Consolidated half-yearly financial report
30 June 2022

illimity
BANCA OLTRE LA FORMA

Contents

Consolidated half-yearly financial report as of 30 June 2022

Composition of Corporate Bodies

Board of Directors(*)

Chair
Rosalba Casiraghi

Chief Executive Officer
Corrado Passera

Directors
Filippo Annunziata
Marco Bozzola
Massimo Brambilla
Patrizia Canziani
Stefano Caringi
Elena Cialliè
Nadia Fontana
Paola Elisabetta Galbiati
Giovanni Majnoni D'Intignano
Francesca Lanza Tans
Marcello Valenti

Audit and Internal Control Committee

Chair
Marco Bozzola

Members
Stefano Caringi
Nadia Fontana

(*) Board Directors appointed by the Shareholders' Meeting of 28 April 2022.

Board Committees

Nominations Committee
Marcello Valenti, Chair
Giovanni Majnoni D'Intignano
Rosalba Casiraghi

Remuneration Committee
Paola Elisabetta Galbiati, Chair
Francesca Lanza
Marcello Valenti

Risks Committee
Elena Cialliè, Chair
Filippo Annunziata
Patrizia Canziani
Stefano Caringi

Committee for Related Party Transactions
Giovanni Majnoni D'Intignano, Chair
Paola Elisabetta Galbiati
Nadia Fontana

Sustainability Committee
Rosalba Casiraghi, Chairperson
Massimo Brambilla
Elena Cialliè
Patrizia Canziani

Financial Reporting Officer

Sergio Fagioli

Independent Auditors

KPMG S.p.A.

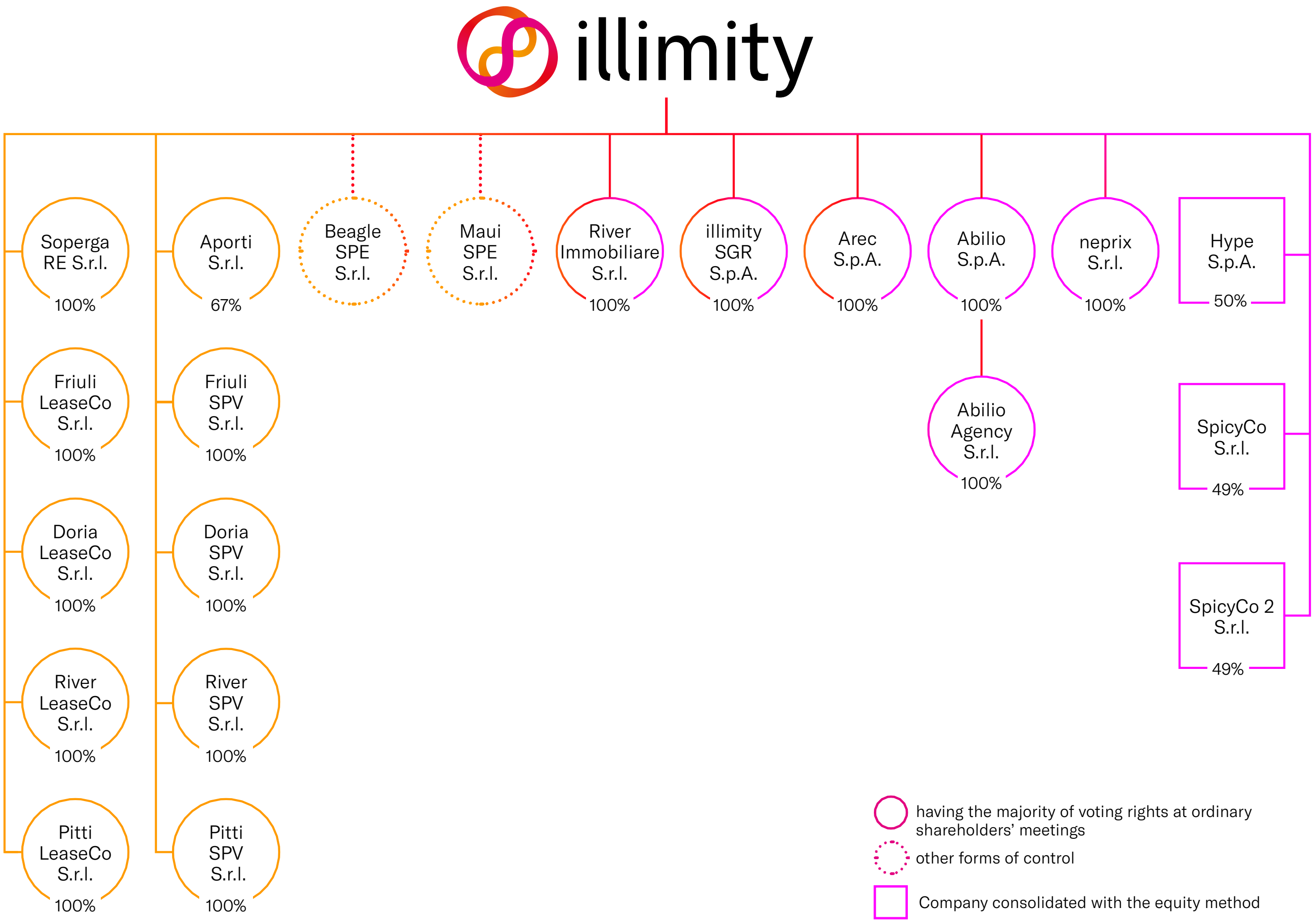
Consolidated half-yearly financial report

as of 30 June 2022

illimity

The illimity Group

This consolidated half-yearly financial report illustrates the performance and the related H1 2022 financial results of illimity Bank S.p.A. ("illimity" or the "Bank") and of the entities included in the scope of consolidation (together with the Bank, the "illimity Group" or "Group"). illimity exercises the management and coordination of the Group and has its registered office in Milan, at Via Soperga 9[1].



The illimity Group is engaged in the provision and management of credit through the Growth Credit, Distressed Credit and Direct Banking Divisions, and, starting on 1 January 2022, the Investment Banking Division. Specifically, illimity provides credit to high-potential SMEs, purchases distressed corporate credit and manages it through its own platform – neprix – and offers direct digital banking services through illimitybank.com. Moreover, the Group includes illimity SGR, which sets up and manages Alternative Investment Funds.

Starting on 30 June 2022, it entered the Arec Group, a company through which illimity aims to strengthen its positioning and innovative approach to servicing distressed corporate loans.

illimity Bank's business also make use of the operations of the other Group companies. The scope of the Group includes the LeaseCos, which support the bank in the management of lease operations, the ReoCos, which are active in the management of the properties linked to the acquired portfolios, and the Special Purpose Vehicles (SPVs) established to undertake securitisation operations.

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

Alternative performance measures as of 30 June 2022

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

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

(amounts in thousands of euros)

PERFORMANCE MEASURES	30 June 2022	30 June 2021	Chg.	Chg. %
Total net operating income	159,049	126,806	32,243	25%
Operating expenses	(93,466)	(76,556)	(16,910)	22%
Operating profit (loss)	65,583	50,250	15,333	31%
Total net adjustments/recoveries	(11,535)	(2,828)	(8,707)	>100%
Profit (loss) from operations before taxes	48,073	41,476	6,597	16%
Profit (loss) for the period	31,468	27,418	4,050	15%

(amounts in thousands of euros)

BALANCE SHEET MEASURES	30 June 2022	31 December 2021	Chg.	Chg. %
Net non-performing loans - organic[2]	**26,181**	**21,025**	**5,156**	**25%**
of which: Bad loans	5,122	4,987	135	3%
of which: Unlikely-to-pay	20,924	15,902	5,022	32%
of which: Past-due positions	135	136	(1)	(1%)
Net non-performing loans - inorganic (POCI)[3]	**994,409**	**1,048,358**	**(53,949)**	**(5%)**
of which: Bad loans	650,326	699,429	(49,103)	(7%)
of which: Unlikely-to-pay	344,083	348,929	(4,846)	(1%)
Performing loans – inorganic (Public Procurement Claims)	**81,359**	**-**	**81,359**	**N/A**
Net non-performing securities - inorganic (POCI)	**87,837**	**10,037**	**77,800**	**>100%**
of which: Unlikely-to-pay	87,837	10,037	77,800	>100%
Net performing HTC securities - Government Bonds	**160,846**	**-**	**160,846**	**N/A**
Net performing HTC securities - Business	**338,490**	**242,019**	**96,471**	**40%**
of which: Growth Credit securities	59,606	24,229	35,377	>100%
of which: Distressed Credit securities	265,630	217,790	47,840	22%
of which: Investment Banking Securities	13,254	-	13,254	N/A
Loans to financial entities	**160,022**	**199,857**	**(39,835)**	**(20%)**
Net performing loans to customers	**1,665,936**	**1,440,501**	**225,435**	**16%**
Financial instruments (HTCS + FV)	**534,082**	**376,187**	**157,895**	**42%**
Direct customer funding	**3,616,342**	**3,317,934**	**298,408**	**9%**
Total Assets	**5,126,664**	**4,660,590**	**466,074**	**10%**
Shareholders' equity	**801,864**	**772,820**	**29,044**	**4%**

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

3 POCI = Purchased or Originated Credit Impaired.

RISK RATIOS	30 June 2022	31 December 2021
Gross Organic NPE Ratio[4]	2.2%	2.3%
Net Organic NPE Ratio[5]	1.3%	1.2%
Coverage ratio for organic non-performing loans[6]	43.0%	46.8%
Coverage ratio for organic bad loans[7]	73.7%	73.8%
Coverage ratio for performing loans[8]	0.6%	0.6%
Cost of organic credit risk (BPS)[9]	30	4

STRUCTURAL RATIOS	30 June 2022	31 December 2021
Shareholders' equity/Total Liability	15.6%	16.6%
Interbank Funding/Total Funding	13.0%	11.0%
Liquidity coverage ratio	~365%	~180%
Net Stable Funding Ratio	>100%	>100%
Net loans with customers/Total assets[10]	65.4%	59.3%
Direct customer funding/Total Liability	70.5%	71.2%

CAPITAL RATIOS	30 June 2022	31 December 2021
Tier I capital ratio (Tier I capital/Total weighted assets)	16.15%	18.83%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	21.30%	24.71%
Own Funds	846,621	842,899
of which: Tier I capital	641,674	642,467
Risk-weighted assets	3,973,836	3,411,468

Composition and organisational structure

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

- Distressed Credit;
- Growth Credit;
- Investment Banking;
- Direct Banking.

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

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

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

7 Ratio of write-downs/write-backs on organic bad loans to gross exposure of organic bad loans.

8 Ratio of write-downs/write-backs on performing client loans to gross exposure of performing client loans.

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

10 Ratio of customer loans and Distressed Credit, Growth Credit and Investment Banking securities at amortised cost to total assets.

