR 3,392.1 million, including EUR 2,123.2 million relating to financial liabilities measured at amortised cost due to customers (net of the lease liability under IFRS 16) and EUR 541.0 million due to banks, up by EUR 164.2 million compared to 31 December 2019 (primarily taking part in the TLTRO III auction), in addition to the group's shareholders' equity of EUR 574.5 million, which rose mainly on account of profit for the period.

Reclassified consolidated income statement

(amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	30/09/2020	30/09/2019	Chg.	Chg. (%)
10 + 20	Interest margin	73,751	30,780	42,971	>100%
40 + 50	Net fee and commission income	7,575	5,107	2,468	48%
80 + 100 + 110	Gains/losses on financial assets and liabilities	5,739	1,382	4,357	>100%
130 a)	Net write-downs/write-backs on closed positions - HTC Clients	28,642	-	28,642	N/A
140 + 230 + 280	Other operating expenses and income	734	287	447	>100%
Total net operating income		**116,441**	**37,556**	**78,885**	**>100%**
190 a)	Personnel costs	(36,040)	(21,996)	(14,044)	64%
190 b)	Other administrative costs	(46,209)	(36,150)	(10,059)	28%
210 + 220	Net write-downs/write-backs on property and equipment and intangible assets	(6,158)	(2,030)	(4,128)	>100%
Operating costs		**(88,407)**	**(60,176)**	**(28,231)**	**47%**
Operating profit (loss)		**28,034**	**(22,620)**	**50,654**	**N/A**
130 a)	Net write-downs/write-backs for credit risk - HTC Banks	47	(197)	244	N/A
130 a)	Net write-downs/write-backs for credit risk - HTC Financial entities	(140)	-	(140)	N/A
130 a)	Net write-downs/write-backs for credit risk - HTC Clients	2,664	(6,382)	9,046	N/A
130 b)	Net write-downs/write-backs for credit risk - HTCS	-	(51)	51	N/A
200 a)	Net write-downs/write-backs for commitments and guarantees	(196)	(543)	347	(64%)
Total net write-downs/write-backs		**2,375**	**(7,173)**	**9,548**	**N/A**
200 b)	Other net provisions	(40)	(124)	84	(68%)
Profit (loss) from operations before taxes		**30,369**	**(29,916)**	**60,285**	**N/A**
300	Income taxes for the period on continuing operations	(6,048)	11,722	(17,770)	N/A
Profit (loss) for the period		**24,321**	**(18,194)**	**42,515**	**N/A**

Consolidated financial performance highlights

The group's net operating income for the period ended 30 September 2020 amounted to EUR 116.4 million, up sharply on the third quarter of the previous year, when it came to approximately EUR 37.6 million.

The increase in total net operating income is to be attributed to the introduction of various lines of business by the Bank in 2020, which contributed to the increase in interest margin from EUR 30.8 million to EUR 73.8 million. Net fee and commission income also increased, on the one hand due to the increased operations of the Bank's divisions, and on the other as a consequence of the acquisition in the first quarter of 2020 of IT Auction and its subsidiaries, which contribute to the item through the "auction commissions" earned on the use of proprietary real-estate portfolios.

Total net write-backs on outstanding portfolio positions amounted to EUR 2.4 million, whereas net write-backs on positions closed during the period amounted to EUR 28.6 million. In detail, net write-downs to HTC positions are primarily related to individual and collective assessments of loans to customers and banks and the effects of the revision of expected cash flows from the NPL portfolios acquired.

Operating costs of EUR 88.4 million for the period ended 30 September 2020 were up by approximately EUR 28.2 million compared to the same period of 2019. In particular, personnel costs were up by approximately EUR 14.0 million due to the hiring of new resources for the performance of the Group's activities and the inclusion of the companies attributable to IT Auction and subsidiaries; other administrative costs also increased by approximately EUR 10.1 million on the same period in the previous year owing to the increase in the Bank's operations. Finally, the item includes write-downs/write-backs to property and equipment and intangible assets totalling EUR 6.2 million, up by EUR 4.1 million compared to 30 September 2019, primarily due to the amortisation of IT investments and depreciation of plant and equipment managed in application of IFRS 16.

The profit for the period ended 30 September 2020, before taxes, amounted to EUR 30.4 million. Net of income taxes for the period on continuing operations of approximately EUR 6.0 million, the consolidated net profit for the period thus amounted to EUR 24.3 million.

The basic and diluted earnings per share as of 30 September 2020, calculated by dividing the profit for the period by the weighted average number of ordinary shares issued, was EUR 0.37. See the section "Basic and diluted earnings per share" for details of the methodology to calculate earnings per share.

KEY BALANCE SHEET FIGURES

Invested assets

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

(amounts in thousands of euros)

DETAILS OF FINANCING	30/09/2020		31/12/2019		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**542,952**	**17.11%**	**772,125**	**26.72%**	**(229,173)**	**(30%)**
Financial assets held for trading	**3,196**	**0.10%**	**63**	**0.00%**	**3,133**	**>100%**
Financial assets mandatorily measured at fair value:	**13,962**	**0.44%**	**8,602**	**0.30%**	**5,360**	**62%**
- DCIS Business	7,172	0.23%	2,341	0.08%	4,831	>100%
- SME Business	6,691	0.21%	6,161	0.21%	530	9%
- Treasury portfolio	99	0.00%	100	0.00%	(1)	(1%)
HTCS Financial assets	**136,665**	**4.31%**	**125,788**	**4.35%**	**10,877**	**9%**
- Treasury portfolio	136,665	4.31%	125,788	4.35%	10,877	9%
Due from banks	**504,806**	**15.91%**	**344,858**	**11.94%**	**159,948**	**46%**
- of which: Repurchase agreements	322,342	10.16%	276,025	9.55%	46,317	17%
Loans to financial entities	**139,974**	**4.41%**	**-**	**0.00%**	**139,974**	**N/A**
Loans to customers - Loans	**1,483,610**	**46.76%**	**1,288,111**	**44.58%**	**195,499**	**15%**
- Organic non-performing loans	19,861	0.63%	19,457	0.67%	404	2%
- Inorganic non-performing loans	804,234	25.35%	705,421	24.41%	98,813	14%
- Performing loans	659,515	20.79%	563,232	19.49%	96,283	17%
Loans to customers - Securities	**347,359**	**10.95%**	**349,753**	**12.11%**	**(2,394)**	**(1%)**
- DCIS Business (Senior Financing) - performing	272,587	8.59%	299,390	10.36%	(26,803)	(9%)
- SME Business - inorganic POCI	51,549	1.62%	50,363	1.74%	1,186	2%
- SME Business - performing	23,223	0.73%	-	0.00%	23,223	N/A
Total invested assets	**3,172,524**	**100%**	**2,889,300**	**100%**	**283,224**	**10%**

Loans to customers amounted to approximately EUR 1,483.6 million, up from EUR 1,288.1 million at the end of the previous year, due to transactions undertaken by the DCIS Division and SME Division. The line item also includes NPLs of approximately EUR 804.2 million classified as POCI (Purchased or Originated Credit Impaired), up from EUR 705.4 million recorded as of 31 December 2019, due to the new transactions concluded by the business divisions. Considering Securities, financing to customers amounted to EUR 1,831.0 million.

Financial assets measured at fair value through other comprehensive income held within a hold-to-collect-and-sell business model amounted to approximately EUR 136.7 million, and were represented mainly by securities issued by banking institutions and government bonds.

Financial assets held for trading of EUR 3.2 million are primarily represented by an ETF investment.

Financial assets subject to mandatory measurement at fair value with an impact on profit or loss amounted to EUR 14.0 million and mainly include an investment in an equity instrument of EUR 6.7 million attributable to a transaction concluded by the SME Division and a EUR 4.4 million investment attributable to a transaction concluded by the DCIS Division, in addition to the investments in the junior tranches of securitisation vehicles.

The remaining EUR 347.4 million of securities are measured at amortised cost (held-to-collect business model) and are composed of EUR 272.6 million of Senior Financing securities and a POCI security of EUR 51.5 million attributable to a transaction concluded by the SME Division and of high-yield instruments of EUR 23.2 million.

(amounts in thousands of euros)

FINANCING BY TECHNICAL FORM	30/09/2020		31/12/2019		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash	**542,952**	**17.11%**	**772,125**	**26.72%**	**(229,173)**	**(30%)**
Current accounts and deposits	182,464	5.75%	68,833	2.38%	113,631	>100%
Repurchase agreements - receivable	322,342	10.16%	276,025	9.55%	46,317	17%
Due from banks	**504,806**	**15.91%**	**344,858**	**11.94%**	**159,948**	**46%**
Loans to financial entities	**139,974**	**4.41%**	**-**	**0.00%**	**139,974**	**N/A**
Current accounts held by customers	48,382	1.53%	57,120	1.98%	(8,738)	(15%)
Loans	1,435,228	45.24%	1,230,991	42.61%	204,237	17%
Loans to customers - Loans	**1,483,610**	**46.76%**	**1,288,111**	**44.58%**	**195,499**	**15%**
Debt securities	491,177	15.48%	477,868	16.54%	13,309	3%
- Government bonds	45,123	1.42%	10,736	0.37%	34,387	>100%
- Bank bonds	79,935	2.52%	73,624	2.55%	6,311	9%
- Others	366,119	11.54%	393,508	13.62%	(27,389)	(7%)
Equity instrument	6,691	0.21%	6,161	0.21%	530	9%
Equity securities	3,163	0.10%	15	0.00%	3,148	>100%
Units of UCIs	151	0.00%	163	0.01%	(12)	(7%)
Securities	**501,182**	**15.80%**	**484,206**	**16.76%**	**16,976**	**4%**
Total	**3,172,524**	**100%**	**2,889,300**	**100%**	**283,224**	**10%**

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

Loans due from banks totalled EUR 504.8 million, up compared to 31 December 2019, mainly due to new deposits under administration and repurchase agreements during the period. Loans to customers also increased due to the constant operations of the DCIS Division and SME Division.