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

The Bank's organisational structure also comprises other units supporting the Business and monitoring risks.

Below is a description of the Bank's organisational structure as of 30 June 2022.

Distressed Credit Division

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

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

The Distressed Credit Division has the following structure:

1) *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* & Asset Optimisation Area, which is responsible for optimising portfolio, single name and Repossessed Property management by identifying market opportunities for their sale (or redevelopment in the case of properties), in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase to post-sales;
4) *The Pricing* Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models of portfolios/single name (special situations)/ senior financing and the capital structure of all investments, as well as the activities of Due Diligence Coordination;
5) *Business Portfolio* Analysis & Monitoring Area, responsible for governing and managing the cost monitoring process, the income statement and the portfolios/single names or the trend in performance of the Division;
6) *The Operations* & Analytics Area, tasked with coordinating and monitoring the Division's activities, overseeing relations with other Bank units and decision-making bodies and providing legal advice related to individual investment opportunities and initiatives. It is also responsible for governing and managing the process of acquiring, transforming and using the data originated and used by the Division in business processes and for managing the onboarding process.

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

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

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

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

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

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

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

Following the merger with IT Auction S.r.l., Mado S.r.l. and Core S.r.l. (the company acquired by the Group in 2020) into neprix S.r.l. with legal effect from 1 February 2021, the neprix Sales Area was created. That area, along with a portion of Neprix Tech, was then demerged from neprix S.r.l. through a partial proportionate spin-off, resulting in the contribution of those areas to Abilio S.p.A., a company incorporated and wholly-owned by the Bank, operational since 1 April 2022. The new company manages and sells property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a network of professionals operating nationwide.

To carry out its operations concerning distressed credit, illimity works with the vehicles Aporti, Friuli SPV, Doria SPV, River SPV, Pitti SPV, Beagle SPE and Maui SPE with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, River Immobiliare, SpicyCo and SpicyCo 2.
Also note that on 30 June 2022, the acquisition by illimity of the business unit of AREC was finalised, through which illimity aims to strengthen its positioning and innovative approach to servicing distressed corporate loans, through neprix, confirming its position as a comprehensive market leader capable of covering the entire value chain of the management process, from investment to the remarketing of assets guaranteeing these loans.

Effective 1 July 2022, several changes were implemented to the Division's organisational structure, while mainly impacted the transversal structures and coordination structures with Neprix and Abilio, in addition to creating a new business desk.

Growth Credit Division

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

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

The Growth Credit Division is active in the following segments:

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

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

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

Investment Banking Division

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

The Division’s Value Proposition provides:

- alternative solutions for companies in addition to those already offered by the Bank, exploiting the synergies with the Growth Credit and Distressed Credit Divisions (i.e. Basket Bonds, Basket Loans, Securitisations of secured and unsecured single tranche loans, IPOs, M&A, derivatives);
- structuring funding transactions and capital optimisation (i.e. SRTs), also supporting other Company Divisions and Functions.

The Division is Split into three organisational units, described below:

a) Capital Markets, which provides complementary solutions to companies in relation to the Growth Credit Division’s offering;
b) Corporate Solutions, which invests in corporate bonds and alternative debt and offers solutions to SMEs and Mid Caps to hedge market risks;
c) Structuring, which takes care of implementing complex financial transactions for the Bank and for companies.

Direct Banking Division

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

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

1) Deposits accounts with competitive rates and a simple, customisable product structure;
2) Spending projects, to simply and automatically save to achieve goals;
3) Current accounts, offered through an innovative, digital User Experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
4) Account Aggregator and Payment Initiation Service, i.e. features that enable the aggregation in each customer's home banking of accounts held with other banks, providing an overview of the customer's financial situation within a single screen, and bank credit transfers from the accounts of participating banks directly from the customer's illimity personal area;
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. The Division's offering is completed by digital credit products, targeted to small and medium-sized enterprises with turnover of EUR 2 million to EUR 10 million, with the goal of improving their financial management.

Asset Management Company

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

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

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

"Business Areas" comprising:

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

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

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

Other functions - Corporate Centre

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

- The *Chief Financial Officer & Central Functions*, responsible for coordinating the overall planning and control and administration process, to optimise operating and procurement costs, and human resources management, as well as manage the organisational activities of supervision and transversal coordination for the Bank;
- the *Chief Risk Officer*, responsible for guaranteeing the strategic oversight and definition of risk management policies;
- the *Chief Lending Officer*, who monitors credit analysis and approval activities;
- the *Chief Information Officer*, responsible for IT infrastructure management;
- the *Compliance & AML* Department, responsible for compliance risk management and oversight of money laundering and terrorist financing risk;
- The *Strategy, Sustainability & IR Department,* responsible for managing strategic planning, relations with the financial community and development of the *Corporate Social Responsibility plan*;
- the Communications Department, responsible for promoting and supporting the development of a single, shared identity of the Bank among various stakeholders.

Bank branches and offices

The Bank's branches and offices are as follows:

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

Human resources

As of 30 June 2022, the Bank's registered employees numbered 834 (725 as of 31 December 2021). A breakdown of the workforce is given below, divided by job level:

Category	30 June 2022			31 December 2021			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	69	8%	46	67	9%	47	2	3%
Middle managers	339	41%	38	303	42%	38	36	12%
Other employees	426	51%	33	355	49%	33	71	20%
Employees	**834**	**100%**		**725**	**100%**		**109**	**15%**

Macroeconomic scenario

As emphasised by the European Central Bank ("ECB") in its Projections for the Eurosystem published in June 2022, inflation has begun to rise sharply, mainly due to the conflict in Ukraine and continuous spikes in the prices of energy and food products. The inflationary rise expanded and intensified, thereby causing a sharp increase in the price of many goods and services.

The Eurosystem experts revised the base scenario of the projections on inflation upwards substantially, which will remain at high levels for a long time. The macroeconomic projections prepared by the Eurosystem experts report an increase in prices over the twelve months of 6.8% in 2022, 3.5% in 2023 and 2.1% in 2024, up on the estimates made in the previous quarter. Therefore, at the end of the projection horizon, total inflation should stand slightly above the ECB's target of 2%. The inflationary pressure was also confirmed by the projection for inflation excluding energy and food products, which, according to the Eurosystem experts, will reach an average of 3.3% in 2022, 2.8% in 2023 and 2.3% in 2024.

The conflict in Ukraine continues to weigh on the European economy and beyond its borders, resulting in interruptions in trade and increasing shortages in materials, thus contributing to the high prices of energy products and commodities. These factors will continue to weigh heavily on growth, especially in the short term.

According to the ECB forecasts, should the current adverse circumstances be resolved, economic activity should return to growth, supported by the reopening of the economy, stability of the labour market, budget support and savings accumulated during the pandemic. That scenario is confirmed by the macroeconomic projections of the Eurosystem experts, which expect annual growth in real GDP of 2.8% in 2022 and 2.1% in the following two years. Those estimates have been revised downwards on the previous quarter.

In Italy, after slowing growing in the first quarter, the GDP sped up in the spring, remaining steady overall against the extreme uncertainty regarding the developments of the invasion of Ukraine, the ongoing difficulties in procurement and sharp price increases of energy and food products. The GDP was supported by increases in consumer spending and, though slowing on the previous three months, in investments and exports. In the spring, consumer spending benefited from the easing of the restrictions implemented to contain the pandemic. Instead, the most recent indicators show a slowdown in investments, following the sharp rise in the first quarter.

In the first three months of the year, the volume of exports rose sharply, boosted by the goods component. Nonetheless, imports grew even more, activated by the high levels of spending for investment by Italian companies. During the second quarter, the increase in foreign sales continued, though at a slower pace than in the first quarter. The number of persons employed increased slightly, reflecting a reduction in the unemployment rate. However, signs of slowdown in the growth in jobs arose in the second quarter. Contractual remuneration rose moderately - as in the Eurozone - reflecting the long-term nature of labour agreements and the low impacts of automatic mechanisms of index-linking of wages.

During the second quarter, inflation reached new highs (8.5% in June, based on preliminary figures), driven by the exceptional price increases in energy products, which were gradually also transmitted to food products and services. The latter were also impacted by the recovery in demand connected with the easing of restrictions due to the pandemic. The erosion of purchasing power, which specifically impacted less wealthy households, was mitigated by the government measures aimed at easing the weight of the energy price hikes. On the whole, these measures almost halved the impact of the inflationary shock on households with the lowest incomes.

During the spring, the conditions of the Italian financial market were impacted by the acceleration of the normalisation of global monetary policies and the deterioration of the outlook for economic growth. The return on 10-year government bonds and the spread with the corresponding German bond expanded in a context of high market volatility. The sharp increase in the spread does not seem justified by the underlying macroeconomic conditions. Borrowing costs on the market for businesses and banks rose and share prices decreased.

In line with the budget deviation authorised by the Italian parliament in April 2022, the administration launched new measures with the main objective of combating the increase in energy prices on households and businesses. To partially cover these measures, it expanded the extraordinary taxes on profits of companies operating in the energy sector. The government also announced that it had reached the milestones and targets set out in the National Recovery and Resolution Plan (NRRP) for the first half of the year, and sent the demand for payment of the second instalment of the funds.

The macroeconomic scenario has been highly affected by the duration and intensity of the war in Ukraine, whose repercussions on the Italian economy remain highly uncertain. In the baseline scenario, the Italian GDP will keep growing at a moderate pace over the next two years. It is assumed that the conflict will continue for all of 2022, without, however, resulting in a complete stoppage of energy supplies from Russia. The annual average of the GPD would grow by 3.2% in 2022, mainly due to the growth already seen at the end of 2021, by 1.3 in 2023 and by 1.7 in 2024. Considerable support to economic activities is expected from the budget policy and the measures outlined in the National Recovery and Resilience Plan. Employment is expected to expand over the forecast horizon, though at a slower pace than the GDP. In an adverse scenario, the worsening of the war in Ukraine is assumed which would lead to the block of Russian energy supplies, with resulting production stoppages in industrial activities that are energy intense and greater commodity price hikes. The resulting erosion of growth over the year to date would result in an increase of less than 1% in the GDP in 2022 and a decrease of almost 2 percentage points in the next year. The GDP would grow once again only in 2024. In Italy, inflation would reach 9.3% in 2022 and remain high also in 2023, at 7.4%, to then decrease sharply only in 2024.

Significant events in the first six months of 2022

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

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

The effectiveness of illimity's commercial and technological proposal has been a strength in understanding and meeting the increased demand for remote financial services.

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

The managerial committees and governing boards of the Group carry out assessments at regular interval, considering, inter alia, the impacts of the pandemic on the strategic and operational choices of the various business lines.