Finally, securities increased by EUR 17.0 million on 31 December 2019, mainly due to the new transactions of the Treasury Portfolio in financial assets measured at fair value through other comprehensive income.

The table below summarises loans measured at amortised cost, including loans to financial entities, broken down by Business Division.

(amounts in millions of euros)

FINANCING BY BUSINESS DIVISION	30/09/2020	Amount %	31/12/2019	Amount %	Chg.	Chg. (%)
DCIS Division	1,064	53.98%	1,008	61.54%	56	6%
SME Division	624	31.66%	444	27.11%	180	41%
Loans to ordinary former BIP customers (SMEs)	143	7.26%	186	11.35%	(43)	(23%)
Loans to financial entities	140	7.10%	-	0.00%	140	N/A
Total loans to customers measured at amortised cost	**1,971**	**100%**	**1,638**	**100%**	**333**	**20%**

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 2019.

(amounts in thousands of euros)

FINANCIAL ASSETS AT AMORTISED COST	30/09/2020						31/12/2019					
	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio
Due from banks	**505,045**	**20.2%**	**(239)**	**504,806**	**20.4%**	**0.05%**	**345,143**	**17.1%**	**(285)**	**344,858**	**17.4%**	**0.08%**
- Loans	505,045	20.2%	(239)	504,806	20.4%	0.05%	345,143	17.1%	(285)	344,858	17.4%	0.08%
- Stage 1/2	505,045	20.2%	(239)	504,806	20.4%	0.05%	345,143	17.1%	(285)	344,858	17.4%	0.08%
Loans to financial entities	**140,114**	**5.6%**	**(140)**	**139,974**	**5.7%**	**0.10%**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	140,114	5.6%	(140)	139,974	5.7%	0.10%	-	-	-	-	-	-
- Stage 1/2	140,114	5.6%	(140)	139,974	5.7%	0.10%	-	-	-	-	-	-
Loans to customers	**1,859,078**	**74.2%**	**(28,109)**	**1,830,969**	**74.0%**	**1.51%**	**1,670,092**	**82.9%**	**(32,229)**	**1,637,864**	**82.6%**	**1.93%**
- Securities	348,288	13.9%	(929)	347,359	14.0%	0.27%	350,116	17.4%	(363)	349,753	17.6%	0.10%
- Stage 1/2	296,739	11.8%	(929)	295,810	11.9%	0.31%	299,753	14.9%	(363)	299,390	15.1%	0.12%
- Stage 3	51,549	2.1%	-	51,549	2.1%	0.00%	50,363	2.5%	-	50,363	2.5%	0.00%
- Loans	1,510,790	60.3%	(27,180)	1,483,610	59.9%	1.80%	1,319,976	65.5%	(31,866)	1,288,111	65.0%	2.41%
- Stage 1/2	668,064	26.7%	(8,549)	659,515	26.6%	1.28%	568,673	28.2%	(5,441)	563,232	28.4%	0.96%
- Stage 3	842,726	33.7%	(18,631)	824,095	33.3%	2.21%	751,303	37.3%	(26,425)	724,879	36.6%	3.52%
Total	**2,504,237**	**100%**	**(28,488)**	**2,475,749**	**100%**	**1.14%**	**2,015,235**	**100%**	**(32,514)**	**1,982,722**	**100%**	**1.61%**

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	30/09/2020 Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio (*)	31/12/2019 Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio (*)
Non - performing loans - Organic	**38,492**	**2.1%**	**(18,631)**	**19,861**	**1.1%**	**48.40%**	**37,718**	**2.3%**	**(18,261)**	**19,457**	**1.2%**	**48.42%**
- Bad loans	18,423	1.0%	(12,598)	5,825	0.3%	68.38%	17,429	1.0%	(12,197)	5,232	0.3%	69.98%
- Unlikely-to-pay positions	15,374	0.8%	(5,587)	9,787	0.5%	36.34%	18,880	1.1%	(5,864)	13,016	0.8%	31.06%
- Past-due positions	4,695	0.3%	(446)	4,249	0.2%	9.50%	1,410	0.1%	(200)	1,209	0.1%	14.18%
Non - performing loans - Inorganic	**804,234**	**43.3%**	**-**	**804,234**	**43.9%**	**n.a**	**713,585**	**42.7%**	**(8,163)**	**705,422**	**43.1%**	**n.a**
- Bad loans	601,760	32.4%	-	601,760	32.9%	n.a	552,698	33.1%	(7,933)	544,765	33.3%	n.a
- Unlikely-to-pay positions	202,474	10.9%	-	202,474	11.1%	n.a	160,887	9.6%	(230)	160,657	9.8%	n.a
Impaired Securities - Inorganic	**51,549**	**2.8%**	**-**	**51,549**	**2.8%**	**n.a**	**50,363**	**3.0%**	**-**	**50,363**	**3.1%**	**n.a**
- Unlikely-to-pay positions	51,549	2.8%	-	51,549	2.8%	n.a	50,363	3.0%	-	50,363	3.1%	n.a
Performing loans	**964,803**	**51.9%**	**(9,478)**	**955,325**	**52.2%**	**0.98%**	**868,426**	**52.0%**	**(5,804)**	**862,622**	**52.7%**	**0.67%**
- Securities	296,739	16.0%	(929)	295,810	16.2%	0.31%	299,753	17.9%	(363)	299,390	18.3%	0.12%
- Loans	668,064	35.9%	(8,549)	659,515	36.0%	1.28%	568,673	34.1%	(5,441)	563,232	34.4%	0.96%
Total	**1,859,078**	**100%**	**(28,109)**	**1,830,969**	**100%**	**n.a**	**1,670,092**	**100%**	**(32,229)**	**1,637,864**	**100%**	**N/A**

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

Net organic non-performing loans amounted to EUR 19.9 million, up slightly compared to EUR 19.5 million as of 31 December 2019, due to the current macroeconomic environment. The coverage ratio for organic non-performing loans of 48.4% as of 30 September 2020 is essentially in line with 31 December 2019.

Inorganic non-performing loans amounted to EUR 804.2 million, of which:

- EUR 601.8 million relating to transactions concluded by the SME and DCIS Divisions classified as bad loans, up from EUR 544.8 million as of 31 December 2019;
- EUR 202.5 million relating to transactions concluded by the SME and DCIS Divisions classified as unlikely-to-pay positions, up from EUR 160.7 million as of 31 December 2019.

Net performing loans amounted to EUR 659.5 million, up compared to EUR 563.2 million as of 31 December 2019 as a result of the new transactions during the year. The coverage ratio for performing loans as of 30 September 2020 was 1.28%, up from the value as of 31 December 2019 of 0.96%, following a prudential recalibration of credit risk measurement models in response to the current macroeconomic scenario.

Performing securities amounted to EUR 295.8 million as of 30 September 2020 and were attributable to DCIS Division *Senior Financing* securities and SME Division *high-yield* securities. Inorganic POCI securities include EUR 51.5 million attributable to a transaction concluded by the SME Division during the previous year.

Deposits

(amounts in thousands of euros)

DEPOSITS BY TECHNICAL FORM	30/09/2020		31/12/2019		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Amounts due to customers (A)	2,123,218	79.63%	1,963,237	83.35%	159,981	8%
Securities issued (B)	2,256	0.08%	15,358	0.65%	(13,102)	(85%)
Total direct deposits from customers (A) + (B)	**2,125,474**	**79.71%**	**1,978,595**	**84.00%**	**146,879**	**7%**
Due to banks (C)	540,953	20.29%	376,747	16.00%	164,206	44%
Total debt (A) + (B) + (C)	**2,666,427**	**100%**	**2,355,342**	**100%**	**311,085**	**13%**

At the end of the reporting period, deposits amounted to approximately EUR 2,666.4 million, up compared to 31 December 2019, primarily due to participation in the TLTRO III auction and the subscription of savings deposits with customers.

Property and equipment and intangible assets

Property and equipment amounted to approximately EUR 71.9 million as of 30 September 2020, up from EUR 25.4 million as of 31 December 2019. In accordance with IFRS 16, the item includes the *right of use* of assets acquired on lease of approximately EUR 20.0 million, net of accumulated depreciation. The item also includes the value of an owned property for functional purposes, as well as a several real-estate complexes and a property held for investment purposes, purchased through an auction as part of NPL transactions.

Intangible assets as of 30 September 2020 amounted to approximately EUR 65.3 million, up from EUR 40.8 million as of 31 December 2019, increased mainly due to the recognition of provisional goodwill on the acquisition of IT Auction and its subsidiaries in the first quarter of 2020. The item also includes the goodwill arising from the SPAXS-Banca Interprovinciale business combination of EUR 21.6 million and IT investments.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 35.4 million as of 30 September 2020, down from the EUR 37.1 million recognised as of 31 December 2019. Details of the breakdown of tax assets are shown below.

(amounts in thousands of euros)

TAX ASSETS	30/09/2020	31/12/2019	Chg.	Chg. (%)
Current	2,515	5,127	(2,612)	(51%)
Deferred	32,853	31,934	919	3%
TOTAL	**35,368**	**37,061**	**(1,693)**	**(5%)**

Deferred tax assets other than those convertible into tax credits (Article 2, paragraphs 55 et seq, of Italian 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.

With the approval of the financial statements closed on 31 December 2019 by the shareholders' meeting, the conversion into a tax credit of the prepaid taxes recorded, for IRES and IRAP purposes, on the portion of value adjustments on loans for a total amount of 54 thousand euros, as provided for in Article 2, paragraphs 55-58, of Italian Legislative Decree no. 225 of 29 December 2010 (converted, with amendments, by Italian Law no. 10 of 26 February 2011), and amended by Article 9 of Italian Legislative Decree no. 201 of 6 December 2011 (converted, with amendments, by Italian Law no. 214 of 22 December 2011).

(amounts in thousands of euros)

TAX LIABILITIES	30/09/2020	31/12/2019	Chg.	Chg. (%)
Current	3,880	53	3,827	>100%
Deferred taxes	747	717	30	4%
TOTAL	**4,627**	**770**	**3,857**	**>100%**

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 also 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.

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	30/09/2020	31/12/2019
Common Equity Tier 1 (CET1) capital	**478,259**	**461,699**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**478,259**	**461,699**
Credit risk	*194,768*	*168,492*
Credit valuation adjustment risk	*-*	*-*
Settlement risks	*-*	*-*
Market risks	*554*	*65*
Operational risk	*4,442*	*4,442*
Other calculation factors	*-*	*-*
Total minimum requirements	**199,764**	**172,999**
Risk-weighted assets	**2,497,038**	**2,162,485**
Common Equity Tier 1 ratio	**19.15%**	**21.35%**
(Common Equity Tier 1 capital after filters and deductions/ Risk-weighted assets)		
Tier 1 ratio	**19.15%**	**21.35%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**19.15%**	**21.35%**
(Total own funds/Risk-weighted assets)		

As of 30 September 2020 the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds, since it is awaiting receipt of authorisation to include it in Common Equity Tier 1 capital from the national and supranational authorities. If special shares had been included in CET1 capital, the CET1 ratio would have been 19.73%.

CHANGES IN SHAREHOLDERS' EQUITY

As of 30 September 2020, shareholders' equity, inclusive of the profit for the period, amounted to approximately EUR 574.5 million, up from EUR 544.5 million at the end of 2019, primarily due to the capital increase in May and to profit for the period, offset partly by changes in valuation reserves and the share buy-back transaction in service of the Long-Term Incentive Plan (LTIP), further details regarding which are provided in the section "Treasury shares".

(amounts in thousands of euros)

Items/Technical forms	30/09/2020	31/12/2019
1. Share capital	44,007	43,408
2. Share premium reserve	487,373	480,156
3. Reserves	21,501	36,188
4. Equity instruments	-	-
5. (Treasury shares)	(832)	(96)
6. Valuation reserves	(1,855)	939
7. Profit (loss) for the period	24,321	(16,140)
Total shareholders' equity attributable to the Group	**574,515**	**544,455**
Shareholders' equity attributable to non-controlling interest	-	-
Total shareholders' equity	574,515	544,455

Share capital and ownership structure

As of 30 September 2020, following the share capital increase transaction announced on 17 June 2020, the Bank's share capital amounted to EUR 45,503,237.77, of which EUR 44,006,566.43 was subscribed and paid up, divided into 66,083,417 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

During 2019, the Bank purchased 10,554 "treasury shares" from the shareholders of Banca Interprovinciale who did not join the merger between SPAXS and BIP pursuant to article 2505-*bis* of the Italian Civil Code, for a unit price of EUR 9.09 and a value of EUR 95,940, as per the resolution of the Shareholders' Meeting of 18 January 2019.

On 9 April 2020, the Bank was authorised by the Bank of Italy to buy back CET1 instruments up to EUR 1 million. On 10 August 2020 illimity announced that it had concluded its buy-back programme.

Following the purchases made and considering the shares already in portfolio, as of 30 September 2020 the Bank held 98,505 treasury shares in portfolio. 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 September 2020:

(amounts in thousands of euros)

	Shareholders' equity	Result
illimity Bank S.p.A.	**577,087**	**26,774**
Effect of consolidation of subsidiaries	(308)	-
Results of the consolidated companies	(2,095)	(2,095)
Consolidation adjustments (including PPA effects)	(169)	(358)
Dividends	-	-
Effect of valuation at equity method of associates and joint ventures	-	-
Group	**574,515**	**24,321**

FINANCIAL PERFORMANCE

Interest margin

(amounts in thousands of euros)

Items/Technical forms	Loans / Payables	Debt securities	Other transactions	30/09/2020	30/09/2019	Absolute changes	Change %
Interest and similar income							
1. Financial assets designated at fair value through profit or loss	-	35	-	35	-	35	N/A
Held for trading	-	-	-	-	-	-	N/A
Designated at FV	-	-	-	-	-	-	N/A
Mandatorily measured at fair value	-	35	-	35	-	35	N/A
2. Financial assets at FV through other comprehensive income	-	1,942	-	1,942	1,197	745	62%
3. Financial assets at amortised cost	86,486	13,993	-	100,479	33,554	66,925	>100%
Due from banks	431	-	-	431	385	46	>100%
Loans to customers	86,055	13,993	-	100,048	33,169	66,879	>100%
4. Hedging derivatives	-	-	-	-	-	-	N/A
5. Other assets	-	-	4	4	71	(67)	(94%)
6. Financial liabilities	-	-	-	468	308	160	52%
Total interest income	**86,486**	**15,970**	**4**	**102,928**	**35,130**	**67,798**	**>100%**
Interest expenses							
1. Financial liabilities at amortised cost	(27,381)	(112)	-	(27,493)	(4,178)	(23,315)	>100%
Amounts due to central banks	(12)	-	-	(12)	(230)	218	(95%)
Amounts due to banks	(4,779)	-	-	(4,779)	(765)	(4,014)	>100%
Amounts due to customers	(22,590)	-	-	(22,590)	(2,732)	(19,858)	>100%
Securities issued	-	(112)	-	(112)	(451)	339	(75%)
2. Financial liabilities held for trading	-	-	-	-	-	-	N/A
3. Financial liabilities designated at FV	-	-	-	-	-	-	N/A
4. Other liabilities and provisions	-	-	(13)	(13)	(1)	(12)	>100%
5. Hedging derivatives	-	-	-	-	-	-	N/A
6. Financial assets	-	-	-	(1,671)	(171)	(1,500)	>100%
Total interest expenses	**(27,381)**	**(112)**	**(13)**	**(29,177)**	**(4,350)**	**(24,827)**	**>100%**
Interest margin	**59,105**	**15,858**	**(9)**	**73,751**	**30,780**	**42,971**	**>100%**

As of 30 September 2020, the interest margin amounted to approximately EUR 73.8 million, up considerably on the same period of the previous year, when it amounted to approximately EUR 30.8 million. The change described above is mainly due to the increase in interest income accrued on financial assets at amortised cost: in particular, loans to customers increased by EUR 66.9 million compared to the same period of the previous year due to the new transactions undertaken during the period. There was also a marginal increase in interest income on financial assets designated at fair value through other comprehensive income. This trend is due to the purchase in early 2020 of securities belonging to this portfolio.

The interest expense component increased by approximately EUR 24.8 million compared to 30 September 2020. The increase during the comparative period was mainly due to the increase in interest expense paid to customers of EUR 19.9 million. This trend was linked to the volumes of direct deposits, beginning with the launch of the Digital Bank in the second half of 2019. Interest expenses to banks also increased by approximately EUR 4.0 million due the subscription of repurchase agreements payable by the Bank.

Net fee and commission income

(amounts in thousands of euros)

Items / Technical forms	30/09/2020	30/09/2019	Absolute changes	Change %
Fee and commission income				-
a. guarantees given	62	188	(126)	(67%)
c. management, brokerage and advisory services	309	121	188	>100%
d. collection and payment services	153	346	(193)	(56%)
f. factoring services	1,196	104	1,092	>100%
i. maintenance and management of current accounts	231	941	(710)	(75%)
j. other services	8,750	6,216	2,534	41%
Total	**10,701**	**7,916**	**2,785**	**35%**
Fee and commission expense				
a. guarantees received	(1)	(116)	115	(99%)
c. management and brokerage services	(99)	(41)	(58)	>100%
d. collection and payment services	(660)	(2,196)	1,536	(70%)
e. other services	(2,366)	(456)	(1,910)	>100%
Total	**(3,126)**	**(2,809)**	**(317)**	**11%**
Net fee and commission income	**7,575**	**5,107**	**2,468**	**48%**

Net fee and commission income amounted to EUR 7.6 million, up significantly compared to the period ended 30 September 2019, when they amounted to EUR 5.1 million.