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

Impacts of the Ukraine crisis on the strategic and operational context of the illimity Group

The outbreak of the military conflict in Ukraine in the first quarter of 2022 had considerable consequences in terms of political and economic-financial actions by various countries and multilateral organisations, with the tightening of sanctions on Russia and, in general, significant effects in terms of stress on the global financial and money markets (primarily the spike in commodities prices).

In this context, the illimity Group set up managerial and operational actions in line with the measures that characterised its handling of the effects of the pandemic since early March 2020.

At governance level, the specific managerial committee (set up in the first quarter of 2022), that usually meets periodically, continued its work, with the aim of continuously monitoring the situation and updating the Group's governance bodies with regard to the actual and potential impacts, of an economic-financial and operational nature, of the crisis, and in order to render the process of managing risk mitigation actions more efficient.

Furthermore, a group of market indicators has been identified that is continuously monitored and reported to the aforementioned committee, in order to make it aware of the current context.

Specifically, since the start of the conflict, the direct and indirect exposures to Russian counterparties or those who depend on Russian operators and markets for their business (supply, sales, orders, etc.) were quantified in order to assess the possible impacts in terms of credit and liquidity risk. The initial analyses conducted and direct discussions with businesses show a low level of exposure, though subject to constant monitoring, given that the continuation of the crisis could produce negative impacts also on companies that are demonstrating resilience in this phase, also due to the measures implemented by company management, specifically those regarding supply chain continuity and management of commodities and energy prices.

The Compliance & AML Department also operated in that context, to ensure, for borrowers, compliance with the provisions of the sanctions imposed by Italy and European and international bodies to Russian parties (natural and legal persons).

Secondly, with a view to mitigating the financial risks associated with the management of the HTCS and HTC financial portfolios, it has been ascertained that the current risk profile of the portfolios is monitored, there is no direct exposure to Russia or Ukraine and that the relevant development activities, as envisaged in the 2022 Budget, are being implemented, taking due consideration of the changed context. Furthermore, considering that said portfolios relate to debts, monetary policy decisions, which could be revised given the evolution of the crisis, are continuously monitored.

Lastly, the impacts of the Ukraine-Russia crisis were factored into the (baseline and stressed) macroeconomic scenarios used to support the forward-looking assessments of capital adequacy (ICAAP 2022) and liquidity (ILAAP 2022) and in preparing the Recovery Plan, transmitted to the Supervisory Authorities at the end of April 2022.

Overall, we can confirm the resilience of illimity's business model, even in a complex and uncertain context like the current one, as a result of both its contained exposure to direct risks and its business mix, in which lines of activity have limited correlation.

Corporate transactions

On 21 February 2022, the Extraordinary Shareholders' Meeting approved the new text of the Articles of Association for the adoption by the Bank of the "one-tier" method of administration and control. The changes to the Articles of Association also entail the explicit inclusion of "sustainable success".

On 1 April 2022, the spin-off to Abilio S.p.A. of the scope of assets and liabilities of the neprix Sales area, previous comprised within neprix, of the equity investment in Abilio agency S.r.l. (formerly Neprix Agency S.r.l.) and of a portion of the Tech area, also previously included within neprix, was approved. The accounting and tax effects of the operation were set for 1 April 2022.

On 28 April 2022, the Shareholders' Meeting approved the financial statements of illimity Bank as of 31 December 2021 and approved the appointment of the Board of Directors, following approval of the move to the "single-tier" governance system previously approved by the Shareholders' Meeting of 21 February 2022.

On 15 June 2022, the Illimity Board of Directors approved the capital increases serving the incentive plans and, specifically:

i. the "Employee Stock Ownership Plan – ESOP" (for 2022) for a total of EUR 76,865.41, corresponding to 117,946 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 3 of the Articles of Association; and
ii. the "MBO" Plan (for 2021) for a total of EUR 11,621.11, corresponding to 17,832 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 4 of the Articles of Association, granting a mandate for the purposes of the related execution.

The Board of Directors also approved the use of 10,060 ordinary shares already in the portfolio.

On 21 June 2022, the Extraordinary Shareholders' Meeting of illimity approved, with a unanimous vote of those attending, the share capital increase of illimity reserved for Aurora Recovery Capital S.p.A. ("AREC"), to be freed up through contribution, and without option rights pursuant to Art. 2441, paragraph 4, first line of the Italian civil code. That operation, authorised in advance by the Supervisory Authorities pursuant to law, is part of the larger acquisition by the bank of AREC's business unit.

On 30 June 2022, the cash and cash equivalents purchase by illimity of 10% of AREC S.p.A. Shares was finalised and the deed regarding the contribution to illimity of the shares representing the remaining equity investment of 90% of the share capital of AREC, for the purpose of the acquiring the entire company and the subsequent planned merger with the servicer of the illimity group, neprix.

Other significant information

On 11 February 2022, illimity presented b-ilty, the first digital business store for financial and credit services for small and medium-sized enterprises. b-ilty was created with the aim of making life easier for entrepreneurs, thanks to a latest-generation platform that combines specialist expertise with cutting-edge technology and offers customers the products and services of an all-round bank.

In April 2022, illimity presented Quimmo, the Italian pro-tech created to meet the needs of both private and institutional buyers and sellers. A cutting-edge platform created to simplify the purchase and sale of properties and cover the entire value chain.

Quimmo was created the illimity Group's extensive investment in technology and its experience in the field accumulated in property brokerage in recent years. It is now one of illimity's significant operations which, in 2021 alone, generated 26 million visits to the portal, 900 thousand registered users and over 2,000 property transactions, also due to the presence of over 200 professionals, both central and local structures.

On 3 May 2022, illimity presented its Consolidated Non-Financial Statement ("NFS") pursuant to Legislative Decree 254/2016. Illimity's Non-Financial Statement provides comprehensive disclosure to all stakeholders on sustainability performance. The document, drawn up based on the figures as of 31 December 2021, was prepared in compliance with the GRI Sustainability Reporting Standards ("GRI Standards") – Core option, to which voluntary qualitative and quantitative indicators were added.

Reclassified consolidated financial statements as of 30 June 2022

This consolidated half-yearly 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 half-yearly financial report. Additional details useful to this end are provided below:
- recoveries of taxes recognised among other operating expenses/income are deducted directly from the indirect taxes included among other administrative expenses and therefore their amount has been set off against the relevant item of the mandatory financial statements;
- the cost components related to Raisin's operations are deducted from net interest;
- personnel expenses also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations;
- contributions and membership fees are reclassified from other administrative expenses and recognised separately, in a dedicated item;
- interest expense resulting from the *lease liability* (IFRS 16) is recognised under other administrative expenses;
- net write-downs/write-backs on closed positions include profits and losses generated from the sale of property investments;
- net credit exposure to customers on closed positions is shown separately from net losses/recoveries for credit risk.

Some assets and liabilities in the statement of financial position were grouped together, concerning:
- the inclusion of assets held for sale and cash and cash equivalents in the residual item other assets;
- the aggregation in a single item of property and equipment and intangible assets;
- the aggregation of financial assets designated at fair value through other comprehensive income and financial assets held for trading;
- separate indication of loans to financial entities and securities at amortised cost;
- the reclassification of *Lease* agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes;
- the inclusion of the Allowances for Risks and Charges and employee severance pay in residual items of other liabilities;
- the aggregate indication and items comprising shareholders’ equity.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Assets	30 June 2022	31 December 2021	Chg.	Chg. %
20 a) + 30	Own portfolio - Securities at FV	432,345	300,436	131,909	44%
20 c)	Financial instruments mandatorily measured at fair value	79,237	75,751	3,486	5%
20 c)	Loans mandatorily measured at fair value	22,500	-	22,500	N/A
40 a)	Due from banks	30,737	267,969	(237,232)	(89%)
40 b)	Loans to financial entities	160,022	199,857	(39,835)	(20%)
40 b)	Loans to customers HTC	2,767,885	2,509,884	258,001	10%
40 b)	Government Bonds HTC	160,846	-	160,846	N/A
40 b)	Securities at amortised cost - Growth Credit	69,751	34,266	35,485	>100%
40 b)	Securities at amortised cost – Distressed Credit	343,323	217,790	125,533	58%
40 b)	Securities at amortised cost – Investment Banking	13,254	-	13,254	N/A
70	Investments in equity	76,145	79,953	(3,808)	(5%)
90 + 100	Property and equipment and intangible assets	218,739	153,984	64,755	42%
	of which: Goodwill	*71,111*	*36,257*	*34,854*	*96%*
110	Tax assets	61,302	45,672	15,630	34%
10 + 120 + 130	Other assets	690,578	775,028	(84,450)	(11%)
	of which: Cash and cash equivalents	*397,024*	*507,779*	*(110,755)*	*(22%)*
	Total assets	**5,126,664**	**4,660,590**	**466,074**	**10%**

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Liabilities	30 June 2022	31 December 2021	Chg.	Chg. %
10 a)	Due to banks	539,198	411,314	127,884	31%
10 b)	Amounts due to customers	3,106,712	2,818,146	288,566	10%
10 c)	Securities issued	509,630	499,788	9,842	2%
20	Financial liabilities held for trading	13,413	59	13,354	>100%
60	Tax liabilities	16,211	20,256	(4,045)	(20%)
80 + 90 + 100	Other liabilities	139,636	138,207	1,429	1%
(*)	Shareholders' equity	801,864	772,820	29,044	4%
	Total liabilities and shareholders' equity	**5,126,664**	**4,660,590**	**466,074**	**10%**

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

Summary of consolidated statement of financial position data

The Group's total assets amounted to EUR 5,126.7 million as of 30 June 2022, up by 10% on 31 December 2021, when they amounted to EUR 4,660.6 million.

The Group's assets as of 30 June 2022 mainly included financial assets arising from loans to customers measured at amortised cost of EUR 2,767.9 million (up compared to EUR 2,509.9 million recorded as of 31 December 2021). The increase in this item is mainly attributable to the new disbursements carried out by the Growth Credit Division during the half year.

During the first half of 2022, the Bank's ALM & Treasury Unit increased its portfolio, compared to the stock at the end of 2021, mainly due to the launch of the new business strategy of purchasing government bonds, recognised in the HTC portfolio.

It is also noted that the securities measured at amortised cost (Held To Collect business model) include securities of the Growth Credit Division for EUR 69.8 million, securities of the Distressed Credit Division for EUR 343.3 million and securities of the Investment Banking Division for EUR 13.3 million.

Loans due from banks totalled EUR 30.7 million, down compared to 31 December 2021 due to the significant closing of reverse repurchase agreements. That item was mainly comprised of deposits.

Moreover, loans to financial entities – which amounted to EUR 160 million as of 30 June 2022, were down on the end of the previous year, when they amounted to EUR 199.9 million.