The “other services” subitem of fee and commission income includes structuring commissions on the new transactions of the DCIS and SME Divisions of the Parent Company and to commissions on the specific business of Group companies attributable to IT Auction, and in particular “auction commissions” and associated services accrued on the use of the company’s real-estate portals.

Other operating expenses and income

(amounts in thousands of euros)

Items / Technical forms	30/09/2020	30/09/2019	Absolute changes	Change %
Other operating expenses				
Amortisation of expenses for improvements on third party assets	(55)	-	(55)	N/A
Other operating costs	(1,721)	(131)	(1,590)	>100%
Total	**(1,776)**	**(131)**	**(1,645)**	**>100%**
Other operating income				
Recoveries of expenses from other customers	1,118	280	838	>100%
Other income	1,392	138	1,254	>100%
Total	**2,510**	**418**	**2,092**	**>100%**
Other operating income/expenses	**734**	**287**	**447**	**>100%**

The item includes income and expenses deriving from the management of the real-estate complex recognised among plant and equipment, acquired through the NPL business.

Personnel costs

(amounts in thousands of euros)

Items / Technical forms	30/09/2020	30/09/2019	Absolute changes	Change %
1. Employees	(33,368)	(20,325)	(13,043)	64%
2. Other personnel in service	(1,218)	(657)	(561)	85%
3. Directors and statutory auditors	(1,454)	(1,014)	(440)	43%
Personnel expenses	**(36,040)**	**(21,996)**	**(14,044)**	**64%**

Personnel costs amounted to approximately EUR 36.0 million and consist mainly of employee wages and salaries and the related social security contributions.

The Group had a total of 546 employees as of 30 September 2020 up compared to 31 December 2019 (348) due to the new employees hired over the past 9 months and the inclusion in the illimity Group of IT Auction and its subsidiaries with effect from the first quarter of financial year 2020.

The following table shows the number of employees as of 30 September 2020, broken down by classification, together with changes compared to 31 December 2019.

Level	30/09/2020			31/12/2019			Changes	
	Average age	No. emp.	No. emp. %	Average age	No. emp.	No. emp. %	Ass.	%
Executives	46	53	10%	46	44	13%	9	20%
Middle managers	37	229	42%	37	191	55%	38	20%
White-collar	33	264	48%	32	113	32%	151	>100%
Employees		**546**	**100%**		**348**	**100%**	**198**	**57%**

Other Administrative costs

(amounts in thousands of euros)

Items / Technical forms	30/09/2020	30/09/2019	Absolute changes	Change %
Rental of premises	(1,499)	(1,273)	(226)	18%
Insurance	(1,378)	(410)	(968)	>100%
Various payments	(4,727)	(3,386)	(1,341)	40%
Various consulting services	(13,008)	(11,052)	(1,956)	18%
Membership fees	(244)	(200)	(44)	22%
DGS, SRF contribution and voluntary scheme	(637)	(628)	(9)	1%
Cost of services	(3,829)	(2,075)	(1,754)	85%
Financial information	(821)	(699)	(122)	17%
Adverts and advertising	(2,259)	(2,954)	695	(24%)
Financial statement audit	(466)	(93)	(373)	>100%
Maintenance and repair costs	(709)	(240)	(469)	>100%
Business expenses	(52)	(251)	199	(79%)
IT and software expenses	(8,226)	(4,120)	(4,106)	100%
Legal and notary's fees	(5,631)	(5,750)	119	(2%)
Postal and stationery expenses	(232)	(189)	(43)	23%
Utilities and services	(1,316)	(806)	(510)	63%
Other indirect taxes and duties	(898)	(338)	(560)	>100%
Others	(277)	(1,686)	1,409	(84%)
Total other administrative costs	**(46,209)**	**(36,150)**	**(10,059)**	**28%**

Other administrative costs amounted to approximately EUR 46.2 million, increasing by EUR 10.1 million on 30 September 2019, and consisted primarily of costs for professional and consultancy services, legal and notary's fees, IT and software expenses and various fees.

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

(amounts in thousands of euros)

Items / Technical forms	30/09/2020	30/09/2019	Absolute changes	Change %
Net write-downs/write-backs on property and equipment				
Property and equipment with functional use	(2,023)	(1,479)	(544)	37%
of which: own Property and equipment	(405)	(295)	(110)	37%
of which: Lease rights of use	(1,618)	(1,184)	(434)	37%
Total	**(2,023)**	**(1,479)**	**(544)**	**37%**
Net write-downs /write-backs on intangible assets				
Finite useful life	(4,135)	(551)	(3,584)	>100%
Indefinite useful life	-	-	-	N/A
Total	**(4,135)**	**(551)**	**(3,584)**	**>100%**
Net write-downs/write-backs on property and equipment and intangible assets	**(6,158)**	**(2,030)**	**(4,128)**	**>100%**

Net write-downs/write-backs on property and equipment and intangible assets amounted to approximately EUR 6.2 million, compared with EUR 2 million as of 30 September of the previous year. The increase was mainly due to the amortisation of IT investments.

Net write-downs/write-backs for assets measured at amortised cost

(amounts in thousands of euros)

Transaction/Income item	Write-downs (1)			Write-backs (2)		30.09.2020
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three	
		Write-offs	Others			
A. Due from banks	**(205)**	**-**	**-**	**252**	**-**	**47**
- loans	(205)	-	-	252	-	47
- debt securities	-	-	-	-	-	-
of which: purchased or originated credit impaired	-	-	-	-	-	-
B. Loans to customers	**(4,937)**	**(54)**	**(41,435)**	**1,164**	**76,428**	**31,166**
- loans	(4,372)	(54)	(41,435)	1,164	76,428	31,731
- debt securities	(565)	-	-	-	-	(565)
of which: purchased or originated credit impaired	-	(54)	(38,510)	-	73,867	35,303
Total	**(5,142)**	**(54)**	**(41,435)**	**1,416**	**76,428**	**31,213**

Net write-backs to assets measured at amortised cost amounted to EUR 31.2 million. In particular, write-backs to POCI loans amounted to EUR 35.3 million, as shown in the table above. The sub-item "purchased or originated credit impaired" refers to the amount of write-downs/write-backs of loans classified as purchased or originated credit impaired as a result of collections or revisions of business plans.

The overall valuation of positions closed during the third quarter yielded a net write-back of EUR 28.6 million.

Income taxes for the period on continuing operations

Income taxes for the period amounted to EUR 6.0 million.

The effective tax rate for the first nine months of 2020 was 19.9%, mainly impacted by the positive benefits of the reintroduction of the economic growth scheme (“ACE”) rules and tax redemption of goodwill.

In this regard, during the year, pursuant to Article 15, paragraph 10, of Italian Decree Law no. 185/2008, the goodwill of EUR 21.6 million resulting from the merger by incorporation of SPAXS into Banca Interprovinciale was redeemed. Specifically, the substitute tax of EUR 3.46 million, corresponding to 16% of the higher goodwill values recorded in the financial statements, was paid. At the same time as the substitute tax was paid and recognised in the financial statements, prepaid taxes (corporate income tax and regional production tax - IRES and IRAP) of EUR 7.15 million were recognised, generating a net tax benefit of EUR 3.7 million. These prepaid taxes will be released in five annual instalments of EUR 1.4 million between 2021 and 2025, simultaneously with lower current taxes.

Basic and diluted earnings (losses) per share

Basic earnings per share is calculated by dividing the Group's profit for the period by the weighted average number of ordinary shares in issue. Diluted earnings per share for the six months ended 30 September 2020 are the same as basic earnings per share.

(amounts in thousands of euros)

Basic and diluted loss per share	Profit/(Loss) for the period	Average number of shares	Basic and diluted earnings per share
Period ended 30 September 2020	24,321	65,571,594	0.37
Period ended 30 September 2019	(18,194)	65,120,123	(0.28)

QUARTERLY TREND

The quarterly trend of the reclassified consolidated balance sheet and consolidated income statement is presented below.

Reclassified Balance Sheet

(amounts in thousands of euros)

Assets	30/09/2020	30/06/2020	31/03/2020	31/12/2019	30/09/2019
Treasury portfolio - Securities at FV	139,861	285,731	335,249	125,851	91,806
Treasury portfolio - Securities at amortised cost	-	-	-	-	103,259
Financial instruments mandatorily measured at fair value	13,962	12,132	7,505	8,602	9,680
Due from banks	504,806	502,844	566,799	344,858	271,289
Loans to financial entities	139,974	139,959	-	-	-
Loans to customers	1,830,969	1,765,923	1,751,714	1,637,864	1,255,037
Property and equipment and intangible assets	137,264	133,946	83,583	66,199	62,208
Tax assets	35,368	39,500	39,043	37,061	35,039
Other assets	589,854	357,821	267,877	804,787	128,151
Total assets	**3,392,058**	**3,237,856**	**3,051,770**	**3,025,222**	**1,956,470**

(amounts in thousands of euros)

Liabilities	30/09/2020	30/06/2020	31/03/2020	31/12/2019	30/09/2019
Amounts due to banks	540,953	582,970	468,190	376,747	397,005
Amounts due to customers	2,123,218	1,912,996	1,900,957	1,963,237	912,900
Securities issued	2,256	2,254	10,302	15,358	15,393
Financial liabilities designated at fair value	-	-	7,719	-	-
Tax liabilities	4,627	3,187	2,156	770	1,461
Other liabilities	146,489	173,289	125,207	124,655	86,368
Shareholders' equity	**574,515**	**563,160**	**537,239**	**544,455**	**543,343**
Total liabilities and shareholders' equity	**3,392,058**	**3,237,856**	**3,051,770**	**3,025,222**	**1,956,470**

Reclassified Income Statement

(amounts in thousands of euros)

Income Statement items	3Q2020	2Q2020	1Q2020	4Q2019	3Q2019
Interest margin	27,630	24,288	21,833	18,515	14,131
Net fee and commission income	2,949	2,130	2,496	1,513	2,562
Gains/losses on financial assets and liabilities	2,071	(28)	3,696	8,890	115
Net write-downs/write-backs on closed positions - HTC Clients	11,596	7,924	9,122	9,118	-
Other operating expenses and income	461	227	46	1,632	(75)
Total net operating income	**44,707**	**34,541**	**37,193**	**39,668**	**16,733**
Personnel costs	(11,495)	(13,246)	(11,299)	(9,071)	(6,915)
Other administrative costs	(17,028)	(12,899)	(16,282)	(19,040)	(14,222)
Net write-downs/write-backs on property and equipment and intangible assets	(2,298)	(2,027)	(1,833)	(1,117)	(882)
Operating costs	**(30,821)**	**(28,172)**	**(29,414)**	**(29,228)**	**(22,019)**
Operating profit (loss)	**13,886**	**6,369**	**7,779**	**10,440**	**(5,286)**
Net write-downs/write-backs for credit risk - HTC Banks	(72)	252	(133)	8	(155)
Net write-downs/write-backs for credit risk - HTC Other financial institutions	11	(25)	(126)	-	-
Net write-downs/write-backs for credit risk - HTC Clients	(761)	3,352	73	(9,218)	(3,768)
Net write-downs/write-backs for credit risk - HTCS	353	184	(537)	55	25
Net write-downs/write-backs for commitments and guarantees	(200)	(137)	141	63	(116)
Total net write-downs/write-backs	**(669)**	**3,626**	**(582)**	**(9,092)**	**(4,014)**
Other net provisions	(40)	36	(36)	61	(77)
Profit (loss) from operations before taxes	**13,177**	**10,031**	**7,161**	**1,409**	**(9,377)**
Income taxes for the period on continuing operations	(3,694)	307	(2,661)	645	2,541
Profit (loss) for the period	**9,483**	**10,338**	**4,500**	**2,054**	**(6,836)**

The interest margin amounted to EUR 27.6 million in the third quarter of 2020, up on both the previous quarter and the same quarter of 2019. The DCIS 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.

Net operating income for the third quarter of 2020 was EUR 44.7 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 2.9 million and a positive result of approximately EUR 11.6 million on closed HTC Clients positions.

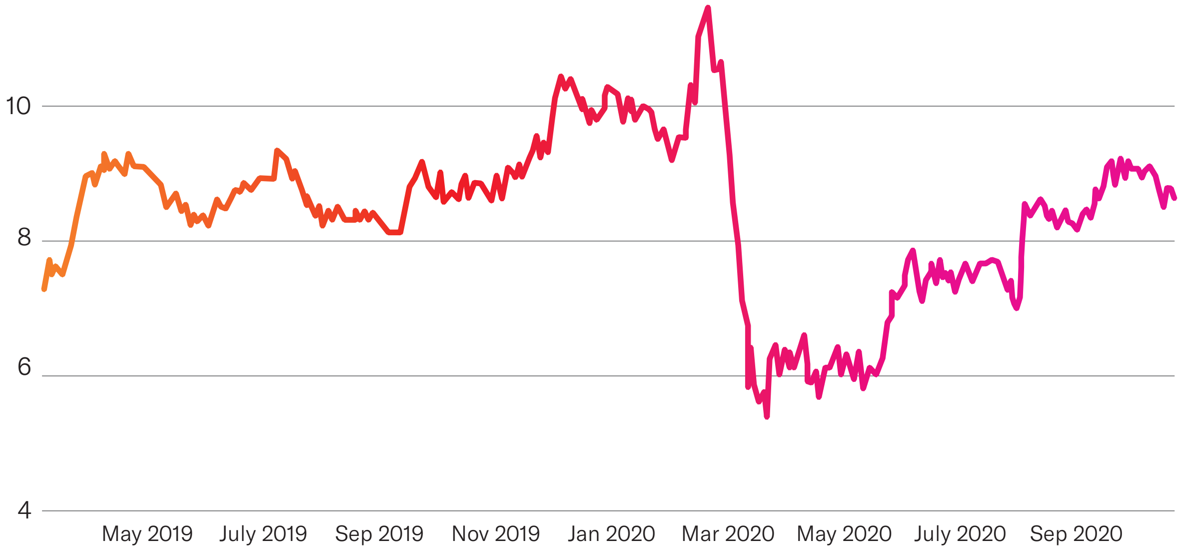
Operating expenses in the third quarter of 2020 amounted to approximately EUR 30.8 million, essentially stable on the previous quarter, but up on the same quarter of 2019, in relation to the increase in the Group's operations, as also reflected in the increase in personnel costs due to investment in the IT Auction group and its subsidiaries starting in the first quarter of 2020.

Net write-downs, relating mainly to the valuation of the HTC Clients in portfolio, totalled approximately EUR 0.7 million during the quarter. As already reported, it should be recalled that during the quarter illimity recognised net write-backs for credit risk to its held-to-collect portfolio in respect of customers on closed positions totalling EUR 11.6 million.

As a result of the foregoing trends, the third quarter of 2020 ended with a profit for the period, gross of taxes on continuing operations, of EUR 13.2 million, up compared to the previous quarters.

SHARE PERFORMANCE OF ILLIMITY BANK

The ordinary shares and the conditional share rights of illimity are traded on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana. The performance of the share as from 5 March 2019, the start of trading on the MTA, is reported below:



Based on available information, updated on 28 October 2020, the main shareholders of the Bank are as follows:

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
LR TRUST	FIDIM SRL	Owned	9.75%	9.75%
TENSILE CAPITAL MANAGEMENT LLC	TENSILE-METIS HOLDINGS SARL	Owned	8.52%	8.52%
Atlas Merchant Capital LLC	AMC METIS SARL	Owned	7.76%	7.76%

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 the Company, 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.

EVENTS AFTER THE REPORTING DATE

On 01 October 2020, illimity announced that it had renewed its "Euro Medium Term Note" (EMTN) issue programme for a maximum of EUR 3 billion, exclusively for qualified investors and listed on the Dublin Stock Exchange (Ireland). illimity may issue debt instruments reserved for institutional customers, with this programme.

On 21 October 2020 illimity announced that it had closed a transaction involving the purchase from UniCredit S.p.A. of a portfolio of non-performing loans with a total gross nominal value of approximately EUR 692 million (gross book value). In line with illimity's strategy in terms of type of debtors, the new portfolio is composed exclusively of loans to corporate debtors secured by real-estate collateral.

BUSINESS OUTLOOK

Taken overall, Management confirms its objective of achieving net profit for the year of around 30 million euro, which corresponds to an ROE of approximately 5%.

Management is expecting a robust pipeline of new potential deals in the final part of the year. The DCIS Division will benefit from the typical seasonality that sees selling banks concentrate the disposal of their non-performing loans in the fourth quarter of the year. The pipeline of the SME Division's business lines is also solid, supported by the continuation of state guarantees which will remain until the end of the year and possibly see an extension to mid-2021.

As the result of these dynamics a further rise in interest income is expected in the fourth quarter of the year compared to that of the quarter just ended, although the full impact of the business volumes originated in the fourth quarter will only materialise in the first quarter of 2021. On the other hand only a slight quarterly increase is expected in interest expense as the consequence of direct customer funding moving towards less costly maturity and mix.

The upswing in net fees and commissions is expected to continue, these having been penalised during the first part of the year by a slowdown in activities with a larger commission component, supported by an expected increased business volumes and a pick-up in court activities and deals taking place in real estate and operating assets, a driving force behind IT Auction's activities, thereby confirming September's positive dynamic.

Operating expenses are expected to increase in the last part of the year also due to investments in new strategic projects, whose benefits are expected to arrive from 2021 onwards. Worthy of mention among the strategic projects is the development of the IT and operating platform that will enable illimity to play an active role in the emerging UTP portfolio investment business.