The own portfolio measured at fair value amounted to EUR 432.3 million as of 30 June 2022. Specifically, financial assets held for trading amounted to EUR 16.4 million and were mainly comprised of financial derivatives.

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model (HTCS) were mainly represented by government bonds and securities issued by other banks and financial entities and high yield corporate bonds. The item totalled EUR 415.9 million, up sharply by EUR 116.4 million on 31 December 2021 following the purchases by ALM & Treasury and Investment Banking.

As of 30 June 2022, the Group had a total negative net valuation reserve of EUR 42 million, due primarily to a general rise in interest rates and the general uncertainty about the political and macroeconomic context.

Financial assets mandatorily measured at fair value through profit and loss amounted to EUR 101.7 million as of 30 June 2022, up by EUR 26 million on 31 December 2021. The increase is mainly attributable to the disbursement of a new loan measured at air value referring to the Growth Credit Division for EUR 22.5 million and the reavluation of the investment in the energy area.

As of 30 June 2022, those assets include, in addition to the new loan, instruments linked to the operations of the Energy Business for EUR 60.5 million, Equity Instruments/Earnouts referring to the Growth Credit Division for EUR 9.1 million, units of a UCI managed by the Group's Asset Management Company (SGR) for EUR 3.8 million and notes of securitisation vehicles for EUR 0.9 million, debt securities for EUR 1.9 million referring to the Investment Banking Division, investments in Senior Financing for EUR 2.9 million and units of UCIs for EUR 0.1 million referring to the Corporate Center.

The "Equity investments" item, which amounted to EUR 76.1 million as of 30 June 2022, consists predominantly of the value of the equity investment held by illimity in Hype, insofar as it was consolidated using the equity method.

Following the outbreak of the Russia-Ukraine conflict, in May 2022, ESMA published the "Implications of Russia's invasion of Ukraine on half-yearly financial reports'', whose contents were subsequently endorsed by CONSOB. That document analyses the possible implications of the conflict on issuers' reporting and provides recommendations on qualitative and quantitative disclosure to be presented in drawing up reports as of 30 June 2022. With regard to impairment testing pursuant to IAS 36, ESMA generally urged issuers to update the assessments made in year-end financial statements, specifically on the assumptions about future projections and other major sources of estimation uncertainty. Therefore, (i) in light of the results of the impairment tests conducted as of 31 December 2021, (ii) considering the deterioration of the macroeconomic and social scenario deriving from the outbreak of the conflict, (iii) the resulting effects observed on the monetary and real economy, and (iv) the availability of updated corporate projections, it was decided to subject the recognition value of the equity investment in Hype as of 30 June 2022 to impairment testing pursuant to IAS 36. The impairment test, conducted according to the Excess Capital variant of of the Dividend Discount Model, a recoverable value higher than the carrying amount of the subsidiary (both in the Group's consolidated financial statements and the separate financial statements of illimity Bank) was recognised, and thus, no indicators of impairment of the value of the equity investment as of 30 June 2022 were found.

As of 30 June 2022, property and equipment and intangible assets amounted to EUR 218.7 million, increasing by approximately EUR 64.8 million compared to 31 December 2021, due to the acquisition of AREC (as illustrated in greater detail below) and the entry into the portfolio of properties accounted for pursuant to IAS 2 as part of *datio in solutum* transactions.

The intangible assets of the Group include the remaining difference to be allocated, which was provisionally recorded under goodwill following the acquisition of the business unit of AREC for EUR 34.9 million (an amount considered provisional due to the Purchase Price Allocation (PPA) process currently under way, which will be concluded within 12 months, pursuant to IFRS 3), the goodwill from the acquisition of IT Auction (the company now merged into neprix), and its subsidiaries during 2020 (for EUR 14.6 million), the goodwill recognised following the business combination of SPAXS with Banca Interprovinciale (equal to EUR 21.6 million), as well as the goodwill - although marginal - recognised on the acquisition of 100% of the units in the securitisation vehicles Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l., River SPV S.r.l., and 66.7% of the units of the securitisation vehicle Aporti SPV S.r.l. This item also includes the IT investments made by Group companies.

Group property and equipment mainly consisted of assets covered by IAS 2, namely *datio in solutum* real estate involved in the lending business and items for functional use arising from the recognition of the right of use of assets acquired through lease agreements (IFRS 16).
Tax assets amounted to EUR 61.3 million, up on the EUR 45.7 million recognised as of 31 December 2021, and comprise EUR 4.6 million in current tax and EUR 56.7 million in deferred tax assets. Deferred tax assets other than those convertible into tax credits (Article 2, paragraphs 55 et seq, of Italian Legislative Decree no. 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences. Deferred tax assets also include the effects of the exercise of the tax relief option on goodwill and other intangible assets recognised in the financial statements following extraordinary operations and purchases of equity investments.

Total consolidated liabilities and shareholders' equity as of 30 June 2022 amounted to EUR 5,126.7 million. Amounts due to customers, net of the lease liability referred to IFRS 16, amounted to EUR 3,106.7 million, increasing compared to 31 December 2021. Due to banks – including the central bank component – amounted to EUR 539.2 million and was also up on the comparative figure as of 31 December 2021. Securities issued were equal to EUR 509.6 million, up on the figure for the end of 2021, mainly due to the components of interest accrued *pro-rata* during the first half of 2022.

Shareholders' equity of the Group came to EUR 801.9 million, up on the end of 2021 due to the new issues of shares destined for the acquisition of the business unit of AREC, the issue of shares as part of the ESOP program and, lastly, due to the contribution of the profit accrued in the period, net of the negative changes recorded in the valuation reserves.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	30 June 2022	30 June 2021	Chg.	Chg. %
10 + 20 + 320	Net interest margin	74,055	64,422	9,633	15%
40 + 50	Net fee and commission income	27,646	13,642	14,004	>100%
80 + 100 + 110	Profits/losses on financial assets and liabilities	8,641	4,896	3,745	76%
130 a) + 130 b) + 200 a) + 280	Net write-downs/write-backs on closed positions	36,751	37,427	(676)	(2%)
280	Other profits (losses) from the disposal of investments	-	2,278	(2,278)	(100%)
140 + 230	Other operating expenses and income (excluding taxes)	11,956	4,141	7,815	>100%
Total net operating income		**159,049**	**126,806**	**32,243**	**25%**
190 a)	Personnel expenses	(43,469)	(35,599)	(7,870)	22%
190 b)	Other administrative expenses	(42,673)	(35,772)	(6,901)	19%
210 + 220	Net adjustments/recoveries on property and equipment and intangible assets	(7,324)	(5,185)	(2,139)	41%
Operating expenses		**(93,466)**	**(76,556)**	**(16,910)**	**22%**
Operating profit (loss)		**65,583**	**50,250**	**15,333**	**31%**
130 a)	Net losses/recoveries for credit risk - HTC Banks	21	(3)	24	N/A
130 a)	Net losses/recoveries for credit risk - HTC Financial entities	(9)	(129)	120	(93%)
130 a)	Net losses/recoveries for credit risk - HTC Clients	(11,468)	(236)	(11,232)	>100%
130 b)	Net losses/recoveries for credit risk - HTCS	(713)	(1,143)	430	(38%)
200 a)	Net adjustments/recoveries for commitments and guarantees	634	(1,317)	1,951	N/A
Total net adjustments/recoveries		**(11,535)**	**(2,828)**	**(8,707)**	**>100%**
200 b)	Other net provisions	(38)	-	(38)	N/A
250	Other income (expenses) on investments	(3,848)	(3,974)	126	(3%)
190 b)	Contributions and other non-recurring expenses	(2,089)	(1,972)	(117)	6%
Profit (loss) from operations before taxes		**48,073**	**41,476**	**6,597**	**16%**
300 + 320	Income tax for the period on continuing operations	(16,605)	(14,058)	(2,547)	18%
Profit (loss) for the period		**31,468**	**27,418**	**4,050**	**15%**

Consolidated income statement highlights

The Group's total net operating income for the period ended 30 June 2022 amounted to EUR 159 million, up sharply on the same period of the previous year, when it came to approximately EUR 126.8 million.

The increase in total operating income is to be attributed to the introduction and expansion of various lines of business by the Bank in the second half of 2021 and the first half of 2022, which contributed to the increase in the interest margin of the Group from EUR 64.4 million as of 30 June 2021 to EUR 74.1 million as of 30 June 2022. Net fee and commission income, which amounted to EUR 27.6 million as of 30 June 2022, also increased in relation to comparative data, due on the one hand to increased operations of the Bank Divisions, and on the other as a consequence of more operations, in the period, undertaken by Abilio and its subsidiary Abilio Agency, which contribute to the item through the "auction commissions" earned on the use of proprietary real estate portals.

The total net operating income also included the net profit/loss on positions closed in the first six months of 2022 for a total of EUR 36.8 million (37.4 million as of 30 June 2021), a figure that includes both net recoveries on closed customer POCI positions and the net write-downs/write-backs on disposal of properties.

Lastly, the balance of other operating expenses/income went up significantly, due primarily to licence rights granted to ION for the IT platform developed by illimity, which made a positive contribution of EUR 8.5 million in the first half of 2022.

Overall net losses/recoveries on portfolio positions were negative for EUR 11.5 million. In detail, net losses on positions measured at amortised cost are primarily related to individual and collective assessments of loans to customers and the effects of the revision of expected cash flows from the NPL portfolios.

Operating expenses of EUR 93.5 million for the period ended 30 June 2022 were up by approximately EUR 16.9 million compared to the same period of the previous year.

In detail, personnel expenses increased compared to the previous year by approximately EUR 7.9 million, as a result of new resources being employed, to support the increased activities of the Bank's Divisions, and also due to the operating activities of neprix.

Other administrative expenses amounted to approximately EUR 42.7 million, increasing by EUR 6.9 million compared to the same period of the previous year, and refer primarily to IT and software expenses, expenses for professional services, consulting and legal and notary's fees.

Contributions and other non-recurring expenses were also recorded for around EUR 2.1 million, mainly attributable to the Single Resolution Fund for approximately EUR 1.9 million.

Finally, the item includes net adjustments/recoveries for property and equipment and intangible assets totalling around EUR 7.3 million, up by EUR 2.1 million compared to 30 June 2021, primarily due to the amortisation of IT investments and depreciation of materials managed in application of IFRS 16.

Based on the above, profit for the period ended 30 June 2022, before taxes, amounted to EUR 48.1 million.

Net of income tax for the period on continuing operations, equal to approximately EUR 16.6 million, consolidated net profit as of 30 June 2022 stood at EUR 31.5 million, compared to a profit of EUR 27.4 million as of 30 June 2021.

Basic earnings per share as of 30 June 2022, calculated by dividing the result for the period by the weighted average number of ordinary shares issued, was equal to EUR 0.40, while diluted earnings per share as of the same date amounted to EUR 0.39.

Moreover, trailing earnings per share as of 30 June 2022 of the Group, calculated considering the economic results and weighted average number of ordinary shares issued in the last twelve months, would amount to EUR 0.89 per share in the basic scenario, compared to EUR 0.88 in the diluted scenario.

See the section "Basic and diluted earnings per share" for details of the methodology to calculate earnings per share.

Key data on capital

Invested assets

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

(amounts in thousands of euros)

Details of invested assets	30 June 2022		31 December 2021		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg.
Cash and cash equivalents	**397,024**	**8.9%**	**507,779**	**12.3%**	**(110,755)**	**(22%)**
Financial assets held for trading	**16,400**	**0.4%**	**928**	**0.0%**	**15,472**	**>100%**
Financial assets mandatorily measured at fair value	**101,737**	**2.3%**	**75,751**	**1.8%**	**25,986**	**34%**
– *Distressed Credit Division*	64,310	1.4%	62,332	1.5%	1,978	3%
– *Growth Credit Division*	35,457	0.8%	13,289	0.3%	22,168	>100%
– *ALM & Treasury Portfolio*	130	0.0%	130	0.0%	-	0%
– *Structured Products Portfolio*	1,840	0.0%	-	0.0%	1,840	n.a
HTCS Financial assets	**415,945**	**9.3%**	**299,508**	**7.3%**	**116,437**	**39%**
– *ALM & Treasury Portfolio*	315,869	7.1%	261,566	6.4%	54,303	21%
– *Structured Products Portfolio*	95,623	2.1%	37,942	0.9%	57,681	>100%
– *Alternative Debt Portfolio*	4,453	0.1%	-	0.0%	4,453	n.a
Due from banks	**30,737**	**0.7%**	**267,969**	**6.5%**	**(237,232)**	**(89%)**
– *of which: Repurchase agreements*	-	0.0%	191,291	4.7%	(191,291)	(100%)
Loans to financial entities	**160,022**	**3.6%**	**199,857**	**4.9%**	**(39,835)**	**(20%)**
Government Bonds	**160,846**	**3.6%**	**-**	**0.0%**	**160,846**	**n.a**
Loans to customers - Loans	**2,767,885**	**61.8%**	**2,509,884**	**61.0%**	**258,001**	**10%**
– *Organic non-performing loans*	26,181	0.6%	21,025	0.5%	5,156	25%
– *Inorganic non-performing loans*	994,409	22.2%	1,048,358	25.5%	(53,949)	(5%)
– *Performing loans*	1,665,936	37.2%	1,440,501	35.0%	225,435	16%
– *Public Procurement Claims*	81,359	1.8%	-	0.0%	81,359	n.a
Loans to customers - Securities	**426,328**	**9.5%**	**252,056**	**6.1%**	**174,272**	**69%**
– *Distressed Credit Division (Senior Financing) performing*	265,630	5.9%	217,790	5.3%	47,840	22%
– *Distressed Credit Division – inorganic POCI*	77,693	1.7%	-	0.0%	77,693	n.a
– *Growth Credit Division – inorganic POCI*	10,145	0.2%	10,037	0.2%	108	1%
– *Growth Credit Division – performing*	59,606	1.3%	24,229	0.6%	35,377	>100%
– *Investment Banking Division*	13,254	0.3%	-	0.0%	13,254	n.a
Total invested assets	**4,476,924**	**100%**	**4,113,732**	**100%**	**363,192**	**9%**

Loans to customers amounted to approximately EUR 2,767.9 million, up from EUR 2,509.9 million at the end of the previous year, due primarily to the new disbursements by the Growth Credit Division. The item also includes NPLs of approximately EUR 994.4 million classified as POCI (Purchased or Originated Credit Impaired), down from EUR 1,048.4 million recorded as of 31 December 2021, due to the disposal transactions concluded by the Divisions. As of 30 June 2022, Public Procurement Claims were also included among Group invested assets for a total of EUR 81.4 million, acquired during the first half of 2022. Considering securities, financing to customers amounted to EUR 3,194.2 million.

Financial assets mandatorily measured at fair value through profit and loss amounted to EUR 101.7 million as of 30 June 2022, up by EUR 26 million on 31 December 2021. The increase is mainly attributable to the disbursement of a new loan measured at air value referring to the Growth Credit Division for EUR 22.5 million and the revaluation of the investment in the energy area.

As of 30 June 2022, those assets include, in addition to the new loans, instruments linked to the operations of the Energy Business for EUR 60.5 million, Equity Instruments/Earnouts referring to the Growth Credit Division for EUR 9.1 million, units of a UCI managed by the Group's Asset Management Company (SGR) for EUR 3.8 million and notes of securitisation vehicles for EUR 0.9 million, debt securities for EUR 1.9 million referring to the Investment Banking Division, investments in Senior Financing for EUR 2.9 million and units of UCIs for EUR 0.1 million referring to the Corporate Center.

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model were mainly represented by government bonds and securities issued by other banks and financial entities and high yield corporate bonds. The item totalled EUR 415.9 million, up sharply by EUR 116.4 million on 31 December 2021 following the purchases by ALM & Treasury and Investment Banking.

The remainder of the securities, equal to EUR 587.2 million, was measured at amortised cost (held-to-collect business model). That portfolio was composed of EUR 160.8 million in government bonds, EUR 265.6 million in senior financing securities, EUR 77.7 million in inorganic securities relating to the Distressed Credit Division, EUR 10.1 million in inorganic securities relating to the Growth Credit Division, EUR 59.6 million in high-yield securities in the Growth Credit Division and EUR 13.3 million in investments in the Investment Banking Division.

(amounts in thousands of euros)

Invested assets by technical form	30 June 2022		31 December 2021		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. %
Cash and cash equivalents	**397,024**	**8.9%**	**507,779**	**12.3%**	**(110,755)**	**(22%)**
Due from banks	**30,737**	**0.7%**	**267,969**	**6.5%**	**(237,232)**	**(89%)**
Current accounts and deposits	30,737	0.7%	76,678	1.9%	(45,941)	(60%)
Reverse Repurchase Agreements	-	0.0%	191,291	4.7%	(191,291)	(100%)
Loans to financial entities	**160,022**	**3.6%**	**199,857**	**4.9%**	**(39,835)**	**(20%)**
Loans to customers	**2,767,885**	**61.8%**	**2,509,884**	**61.0%**	258,001	10%
Current accounts held by customers	202,911	4.5%	229,126	5.6%	(26,215)	(11%)
Loans	2,483,615	55.5%	2,280,758	55.4%	202,857	9%
Public Procurement Claims	81,359	1.8%	-	0.0%	81,359	n.a
Loans mandatorily measured at fair value	**22,500**	**0.5%**	**-**	**0.0%**	**22,500**	**n.a**
Securities and financial derivatives	**1,098,756**	**24.5%**	**628,243**	**15.3%**	**470,513**	**75%**
Debt securities	1,069,282	23.9%	613,059	14.9%	456,223	74%
– *Government bonds*	408,358	9.1%	199,178	4.8%	209,180	>100%
– *Banking*	90,142	2.0%	61,405	1.5%	28,737	47%
– *Financial companies*	479,706	10.7%	299,932	7.3%	179,774	60%
– *Non-financial companies*	91,076	2.0%	52,544	1.3%	38,532	73%
Financial Derivatives	16,368	0.4%	896	0.0%	15,472	>100%
Financial instruments/earnouts	9,135	0.2%	10,352	0.3%	(1,217)	(12%)
Equity securities	19	0.0%	19	0.0%	-	0%
Units of UCIs	3,952	0.1%	3,917	0.1%	35	1%
Total	**4,476,924**	**100%**	**4,113,732**	**100%**	**363,192**	**9%**

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 30.7 million, down compared to 31 December 2021 due to the closing of reverse repurchase agreements, and were mainly comprised of deposits. Loans to customers also increased, mainly due to the new disbursements by the Growth Credit Division.

Lastly, debt securities amounted to EUR 1,069.3 million and mainly related to government entities and financial companies.

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

(amounts in millions of euros)

Financing by business division	30 June 2022	Inc. %	31 December 2021	Inc. %	Chg.	Chg. %
Distressed Credit Division	1,357	38.6%	1,259	42.5%	98	8%
Growth Credit Division	1,703	48.4%	1,400	47.3%	303	22%
Investment Banking Division	16	0.5%	-	0.0%	16	N/A
Direct Banking Division	24	0.7%	3	0.1%	21	>100%
Loans to ordinary former BIP customers (Growth Credit)	94	2.7%	100	3.4%	(6)	(6%)
Total due from customers (Loans and Securities)	**3,194**	**90.9%**	**2,762**	**93.2%**	**432**	**16%**
Loans to financial entities	160	4.6%	200	6.8%	(40)	(20%)
Government Bonds	161	4.6%	-	0.0%	161	N/A
Financing to customers and financial entities measured at amortised cost	**3,515**	**100%**	**2,962**	**100%**	**553**	**19%**

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 2021.

(amounts in thousands of euros)

Financial assets at amortised cost	30 June 2022						31 December 2021					
	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)
Due from banks	**30,772**	**0.7%**	**(35)**	**30,737**	**0.9%**	**0.11%**	**268,226**	**8.2%**	**(257)**	**267,969**	**8.3%**	**0.10%**
- Loans	30,772	0.7%	(35)	30,737	0.9%	0.11%	268,226	8.2%	(257)	267,969	8.3%	0.10%
- Stage 1-2	30,772	0.7%	(35)	30,737	0.9%	0.11%	268,226	8.2%	(257)	267,969	8.3%	0.10%
Loans to financial entities	**160,262**	**3.8%**	**(240)**	**160,022**	**4.5%**	**0.15%**	**200,131**	**6.1%**	**(274)**	**199,857**	**6.2%**	**0.14%**
- Loans	160,262	3.8%	(240)	160,022	4.5%	0.15%	200,131	6.1%	(274)	199,857	6.2%	0.14%
- Stage 1-2	160,262	3.8%	(240)	160,022	4.5%	0.15%	200,131	6.1%	(274)	199,857	6.2%	0.14%
Government Bonds	**161,038**	**3.9%**	**(192)**	**160,846**	**4.5%**	**0.12%**	**-**	**0.0%**	**-**	**-**	**0.0%**	**N/A**
- Stage 1-2	161,038	3.9%	(192)	160,846	4.5%	0.12%	-	0.0%	-	-	0.0%	N/A
Loans to customers	**3,820,363**	**91.6%**	**(626,150)**	**3,194,213**	**90.1%**	**N/A**	**2,790,810**	**85.6%**	**(28,870)**	**2,761,940**	**85.5%**	**N/A**
Securities	428,130	10.3%	(1,802)	426,328	12.0%	0.42%	253,354	7.8%	(1,298)	252,056	7.8%	0.51%
- Stage 1-2	340,293	8.2%	(1,802)	338,491	9.5%	0.53%	243,317	7.5%	(1,298)	242,019	7.5%	0.53%
- Stage 3	87,837	2.1%	-	87,837	2.5%	0.00%	10,037	0.3%	-	10,037	0.3%	0.00%
Loans	2,716,314	65.1%	(29,788)	2,686,526	75.8%	1.10%	2,537,456	77.9%	(27,572)	2,509,884	77.7%	1.09%
- Stage 1-2	1,675,991	40.2%	(10,055)	1,665,936	47.0%	0.60%	1,449,544	44.5%	(9,043)	1,440,501	44.6%	0.62%
- Stage 3	1,040,323	24.9%	(19,733)	1,020,590	28.8%	N/A	1,087,912	33.4%	(18,529)	1,069,383	33.1%	N/A
Public Procurement Claims	675,919	16.2%	(594,560)	81,359	2.3%	N/A	-	0.0%	-	-	0.0%	N/A
Total	**4,172,435**	**100%**	**(626,617)**	**3,545,818**	**100%**	**N/A**	**3,259,167**	**100%**	**(29,401)**	**3,229,766**	**100%**	**N/A**

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

Financial assets at amortised cost, equal to EUR 3,545.8 million as of 30 June 2022, were mainly composed of loans to customers, which comprise 90.1% of the total of the item, in addition to due from banks, which comprise 0.9% of the total, loans to financial entities and government bonds, which each comprise 4.5% of the total.