Given the conservative approach taken in the first half of the year with respect to the collective loan adjustment policy and the resulting accruals, the fact that the quality of the existing portfolio of SME loans continues to hold and the current support measures, the Bank expects that the cost of credit in the final part of the year will remain at contained levels. In addition, it is expected that the introduction of certain recently issued government measures will contribute to the stabilisation of the cost of credit in the final part of the year and that this will produce a reduction in the risk (and therefore in the reserve allowance already recognised in the financial statements) on a part of the existing Crossover portfolio.

As a result of the expected growth in volumes, it is envisaged that risk-weighted assets (RWAs) will continue to rise in the fourth quarter of the year, although to an extent less than proportional to the increase in loans and investments, also as a result of capital optimisation strategies, including those made available by the recent measures supporting the economy.

In addition, a positive evolution in own funds is expected in the fourth quarter arising from the generation of profits, to which should be added the benefits arising from the banking package approved by the European Commission in June, which – on the basis of the pro-forma RWAs reported as of 30 September 2020 – are estimated in approximately 65bps.

It remains to assess the effects arising from the restrictive measures recently reintroduced to deal with the new heightening of the pandemic, these being currently difficult to quantify.

Consolidated Financial Statements

illimity

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(amounts in thousands of euros)

Assets		30/09/2020	31/12/2019
10.	Cash and cash equivalents	542,952	772,125
20.	Financial assets measured at fair value through profit or loss	17,158	8,665
	a) financial assets held for trading	3,196	63
	b) financial assets at fair value	-	-
	c) other financial assets mandatorily measured at fair value	13,962	8,602
30.	Financial assets measured at fair value through other comprehensive income	136,665	125,788
40.	Financial assets measured at amortised cost	2,475,749	1,982,722
	a) due from banks	504,806	344,858
	b) loans to customers	1,970,943	1,637,864
50.	Hedging derivatives	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	-	-
80.	Technical reinsurance reserves	-	-
90.	Property and equipment	71,948	25,395
100.	Intangible assets	65,316	40,804
	of which:		
	- goodwill	36,224	21,643
110.	Tax assets	35,368	37,061
	a) current	2,515	5,127
	b) deferred	32,853	31,934
120.	Non-current assets held for sale and discontinued operations	-	-
130.	Other assets	46,902	32,662
	Total assets	**3,392,058**	**3,025,222**

(cont'd) CONSOLIDATED BALANCE SHEET

(amounts in thousands of euros)

Liability and equity items		30/09/2020	31/12/2019
10.	Financial liabilities measured at amortised cost	2,688,895	2,377,250
	a) due to banks	540,953	376,747
	b) due to customers	2,145,686	1,985,145
	c) Securities issued	2,256	15,358
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	4,627	770
	a) current	3,880	53
	b) deferred	747	717
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	120,093	100,568
90.	Employee severance pay	2,449	1,097
100.	Allowances for risks and charges	1,479	1,082
	a) commitments and guarantees given	795	598
	b) post-employment benefits and similar obligations	5	-
	c) other provisions for risks and charges	679	484
110.	Technical reserves	-	-
120.	Valuation reserves	(1,855)	939
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	21,501	36,188
160.	Share premium reserve	487,373	480,156
170.	Share capital	44,007	43,408
180.	Treasury shares (-)	(832)	(96)
190.	Equity attributable to minority interests (+/-)	-	-
200.	Profit (loss) for the period (+/-)	24,321	(16,140)
	Total liabilities and shareholders' equity	**3,392,058**	**3,025,222**

illimity

CONSOLIDATED INCOME STATEMENT

(amounts in thousands of euros)

Items		30/09/2020	30/09/2019
10.	Interest income and similar income	102,928	35,130
	of which: interest income calculated according to the effective interest method	101,237	32,941
20.	Interest expenses and similar charges	(30,360)	(5,223)
30.	**Interest margin**	**72,568**	**29,907**
40.	Fee and commission income	10,701	7,916
50.	Fee and commission expense	(3,126)	(2,809)
60.	**Net fee and commission income**	**7,575**	**5,107**
70.	Dividends and similar income	-	-
80.	Profits (losses) on trading	(448)	70
90.	Fair value adjustments in hedge accounting	-	-
100.	Profits (losses) on disposal or repurchase of	5,657	1,310
	a) financial assets measured at amortised cost	-	368
	b) financial assets measured at fair value through other comprehensive income	5,658	942
	c) financial liabilities	(1)	-
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	530	1
	a) financial liabilities designated at fair value	-	1
	b) other financial assets mandatorily measured at fair value	530	-
120.	**Net interest and other banking income**	**85,882**	**36,395**
130.	Net losses/recoveries for credit risks associated with:	31,213	(6,630)
	a) financial assets measured at amortised cost	31,213	(6,579)
	b) financial assets measured at fair value through other comprehensive income	-	(51)
140.	Profits (losses) on changes in contracts without derecognition	-	(1)
150.	**Net result from banking activities**	**117,095**	**29,764**
160.	Net premiums	-	-
170.	Balance of other income/charges from insurance management	-	-
180.	**Profits (losses) of banking and insurance management**	**117,095**	**29,764**
190.	Administrative expenses:	(83,266)	(57,848)
	a) personnel expenses	(35,967)	(21,601)
	b) other administrative expenses	(47,299)	(36,247)
200.	Net provisions for risks and charges	(236)	(666)
	a) commitments and guarantees given	(196)	(542)
	b) other net provisions	(40)	(124)
210.	Net write-downs/write-backs on property and equipment	(2,023)	(1,479)
220.	Net write-downs /write-backs on intangible assets	(4,135)	(551)
230.	Other operating income/expenses	2,934	864
240.	**Operating expenses**	**(86,726)**	**(59,680)**
250.	Profits (losses) on equity investments	-	-
260.	Profits (losses) of fair value valuation of Property and Equipment and intangible assets	-	-
270.	Goodwill impairment	-	-
280.	Profits (losses) on disposal of investments	-	-
290.	**Profit (loss) before tax from continuing operations**	**30,369**	**(29,916)**
300.	Income taxes for the period on continuing operations	(6,048)	11,722
310.	**Profit (loss) after tax from continuing operations**	**24,321**	**(18,194)**
320.	Net income (Loss) (+/-) from discontinued operations after taxes	-	-
330.	**Profit (loss) for the period**	**24,321**	**(18,194)**
340.	Net profit (loss) (+/-) attributable to minority interests	-	-
350.	**Net profit (loss) (+/-) attributable to the parent company**	**24,321**	**(18,194)**

STATEMENT OF THE CONSOLIDATED COMPREHENSIVE INCOME

(amounts in thousands of euros)

		30/09/2020	30/09/2019
10.	**Profit (loss) for the period**	**24,321**	**(18,194)**
	Other comprehensive income, net of taxes, that may not be reclassified to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	(3)	2
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(49)	(100)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity 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	(2,742)	2,645
150.	Non-current assets held for sale and discontinued operations	-	-
160.	Share of valuation reserves connected with investments carried at equity	-	-
170.	**Total other comprehensive income (net of tax)**	**(2,794)**	**2,547**
180.	**Other comprehensive income (Item 10+170)**	**21,527**	**(15,647)**
190.	Consolidated comprehensive income attributable to minority interests	-	-
200.	**Consolidated comprehensive income attributable to the parent company**	**21,527**	**(15,647)**

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

(amounts in thousands of euros)

				Allocation of result for the previous year		Changes in the PERIOD										
							Equity transactions									
	Balance on 31 December 2019	Change in opening balances	Balance on 01 January 2020	Reserves	Dividends and other allocations	Change in reserves	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 at 30/09/2020	Equity attributable to minority interests at 30/09/2020
Share capital:	**43,408**	**-**	**43,408**	**-**	**-**	**-**	**599**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**44,007**	**-**
a) ordinary shares	42,470	-	42,470	-	-	-	599	-	-	-	-	-	-	-	43,069	-
b) other shares	938	-	938	-	-	-	-	-	-	-	-	-	-	-	938	-
Share premium reserve	480,156	-	480,156	-	-	-	7,217	-	-	-	-	-	-	-	487,373	-
Reserves:	**36,188**	**-**	**36,188**	**(16,140)**	**-**	**(92)**	**-**	**-**	**-**	**-**	**-**	**1,545**	**-**	**-**	**21,501**	**-**
a) retained earnings	12,007	-	12,007	(16,140)	-	(96)	-	-	-	-	-	-	-	-	(4,229)	-
b) other	24,181	-	24,181	-	-	4	-	-	-	-	-	1,545	-	-	25,730	-
Valuation reserves	939	-	939	-	-	-	-	-	-	-	-	-	-	(2,794)	(1,855)	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(96)	-	(96)	-	-	-	-	(736)	-	-	-	-	-	-	(832)	-
Profit (loss) for the period	**(16,140)**	**-**	**(16,140)**	**16,140**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24,321**	**24,321**	**-**
Shareholders' equity	**544,455**	**-**	**544,455**	**-**	**-**	**(92)**	**7,816**	**(736)**	**-**	**-**	**-**	**1,545**	**-**	**21,527**	**574,515**	**-**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 30 SEPTEMBER 2019