In terms of the quality of loans, most of the assets at amortised cost refer to performing financial assets, which comprise 68.7% of the total, while 31.3% are composed of non-performing loans. That figure has naturally been influenced by the component of inorganic securities and loans, which comprise the core business of the Distressed Credit Division.

Compared to the composition of the portfolio as of 31 December 2021, loans at amortise cost now include Government Bonds of EUR 160.8 million and Public Procurement Claims of EUR 81.4 million.

(amounts in thousands of euros)

Loans to customers	30 June 2022						31 December 2021					
	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)
- Non-performing loans – organic	**45,914**	**1.2%**	**(19,733)**	**26,181**	**0.8%**	**42.98%**	**39,554**	**1.4%**	**(18,529)**	**21,025**	**0.8%**	**46.84%**
- Bad loans	19,487	0.5%	(14,365)	5,122	0.2%	73.72%	19,014	0.7%	(14,027)	4,987	0.2%	73.77%
- Unlikely-to-pay positions	26,264	0.7%	(5,340)	20,924	0.7%	20.33%	20,370	0.7%	(4,468)	15,902	0.6%	21.93%
- Past-due positions	163	0.0%	(28)	135	0.0%	17.18%	170	0.0%	(34)	136	0.0%	20.00%
Non-performing loans - inorganic	**994,409**	**26.0%**	**-**	**994,409**	**31.1%**	**N/A**	**1,048,358**	**37.6%**	**-**	**1,048,358**	**38.0%**	**N/A**
- Bad loans	650,326	17.0%	-	650,326	20.4%	N/A	699,429	25.1%	-	699,429	25.3%	N/A
- Unlikely-to-pay positions	344,083	9.0%	-	344,083	10.8%	N/A	348,929	12.5%	-	348,929	12.6%	N/A
- Past-due positions	-	0.0%	-	-	0.0%	N/A	-	0.0%	-	-	0.0%	N/A
Non-performing securities - Inorganic	**87,837**	**2.3%**	**-**	**87,837**	**2.7%**	**N/A**	**10,037**	**0.4%**	**-**	**10,037**	**0.4%**	**N/A**
- Unlikely-to-pay positions	87,837	2.3%	-	87,837	2.7%	N/A	10,037	0.4%	-	10,037	0.4%	N/A
Public Procurement Claims	**675,919**	**17.7%**	**(594,560)**	**81,359**	**2.5%**	**N/A**	**-**	**0.0%**	**-**	**-**	**0.0%**	**N/A**
Performing loans	**2,016,284**	**52.8%**	**(11,857)**	**2,004,427**	**62.8%**	**0.59%**	**1,692,861**	**60.7%**	**(10,341)**	**1,682,520**	**60.9%**	**0.61%**
- Securities	340,293	8.9%	(1,802)	338,491	10.6%	0.53%	243,317	8.7%	(1,298)	242,019	8.8%	0.53%
Growth Credit	60,694	1.6%	(1,087)	59,607	1.9%	1.79%	24,741	0.9%	(512)	24,229	0.9%	2.07%
Distressed Credit	266,329	7.0%	(699)	265,630	8.3%	0.26%	218,576	7.8%	(786)	217,790	7.9%	0.36%
Investment Banking	**13,270**	**0.3%**	**(16)**	**13,254**	**0.4%**	**0.12%**	-	0.0%	-	-	0.0%	N/A
- Loans	1,675,991	43.9%	(10,055)	1,665,936	52.2%	0.60%	1,449,544	51.9%	(9,043)	1,440,501	52.2%	0.62%
Total	**3,820,363**	**100%**	**(626,150)**	**3,194,213**	**100%**	**N/A**	**2,790,810**	**100%**	**(28,870)**	**2,761,940**	**100%**	**N/A**

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

Organic non-performing loans amounted to EUR 26.2 million, due to the inflows of positions to the UTP portfolio, and increased slightly on the figure recorded as of 31 December 2021 The coverage ratio for organic non-performing loans as of 30 June 2022, equal to 43%, decreased on the comparative figure, due to the different percentages of risk statuses out of the total.

Inorganic non-performing loans amounted to EUR 994.4 million, of which:

- EUR 650.3 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as Bad loans, registering a decrease compared to EUR 699.4 million as of 31 December 2021;
- EUR 344.1 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as unlikely-to-pay positions, registering a decrease compared to EUR 348.9 million as of 31 December 2021.

Performing loans amounted to EUR 1,665.9 million, in addition to EUR 81.4 million in Public Procurement Claims, thus resulting in a total of EUR 1,747.3 million. The total performing portfolio thus grew compared to the EUR 1,440.5 million as of 31 December 2021, especially due to the new disbursements during the half year and the purchase of the portfolio of disputes relating to technical reserves from procurement.

Performing securities amounted to EUR 338.5 million as of 30 June 2022, up on 31 December 2021 in relation to increased operations of both the Distressed Credit Division and the Growth Credit Division.

The coverage ratio for performing loans of the Bank as of 30 June 2022, net of Public Procurement Claims, was equal to 0.60%, generally in line with the comparative figure as of 31 December 2021.

Funding

(amounts in thousands of euros)

Customer funding by technical form	30 June 2022		31 December 2021		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. %
Amounts due to customers (A)	3,106,712	74.8%	2,818,146	75.6%	288,566	10.2%
Securities issued (B)	509,630	12.3%	499,788	13.4%	9,842	2.0%
Total direct customer funding (A) + (B)	**3,616,342**	**87.1%**	**3,317,934**	**89.0%**	**298,408**	**9.0%**
Due to banks (C)	539,198	12.9%	411,314	11.0%	127,884	31.1%
Total debt (A) + (B) + (C)	**4,155,540**	**100%**	**3,729,248**	**100%**	**426,292**	**11.4%**

At the end of the period, funding amounted to approximately EUR 4,155.5 million, up on 31 December 2021, mainly due to the increase in funding from customers in the form of time deposits.

Property and equipment and intangible assets

Property and equipment as of 30 June 2022 amounted to approximately EUR 91.1 million, up from EUR 68.7 million as of 31 December 2021, due mainly to the inclusion in the portfolio of property accounted for pursuant to IAS 2, in the context of *datio in solutum* operations. In accordance with IFRS 16, the item includes the right of use of assets acquired through lease agreements, of approximately EUR 23.3 million, net of accumulated depreciation.

Intangible assets as of 30 June 2022 amounted to approximately EUR 127.6 million, compared to EUR 85.2 million as of 31 December 2021, and mainly include the remaining difference to be allocated provisionally under goodwill following the acquisition of the business unit of AREC for EUR 34.9 million (an amount considered provisional due to the Purchase Price Allocation process currently under way), goodwill from the acquisition of IT Auction (the company now merged into neprix), and its subsidiaries during 2020 (for EUR 14.6 million), as well as the goodwill recognised following the business combination of SPAXS with Banca Interprovinciale (equal to EUR 21.6 million), as well as the goodwill - although marginal - recognised on the acquisition of 100% of the units in the securitisation vehicles Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l., River SPV S.r.l., and 66.7% of the units of the securitisation vehicle Aporti SPV S.r.l. This item also includes the IT investments made by Group companies.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 61.3 million as of 30 June 2022, up from the EUR 45.7 million recognised as of 31 December 2021. Details of the breakdown of tax assets are shown below.

(amounts in thousands of euros)

Tax assets	30 June 2022	31 December 2021	Chg.	Chg. %
Current	4,579	5,168	(589)	(11%)
Deferred	56,723	40,504	16,219	40%
Total	**61,302**	**45,672**	**15,630**	**34%**

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

Deferred tax assets also include the effects of the exercise of the tax relief option on goodwill and other intangible assets recognised in the financial statements following extraordinary operations and purchases of equity investments.

Tax liabilities amounted to approximately EUR 16.2 million as of 30 June 2022, down from the EUR 20.3 million recognised as of 31 December 2021. Details of the breakdown of tax liabilities are shown below.

(amounts in thousands of euros)

Tax liabilities	30 June 2022	31 December 2021	Chg.	Chg. (%)
Current	15,163	19,156	(3,993)	(21%)
Deferred	1,048	1,100	(52)	(5%)
Total	**16,211**	**20,256**	**(4,045)**	**(20%)**

Capital adequacy

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

On 17 March 2022 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 2022. 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 communicated the following capital levels, which the illimity Banking Group was invited to maintain on an ongoing basis:

- Common Equity Tier 1 (CET1) ratio of 9.10%;
- Tier 1 ratio of 11.00%;
- Total Capital ratio of 13.50%.

In that regard, it is noted that the Bank continues to substantially comply with the original voluntary commitment to maintain the CET1 ratio at a level above 15% on an ongoing basis.

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

Capital ratios	30 June 2022	31 December 2021
Common Equity Tier 1 (CET1) capital	**641,674**	**642,467**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**204,947**	**200,432**
Total own funds	**846,621**	**842,899**
Credit risk	*295,156*	*253,619*
Credit valuation adjustment risk	-	-
Settlement risks	-	-
Market risks	*4,233*	*780*
Operational risk	*18,518*	*18,518*
Other calculation factors	-	-
Total minimum requirements	**317,907**	**272,917**
Risk-weighted assets	**3,973,836**	**3,411,468**
Common Equity Tier 1 ratio *(Phased-in)*	**16.15%**	**18.83%**
Common Equity Tier 1 ratio *(Fully Loaded)*	**15.79%**	**18.74%**
Total capital ratio *(Phased-in)*	**21.30%**	**24.71%**
Total capital ratio *(Fully Loaded)*	**20.95%**	**24.61%**

The difference between the Fully Loaded ratio and the Phased-in ratio is due to the application of Regulation 2020/873, specifically: temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic, and to a residual extent to the application of IFRS 9 to own funds and capital ratios.

As of 30 June 2022, the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds. Moreover, on 21 June, EU Regulation 2022/954 was published in the Official Journal of the European Union, amending the regulatory technical standards as regards the specification of the calculation of specific and general losses/recoveries for credit risk. The application of that regulation, in force from July 2022, requires, for credit exposures acquired with a discount of 20% or more, a weighting factor of 100% on the non-guaranteed portion (instead of 150%). That effect, estimated as of 30 June, entails a benefit of EUR 271 million in RWAs.

Based on the above and considering the conversion of special shares, the CET 1 ratio (Phased-in) amounts to 17.72% and the Total Capital Ratio (Phased-in) 23.25%.

Changes in shareholders' equity

Shareholders' equity of the Group came to EUR 801.9 million, up on the end of 2021 due to the share capital increase destined for the acquisition of the business unit of AREC, the issue of shares as part of the ESOP program and, lastly, due to the contribution of the profit accrued in the period, net of the negative changes recorded in the valuation reserves.

Items/Technical forms	30 June 2022	31 December 2021
1. Share capital	54,514	52,620
2. Share premium reserve	624,583	597,589
3. Reserves	134,076	63,904
4. Equity instruments	-	-
5. (Treasury shares)	(747)	(832)
6. Valuation reserves	(42,035)	(6,057)
7. Profit (loss) for the period	31,468	65,591
Total shareholders' equity attributable to the Group	**801,859**	**772,815**
Shareholders' equity attributable to minority interests	5	5
Total shareholders' equity	**801,864**	**772,820**

Share capital and ownership structure

At 30 June 2022, the Bank's share capital amounted to EUR 56,083,976.14, of which EUR 54,513,905.72 was subscribed and paid up, divided into 82,205,108 ordinary shares and 1,440,000 special shares without par value.

The Ordinary Shares were admitted to trading on the Euronext Milan market organised and managed by Borsa Italiana S.p.A. on 5 March 2019. By order of the Bank of Italy no. 8688 of 2 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the Euronext Milan market. The Bank's Special Shares are not traded.

Treasury shares

As of 30 June 2022, the Bank held 88,445 treasury shares for a value of EUR 747 thousand, down on the figures as of 31 December 2021, due to the allocation of 10,060 ordinary shares held to the MBO plan. The Bank's subsidiaries do not hold any shares in it. The Bank's subsidiaries do not hold any shares in it.

Parent company reconciliation - consolidated

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 30 June 2022:

	Shareholders' equity	Result
illimity Bank S.p.A.	**810,154**	**34,982**
Effect of consolidation of subsidiaries	(2,354)	-
Result of subsidiaries	(302)	(302)
Consolidation adjustments	5,928	636
Dividends	-	-
Effect of measuring associates and joint ventures using the equity method	(11,567)	(3,848)
Group	**801,859**	**31,468**

Financial performance

Net interest margin

(amounts in thousands of euros)

Items/Technical forms	Loans/ Payables	Debt securities	Other transactions	30 June 2022	30 June 2021	Absolute changes	Change %
Interest and similar income							
1. Financial assets measured at fair value through profit or loss	-	822	-	**822**	279	543	>100%
Held for trading	-	-	-	**-**	80	(80)	(100%)
Carried at FV	-	-	-	**-**	-	-	N/A
Mandatorily measured at fair value	-	822	-	**822**	199	623	>100%
2. Financial assets at FV through other comprehensive income	-	3,404	-	**3,404**	2,120	1,284	61%
3. Financial assets at amortised cost	88,796	10,895	-	**99,691**	90,331	9,360	10%
Due from banks	105	-	-	**105**	433	(328)	(76%)
Loans to customers	88,691	10,895	-	**99,586**	89,898	9,688	11%
4. Hedging derivatives	-	-	-	**-**	-	-	N/A
5. Other assets	-	-	1,316	**1,316**	64	1,252	>100%
6. Financial liabilities	-	-	-	**902**	684	218	32%
Total interest income	**88,796**	**15,121**	**1,316**	**106,135**	**93,478**	**12,657**	**14%**
Interest expenses							
1. Amounts due to customers	(19,448)	(9,842)	-	**(29,290)**	(26,124)	(3,166)	12%
Due to central banks	(19)	-	-	**(19)**	(16)	(3)	19%
Due to banks	(1,312)	-	-	**(1,312)**	(2,614)	1,302	-50%
Amounts due to customers	(18,117)	-	-	**(18,117)**	(18,157)	40	N/A
Securities issued	-	(9,842)	-	**(9,842)**	(5,337)	(4,505)	84%
2. Financial liabilities held for trading	-	-	-	**-**	-	-	N/A
3. Financial liabilities carried at FV	-	-	-	**-**	-	-	N/A
4. Other liabilities and provisions	-	-	(1,314)	**(1,314)**	(951)	(363)	38%
5. Hedging derivatives	-	-	-	**-**	-	-	N/A
6. Financial assets	-	-	-	**(1,476)**	(1,981)	505	(25%)
Total interest expenses	**(19,448)**	**(9,842)**	**(1,314)**	**(32,080)**	**(29,056)**	**(3,024)**	**10%**
Net interest margin	**69,348**	**5,279**	**2**	**74,055**	**64,422**	**9,633**	**15%**

As of 30 June 2022, the interest margin amounted to approximately EUR 74.1 million, up on the same period of the previous year, when it amounted to approximately EUR 64.4 million.

The change described above is mainly due to the increase in interest income accrued on financial assets at amortised cost: in particular, interest on loans to customers increased by EUR 9.7 million compared to the same period of the previous year. This increase is due to larger portfolio volumes in the Bank's assets.

Interest income also increased on financial assets measured at fair value through profit and loss and through other comprehensive income due the purchase of securities assigned to this own portfolio.

Interest expense increased by approximately EUR 3 million compared to 30 June 2021, due to the rise of EUR 4.5 million in interest expense on securities issued - mainly following the issue of ordinary and subordinated bonds, which was partially offset by the reduction in interest expense on amounts due to banks for EUR 1.3 million, linked to the reduction in repurchase agreement operations with banking counterparties.

Net fee and commission income

(amounts in thousands of euros)

Items/Technical forms	30 June 2022	30 June 2021	Absolute changes	Change %
Fee and commission income				
a) Financial instruments	1	2	(1)	(50%)
b) Corporate Finance	4,336	1,969	2,367	>100%
e) Collective portfolio management	1,282	396	886	>100%
f) Custody and administration	-	1	(1)	(100%).
i) Payment services	586	561	25	4%
j) Distribution of third party services	79	67	12	18%
m) Financial guarantees	193	25	168	>100%
o) Financing operations	13,736	5,135	8,601	>100%
p) Currency trading	19	28	(9)	(32%)
r) Other fee and commission income	9,236	7,625	1,611	21%
Total	**29,468**	**15,809**	**13,659**	**86%**
Fee and commission expense				
a) Financial instruments	-	(198)	198	(100%)
d) Custody and administration	(111)	(70)	(41)	59%
d) Collection and payment services	(699)	(377)	(322)	85%
f) Servicing activities for securitisation operations	(182)	(903)	721	(80%)
h) Financial guarantees received	-	(1)	1	(100%)
k) Other fee and commission expense	(830)	(618)	(212)	34%
Total	**(1,822)**	**(2,167)**	**345**	**(16%)**
Net fee and commission income	**27,646**	**13,642**	**14,004**	**>100%**

Net fee and commission income amounted to EUR 27.6 million, up significantly compared to the period ended 30 June 2021, when it amounted to EUR 13.6 million. The positive change was due primarily to commissions for capital market activities, included in the Corporate Finance category, higher commissions related to factoring and loan operations, and the significant rise in other fee and commission income.

Specifically, this latter item included fee and commission income from the specific business of Group companies relating to neprix, Abilio and Abilio Agency – and, in particular, the auction commissions and commissions from associated services, accrued on the use of the company's real estate portfolios – for approximately EUR 6.2 million.

Other operating expenses and income

(amounts in thousands of euros)

Items/Technical forms	30 June 2022	30 June 2021	Absolute changes	Change %
Other operating expenses				
Amortisation of expenses for improvements on third party assets	(58)	(43)	(15)	35%
Other operating expenses	(679)	(836)	157	(19%)
Total	**(737)**	**(879)**	**142**	**(16%)**
Other operating income				
Recoveries of expenses from other customers	1,454	851	603	71%
Other income	9,749	2,898	6,851	>100%
Rental income	1,490	1,271	219	17%
Total	**12,693**	**5,020**	**7,673**	**>100%**
Other operating income/expenses	**11,956**	**4,141**	**7,815**	**>100%**

The item includes operating income and expenses of the Bank and its subsidiaries. Other operating income is mainly from the amount regarding ION to use the licence on the IT platform developed by illimity, for EUR 8.5 million, and sales revenues of neprix and the Group's real estate companies. Other main components refer to rental income for the management of real-estate complexes, recognised under Property and Equipment, acquired through the NPL business.

Personnel expenses

(amounts in thousands of euros)

Items/Technical forms	30 June 2022	30 June 2021	Absolute changes	Change %
1. Employees	(41,208)	(33,580)	(7,628)	23%
2. Other personnel in service	(1,048)	(963)	(85)	9%
3. Directors and statutory auditors	(1,213)	(1,056)	(157)	15%
Personnel expenses	**(43,469)**	**(35,599)**	**(7,870)**	**22%**

Personnel expenses amounted to approximately EUR 43.5 million and consist mainly of employee wages and salaries and the related social security contributions. This item went up compared to the same period of the previous year due to new personnel being employed to support the Group's new, increased operations.

The Group had a total of 834 employees as of 30 June 2022, up on 30 June 2021 (when it was equal to 675).