(amounts in thousands of euros)

	Balance on 31 December 2018 (SPAXS consolidated financial statements)	Change in opening balances (effects of the merger of SPAXS into Banca Interprovinciale)	Balance on 01 January 2019 (illimity consolidated financial statements	Allocation of result for the previous year		Changes in the PERIOD									Shareholders' equity attributable to the Group at 30/09/2019	Equity attributable to minority interests at 30/09/2019
							Equity transactions									
				Reserves	Dividends and other allocations	Change in reserves	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		
Share capital:	**62,781**	**(19,404)**	**43,377**	**-**	**-**	**-**	**31**	**-**	**.**	**.**	**.**	**.**	**.**	**.**	**43,408**	**-**
a) ordinary shares	61,341	(18,990)	42,351	-	-	-	31	-	-	88	-	-	-	-	42,470	-
b) other shares	1,440	(414)	1,026	-	-	-	-	-	-	(88)	-	-	-	-	938	-
Share premium reserve	517,827	-	517,827	-	(23,662)	(14,364)	355	-	-	-	-	-	-	-	480,156	-
Reserves:	**285**	**19,404**	**19,689**	**-**	**-**	**15,451**	**-**	**-**	**-**	**-**	**-**	**357**	**-**	**-**	**35,497**	**-**
a) retained earnings	-	-	-	-	-	12,007	-	-	-	-	-	-	-	-	12,007	-
b) other	285	19,404	19,689	-	-	3,444	-	-	-	-	-	357	-	-	23,490	-
Valuation reserves	13	-	13	-	-	12	-	-	-	-	-	-	-	2,547	2,572	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	(96)	-	-	-	-	-	-	(96)	-
Profit (loss) for the period	**(23,662)**	**-**	**(23,662)**	**-**	**23,662**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,194)**	**(18,194)**	**-**
Shareholders' equity	**557,244**	**-**	**557,244**	**-**	**-**	**1,099**	**386**	**(96)**	**-**	**-**	**-**	**357**	**-**	**(15,647)**	**543,343**	**-**

Accounting policies

as of 30 September 2020

ACCOUNTING POLICIES

GENERAL SECTION

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 International Financial Reporting Standards

The consolidated interim report has been prepared in accordance with paragraph 5 of Article 154-ter, of Legislative Decree No. 58 of 24 February 1998. The line items presented in this document have been valued and measured on the basis of the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) 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 (sixth revision of 30 November 2018), in accordance with the accounting policies adopted in preparing the consolidated financial statements of illimity Bank for the year ended 31 December 2019.

Section 2 – General Basis of Preparation

The consolidated interim report has been 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 consolidated interim report has been prepared using euros as the Group's functional currency and consists of the consolidated balance sheet, consolidated income statement, statement of other comprehensive income, statement of changes in consolidated equity and the accounting policies.

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

The consolidated interim report as of 30 September 2020 has been prepared according to recognition and measurement principles and policies consistent with those adopted in the consolidated financial statements of illimity Bank S.p.A. for the year ended 31 December 2019, 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 2020, 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 2020".

The consolidated interim report for the period ended 30 September 2020 was submitted for the approval of the Board of Directors on 10 November 2020.

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 consolidated interim report for the period ended 30 September 2020 are unchanged with respect to the consolidated financial statements for the year ended 31 December 2019.

The consolidated interim report includes the accounting values of illimity and of the companies over which it directly or indirectly exercises control as of 30 September 2020, 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 adopted in the consolidated interim report for the period ended 30 September 2020 has changed with respect to the consolidated financial statements for the year ended 31 December 2019 due to the following events:

a) the inclusion in the scope of consolidation of IT Auction and its subsidiaries (ITA Gestione and Mado), following the acquisition of control of the company by the Group in the first quarter of 2020;
b) the inclusion in the scope of consolidation of Core, acquired by illimity Bank in the second quarter of 2020;
c) the removal from the scope of consolidation in the second half of 2020 of Lumen, a vehicle already in the run-off phase in the first quarter of 2020;
d) the removal from the scope of consolidation of the vehicle SWAN SPV S.r.l., originally formed for the parent company's retained securitisation transaction (Project SWAN).

Details of the scope of consolidation of subsidiaries, registered with the Banking Group, as of 30 September 2020, and consolidated entities, are given below:

Name	Operational headquarters	Registered office	Type of relationship (*)	Ownership relationship	
				Held by	Holding %
A Companies					
A.0 illimity Bank S.p.A.	Milan	Milan			
Fully consolidated					
A.1 Aporti S.r.l. (SPV)	Milan	Milan	4	A.0	
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	4	A.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	4	A.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	4	A.0	
A.9 Neprix	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	4	A.0	
A.13 IT Auction S.r.l.	Faenza	Faenza	1	A.9 A.16	70.0% 30.0%
A.14 ITA Gestione Immobili S.r.l.	Faenza	Faenza	1	A.13	100.0%
A.15 Mado S.r.l.	Faenza	Faenza	1	A.13	100.0%
A.16 Core S.r.l.	Faenza	Faenza	1	A.0	100.0%

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

Section 4 - Events after the reporting date

No events occurred after the reporting date of the consolidated interim report 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

5.1 – Accounting standards of reference for the provisional accounting treatment of the *Purchase Price Allocation* (PPA) for the acquisition of IT Auction and its subsidiaries

Information on the allocation process (according to IFRS 3, paragraph 45) for the acquisition cost of the equity interest in IT Auction and the accounting treatment of the resulting goodwill in the illimity Bank Group's consolidated interim report is provided below. It should be noted that illimity used the full goodwill method to determine goodwill. With regard to the acquisition price, it should be recalled that:

a) following the agreements reached during 2019, the acquisition by illimity of 70% of the share capital of IT Auction, for EUR 10.5 million, by Neprix, an illimity Group company in which all the bank's distressed credit management activities are concentrated, was completed on 9 January 2020. This price was adjusted according to the difference between the Conventional NFP and Actual NFP (70% of the amount), yielding a final price paid of EUR 11.9 million;

b) according to the agreements reached, IT Auction thus approved, within 60 days of the execution date, a capital increase of EUR 2 million, 70% subscribed by Neprix and 30% by the sellers, through Core.

c) finally, on 5 March 2020 illimity's Board of Directors renegotiated the original agreements reached in 2019, which called for *put and call* obligations on the remaining 30% interest in IT Auction, and approved an extraordinary transaction for the acquisition of the residual interest through a capital increase in service of the contribution of 100% of the interest in Core, agreeing on a representative *fair value* of the residual interest of EUR 7.7 million.

d) On 27 May 2020, illimity announced that on said date it had entered into an assignment agreement concerning the purchase of the entire share capital of Core; this brought about the consolidation of Core and the purchase of 100% of the equity interest in IT Auction and its subsidiaries.

The acquisition has been recognised in accordance with the methods set out IFRS 3 - *Business Combinations*, according to which goodwill is the surplus cost paid for the acquisition compared to the fair value of the assets (including identifiable intangible assets) acquired and the liabilities and potential liabilities accepted. The acquisition costs were expensed to the income statement, as required by IFRS 3.

In further detail, IFRS 3 requires the acquirer to recognise the identifiable intangible assets acquired in a business combination separately from goodwill, where an asset is considered identifiable if:

- it is separable, i.e. it is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- it derives from contractual or other legal rights regardless of whether those rights can be transferred or separated from the entity or from other rights and obligations.

On the basis of an analysis of the acquisition contract and IT Auction's business model, configuration and operational structure, total intangible assets not recognised in the acquisition situation of EUR 2.0 million were identified, attributable to contracts in force, the backlog and software.

The IT Auction subgroup's book equity as of 31 December 2019 – the date of the situation of reference nearest to that relevant to the application of IFRS 3 (9 January 2020) – was therefore used to determine goodwill, as increased by the value of the share of the capital increase carried out by Core as already included in the value of the equity investment agreed with the sellers for the purposes of the extraordinary transaction.

As a result of these operations and taking into account the fact that after the process of allocation of the cost of acquisition no potential liabilities were identified, goodwill was recognised in the amount of EUR 14.6 million.

The following table provides an overview of the results of the goodwill determination process:

(amounts in thousands of euros)

Description	as of 30 September 2020	
IFRS IT Auction sub-consolidated equity	A	2,982
IT Auction sellers capital increase	B	600
Total shareholders' equity	**C = A + B**	**3,582**
Acquisition price for 70% interest	D	11,895
Fair value attributed to 30% interest	E	7,719
IT auction acquisition price	**F = D + E**	**19,614**
Difference to be allocated	**G = F - C**	**16,032**
Identified intangible assets	H	2,013
Deferred tax liabilities	I	562
Provisional goodwill	**L = G - H + I**	**14,581**

5.2 - 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 2020.

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Amendments to references to the Framework in IFRSs	March 2018	1 January 2020	29 November 2019	(EU) no. 2019/2075 06 December 2019
Definition of Material - Amendments to IAS 1 and IAS 8	October 2018	1 January 2020	29 November 2019	(EU) no. 2019/2104 10 December 2019
Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	September 2019	1 January 2020	15 January 2020	(EU) no. 2020/34 15 January 2020
Amendments to IFRS 3 Business Combinations	October 2018	1 January 2020	21 April 2020	(EU) no. 2020/551 22 April 2020

As shown in the above table, application of several amendments to accounting standards already in force and endorsed by the European Commission in 2019 is mandatory with effect from 2020. These amendments are not particularly relevant to the Group. In further detail:

- Regulation no. 2075/2019: the Regulation of 29 November 2019 adopted several amendments to the IFRS *Conceptual Framework*. The amendments aim to update the references to the previous Framework, replacing them with references to the Conceptual Framework revised in March 2018. It should be noted that the *Conceptual Framework* is not an accounting standard and is therefore not itself subject to endorsement, whereas the document in question, because it amends several IASs/IFRSs, is subject to endorsement;
- Regulation no. 2104/2019: the Regulation of 29 November 2019 adopts several amendments to IAS 1 and IAS 8 to clarify the definition of *"material information"* and improve understanding of the concept. The Regulation emphasises that materiality depends on the nature and relevance of the information or both. An entity also verifies whether information, both individually and in combination with other information, is material in the overall context of the financial statements.

Coming into force on 1 January 2020, the following were also endorsed in 2020:

- Regulation no. 34/2020 (of 15 January 2020), which adopted several amendments to IFRS 9, IAS 39 and IFRS 7, with particular regard to interest rate benchmark reform "*IBOR Reform*"). These amendments did not have any impact on the Group.
- Regulation no. 551/2020 (of 22 April 2020), which adopted several amendments pertaining to the definition of "business" under IFRS 3. Specifically, the changes seek to help determine whether a transaction should be deemed a *business combination* or an *asset acquisition*. Among other things, the amendments seek to clarify the minimum requirements for a "business". The valuation of consolidated goodwill takes such considerations into account.

5.3 – Use of estimates and assumptions in preparing the consolidated interim report

According to the IFRS framework, the preparation of the consolidated interim report requires the use of estimates and assumptions that may influence the values stated in the balance sheet and income statement.

The use of reasonable estimates is thus an essential part of preparing this Interim financial report. The items subject to significant use of estimates and assumptions are indicated below:

- measurement of loans;
- measurement of financial assets not quoted in active markets;
- determination of the amount of accruals to provisions for risks and charges;
- determination of the amount of deferred taxation;
- assessments regarding the recoverability of goodwill;
- definition of the depreciation and amortisation of 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 this Interim report 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.

Statement of the Financial Reporting Officer

STATEMENT OF THE FINANCIAL REPORTING OFFICER

The manager responsible for preparing the company's financial reports, Sergio Fagioli, declares, pursuant to paragraph 2, Article 154-bis of the Consolidated Finance Act, that the accounting information contained in this interim report for the period ended 30 September 2020 corresponds to the contents of accounting documents, books and records.

Signature of the Financial Reporting Officer

Sergio Fagioli
Signature

Consolidated interim report
as of 30 September 2020

Annexes

illimity

Annex 1 – Reconciliation between reclassified balance sheet and income statement and balance sheets

Below are the reconciliation schemes used for the preparation of the balance sheet and economic situation in reclassified form. Any discrepancies between the figures presented are due solely to rounding. For an explanation of the restatements of the period in comparison, see the previous sections.

Reclassified consolidated balance sheet

(amounts in thousands of euros)

Assets	Values at 30/09/2020
Treasury portfolio - Securities at FV	**139,861**
Item 20. a) Financial assets held for trading	3,196
Item 30. Financial assets measured at fair value through other comprehensive income	136,665
Financial instruments mandatorily measured at fair value	**13,962**
Item 20. c) Other financial assets mandatorily measured at fair value	13,962
Due from banks	**504,806**
Item 40. a) Due from banks	504,806
Loans to financial entities	**139,974**
Receivables from financial entities	139,974
Loans to customers	**1,483,610**
Item 40. b) Loans to customers	1,970,943
To be deducted:	
Loans to financial entities	(139,974)
Loans to customers - Securities	(347,359)
Securities at amortised cost - SME	**74,772**
Item 40. b) Loans to customers	1,970,943
To be deducted:	
Loans to customers	(1,483,610)
Receivables from financial entities	(139,974)
DCIS Business senior financing instruments	(272,587)
Securities at amortised cost - Senior Financing	**272,587**
Item 40. b) Loans to customers	1,970,943
To be deducted:	
Loans to customers	(1,483,610)
Receivables from financial entities	(139,974)
Securities at amortised cost - SME	(74,772)
Property and equipment and intangible assets	**137,264**
Item 90. Property and equipment	71,948
Item 100. Intangible assets	65,316
Tax assets	**35,368**
Item 110. Tax assets	35,368
Other assets	**589,854**
Item 10. Cash and cash equivalents	542,952
Item 130. Other assets	46,902
Total assets	**3,392,058**

(amounts in thousands of euros)

Liability and equity items	Values at 30/09/2020
Amounts due to banks	**540,953**
Item 10. a) Due to banks	540,953
Amounts due to customers	**2,123,218**
Item 10. b) Due to customers	2,145,686
To be deducted:	
Lease Liability (IFRS 16)	(22,468)
Securities issued	**2,256**
Item 10. c) Securities issued	2,256
Tax liabilities	**4,627**
Item 60. Tax liabilities	4,627
Other liabilities	**146,489**
Item 80. Other Liabilities	120,093
Increase:	
Lease Liability (IFRS 16)	22,468
Item 90. Employee severance pay	2,449
Item 100. Allowances for risks and charges	1,479
Shareholders' equity	**574,515**
Capital and reserves	
Item 120. Valuation reserves	(1,855)
Item 150. Reserves	21,501
Item 160. Share premium reserves	487,373
Item 170. Share capital	44,007
Item 180. Treasury shares (-)	(832)
Item 200. Profit (loss) for the period	24,321
Total liabilities and shareholders' equity	**3,392,058**

(amounts in thousands of euros)

Income Statement items	Values at 30/09/2020
Interest margin	**73,751**
Item 10. Interest income and similar income	102,928
Item 20. Interest expenses and similar charges	(30,360)
To be deducted:	
IFRS 16 interest expenses	1,183
Net fee and commission income	**7,575**
Item 40. Fee and commission income	10,701
Item 50. Fee and commission expense	(3,126)
Gains/losses on financial assets and liabilities	**5,739**
Item 80. Profits (losses) on trading	(448)
Item 100. Profits (losses) from disposal or repurchase	5,657
Item 110. Profits (loss) on other financial assets and liabilities measured at fair value through profit or loss	530
Net write-downs/write-backs on closed positions - HTC Clients	**28,642**
of which: Net write-downs/write-backs on closed positions - HTC Clients	28,642
Other operating expenses and income	**734**
Item 140. Profits (losses) on changes in contracts without derecognition	-
Item 230. Other operating income/expenses	2,934
To be deducted:	
Reclassification of recovery of other operating charges/income to Other administrative expenses	(2,200)
Item 280. Profits (losses) from disposal of investments	-
Total net operating income	**116,441**
Personnel costs	**(36,040)**
Item 190. Administrative expenses: a) Personnel expenses	(35,967)
To be deducted:	
Reclassification of HR expenses from other administrative expenses	(73)
Other administrative costs	**(46,209)**
Item 190. Administrative expenses: b) Other administrative expenses	(47,299)
Reclassification of IFRS 16 interest expenses	(1,183)
Reclassification of HR expenses to personnel expenses	73
Reclassification of recovery of other operating charges/income to Other administrative expenses	2,200
Net write-downs/write-backs on property and equipment and intangible assets	**(6,158)**
Item 210. Net write-downs/write-backs on property and equipment	(2,023)
Item 220. Net write-downs /write-backs on intangible assets	(4,135)
Operating costs	**(88,407)**
Operating profit (loss)	**28,034**
Net write-downs/write-backs for credit risk - HTC Banks	**47**
Net write-downs/write-backs for credit risk - HTC Financial entities	**(140)**
Net write-downs/write-backs for credit risk - HTC Clients	**2,664**
Item 130. Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost	31,213
To be deducted:	
Net write-downs/write-backs for credit risk - HTC Banks	(47)
Net write-downs/write-backs for credit risk - HTC Financial entities	140
Net write-downs/write-backs on closed positions - HTC Clients	(28,642)
Net write-downs/write-backs for credit risk - HTCS	**-**
Item 130. Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through other comprehensive income	-
Net write-downs/write-backs for commitments and guarantees	**(196)**
Item 200. Net provisions for risks and charges: a) commitments and guarantees given	(196)
Total net write-downs/write-backs	**2,375**
Other net provisions	**(40)**
Item 200. Net provisions for risks and charges: b) other net provisions	(40)
Profit (loss) from operations before taxes	**30,369**
Income taxes for the period on continuing operations	**(6,048)**
Item 300. Income taxes for the period on continuing operations	(6,048)
Profit (loss) for the period	**24,321**

Consolidated interim report
as of 30 September 2020

illimity Bank S.p.A.
Head office: Via Soperga, 9 – 20127 Milan
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