Other Administrative expenses

(amounts in thousands of euros)

Items/Technical forms	30 June 2022	30 June 2021	Absolute changes	Change %
Insurance	(1,632)	(1,557)	(75)	5%
Various consulting services	(5,222)	(4,025)	(1,197)	30%
Cost of services	(2,271)	(1,741)	(530)	30%
Financial information	(1,505)	(1,152)	(353)	31%
Adverts and advertising	(3,049)	(1,270)	(1,779)	>100%
Financial statement audit	(401)	(321)	(80)	25%
IT and software expenses	(11,882)	(10,255)	(1,627)	16%
Legal and notary's fees	(4,445)	(2,879)	(1,566)	54%
Property management expenses	(2,506)	(1,879)	(627)	33%
Expenses for professional services	(5,643)	(4,564)	(1,079)	24%
Utilities and services	(818)	(789)	(29)	4%
Other indirect taxes and duties	(2,366)	(4,677)	2,311	(49%)
Others	(933)	(663)	(270)	41%
Total other administrative expenses	**(42,673)**	**(35,772)**	**(6,901)**	**19%**

Other administrative expenses amounted to approximately EUR 42.7 million, increasing by EUR 6.9 million compared to the same period of the previous year, and refer primarily to IT and software expenses, expenses for professional services, consulting and legal and notary's fees.

Net adjustments/recoveries on property and equipment and intangible assets

(amounts in thousands of euros)

Items/Technical forms	30 June 2022	30 June 2021	Absolute changes	Change %
Net adjustments/recoveries on property and equipment				
Property and equipment with functional use	**(1,747)**	**(1,722)**	**(25)**	**1%**
of which: own Property and equipment	(190)	(569)	379	(67%)
of which: Inventories	(107)	-	(107)	n.a
of which: Rights of use acquired through lease agreements	(1,450)	(1,153)	(297)	26%
Total	**(1,747)**	**(1,722)**	**(25)**	**1%**
Net adjustments/recoveries on intangible assets				
Finite useful life	(5,577)	(3,463)	(2,114)	61%
Indefinite useful life	-	-	-	n.a
Total	**(5,577)**	**(3,463)**	**(2,114)**	**61%**
Net adjustments/recoveries on property and equipment and intangible assets	**(7,324)**	**(5,185)**	**(2,139)**	**41%**

Net adjustments/recoveries on property and equipment and intangible assets amounted to approximately EUR 7.3 million, compared to EUR 5.2 million as of 30 June of the previous year. The increase was due to the amortisation of considerable IT investments made by the Bank, as well as greater depreciation for right of use assets, acquired through lease agreements, as indicated in IFRS 16, as well as the amortisation of intangible assets recognised in accordance with IFRS 3.

Net adjustments/recoveries for assets measured at amortised cost

(amounts in thousands of euros)

Transaction/Income item	Adjustments (1)						Recoveries (2)				30 June 2022
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired	
			Write-offs	Others	Write-offs	Others					
A. Due from banks	**(54)**	**-**	**-**	**-**	**-**	**-**	**238**	**-**	**-**	**-**	**184**
- loans	(54)	-	-	-	-	-	238	-	-	-	184
- debt securities	-	-	-	-	-	-	-	-	-	-	-
B. Loans to customers:	(3,725)	**(237)**	**-**	**(2,646)**	**-**	**(61,003)**	**2,167**	**365**	**978**	**88,916**	**24,815**
- loans	(2,582)	(125)	-	(2,646)		(61,003)	1,724	247	978	88,916	25,509
- debt securities	(1,143)	(112)	-	-		-	443	118	-	-	(694)
Total	**(3,779)**	**(237)**	**-**	**(2,646)**	**-**	**(61,003)**	**2,405**	**365**	**978**	**88,916**	**24,999**

Net adjustments/recoveries for assets measured at amortised cost amounted to EUR 25 million. In particular, net recoveries on POCI loans amounted to EUR 27.9 million, as shown in the table above, of which EUR 36.5 million relating to closed positions. Item 130 a) also includes net adjustments/recoveries relating to banks, financial entities and open POCI positions. The sub-item "purchased or originated impaired financial assets" refers to the amount of losses/recoveries on loans classified as purchased or originated credit impaired as a result of collections or revisions of business plans.

Basic and diluted earnings (losses) per share

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

(amounts in thousands of euros)

Basic and diluted earnings per share	Profit/(Loss) for the period	Average number of shares	Basic and diluted earnings per share
Period ended 30 June 2022	31,468	79,352,210	0.40
Period ended 30 June 2021	27,418	73,276,910	0.37

(amounts in thousands of euros)

Diluted earnings (losses) per share	Profit/(Loss) for the period	Average number of shares	Diluted earnings (losses) per share
Period ended 30 June 2022	31,468	81,383,304	0.39
Period ended 30 June 2021	27,418	73,276,910	0.37

Trailing earnings per share as of 30 June 2022 of the Group, calculated considering the economic results and weighted average number of ordinary shares issued in the last twelve months, would amount to EUR 0.89 per share in the basic scenario, compared to EUR 0.88 in the diluted scenario.

Quarterly trend

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

Reclassified Statement of Financial Position

(amounts in thousands of euros)

Assets	30 June 2022	31 March 2022	31 December 2021	30 September 2021	30 June 2021
Own portfolio - Securities at FV	432,345	428,100	300,436	264,768	299,513
Loans to customers HTCS	-	-	-	15,806	15,856
Financial instruments mandatorily measured at fair value	79,237	78,634	75,751	87,021	138,439
Loans mandatorily measured at fair value	22,500	-	-	521	505
Due from banks	30,737	54,729	267,969	373,040	438,603
Loans to financial entities	160,022	159,964	199,857	169,825	169,842
Loans to customers	3,194,213	2,831,749	2,761,940	2,473,115	2,330,341
Government Bonds HTC	160,846	107,565	-	-	-
Investments in equity	76,145	78,147	79,953	81,775	83,727
Property and equipment and intangible assets	218,739	168,091	153,984	153,986	152,371
Tax assets	61,302	51,144	45,672	24,247	29,449
Other assets	690,578	964,286	775,028	1,001,465	672,108
Total assets	**5,126,664**	**4,922,409**	**4,660,590**	**4,645,569**	**4,330,754**

(amounts in thousands of euros)

Liabilities	30 June 2022	31 March 2022	31 December 2021	30 September 2021	30 June 2021
Due to banks	539,198	412,190	411,314	546,046	581,628
Amounts due to customers	3,106,712	3,064,799	2,818,146	2,713,706	2,643,308
Securities issued	509,630	504,681	499,788	507,117	304,067
Financial liabilities in own portfolio – instruments at FV	13,413	1,855	59	-	-
Tax liabilities	16,211	26,747	20,256	8,354	5,268
Other liabilities	139,636	134,710	138,207	114,584	115,741
Shareholders’ equity	801,864	777,427	772,820	755,762	680,742
Total liabilities and shareholders’ equity	**5,126,664**	**4,922,409**	**4,660,590**	**4,645,569**	**4,330,754**

Reclassified Income Statement

(amounts in thousands of euros)

Income Statement items	2Q2022	1Q2022	4Q2021	3Q2021	2Q2021
Net interest margin	38,009	36,046	34,484	34,227	33,215
Net fee and commission income	14,809	12,837	11,639	10,275	8,698
Profits/losses on financial assets and liabilities	5,890	2,751	6,153	7,545	1,063
Net write-downs/write-backs on closed positions	16,195	20,556	18,956	7,076	26,021
Other operating expenses and income	5,694	6,262	6,579	7,443	2,138
Total net operating income	**80,597**	**78,452**	**77,811**	**66,567**	**71,135**
Personnel expenses	(22,768)	(20,701)	(22,215)	(15,871)	(18,961)
Other administrative expenses	(21,859)	(20,814)	(23,337)	(17,083)	(19,234)
Net adjustments/recoveries on property and equipment and intangible assets	(3,912)	(3,412)	(2,898)	(2,649)	(2,215)
Operating expenses	**(48,539)**	**(44,927)**	**(48,450)**	**(35,603)**	**(40,410)**
Operating profit (loss)	**32,058**	**33,525**	**29,361**	**30,964**	**30,725**
Net losses/recoveries for credit risk - HTC Banks	(162)	183	(137)	48	12
Net losses/recoveries for credit risk - HTC Other financial entities	(8)	(1)	(30)	-	(98)
Net losses/recoveries for credit risk - HTC Clients	(5,679)	(5,789)	(13,699)	1,159	(6,421)
Net losses/recoveries for credit risk - HTCS	(171)	(542)	(222)	459	361
Net adjustments/recoveries for commitments and guarantees	110	524	218	(1,630)	190
Total net adjustments/recoveries	**(5,910)**	**(5,625)**	**(13,870)**	**36**	**(5,956)**
Other net provisions	(10)	(28)	(218)	-	25
Other income (expenses) on investments	(2,020)	(1,828)	(1,788)	(1,996)	(1,851)
Contributions and other non-recurring expenses	(127)	(1,962)	(1,351)	(1,765)	(569)
Profit (loss) from operations before taxes	**23,991**	**24,082**	**12,134**	**27,238**	**22,374**
Income tax for the period on continuing operations	(8,198)	(8,407)	7,258	(8,457)	(7,512)
Profit (loss) for the period	**15,793**	**15,675**	**19,392**	**18,781**	**14,862**

The interest margin in the second quarter of 2022 amounted to EUR 38 million, up on the previous quarter and up strongly on the same period of 2021, following the purchases of NPL portfolios in the period and the disbursements carried out by the Growth Credit Division. The Distressed Credit Division was able to make a significant contribution also to the result for the period, in spite of the challenging market conditions.

Total net operating income for the second quarter of 2022 amounted to EUR 80.6 million. Besides net interest, revenues for the quarter included net commission for EUR 14.8 million, a net gain on positions closed in the quarter for approximately EUR 16.2 million, a positive contribution from trading for EUR 5.9 million and other net income, attributable to both more operations in the real estate sector connected with the management of securitised NPL portfolios, and the sale to ION of licence rights for the IT platform developed by illimity.

Operating expenses in the second quarter of 2022, equal to approximately EUR 48.5 million, increasing on the previous quarter. Personnel expenses increased, due to the growth in the workforce to support the new, increased operations of the Group, as well as due to the annual tranche of the ESOP Other administrative expenses also increased on the previous quarter, due to higher costs incurred for adverts and advertising, legal and notary’s fees and property management expenses.

Net losses/recoveries, negative in the amount of EUR 5.9 million, are essentially linked to the valuation of the Customer HTC portfolio, with a negative impact compared with the previous quarter. In detail, net losses on positions measured at amortised cost are primarily related to individual and collective assessments of loans to customers and the effects of the revision of expected cash flows from the NPL portfolios for existing positions.

Lastly, expenses on investments, related to results for the period of consolidated companies with the equity method, came to EUR 2 million.

As a result of the above dynamics, the second quarter of 2022 ended with a profit before taxes on continuing operations equal to EUR 24 million. The net profit realised by the Group in the quarter amounted to EUR 15.8 million.

Contribution of operating segments to the Group's results

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

a) Distressed Credit
b) Growth Credit
c) Investment Banking
d) Direct Banking;
e) Asset Management Company.

In addition, the Corporate Centre has the function of steering, coordinating and controlling the entire Group. illimity Group segment reporting is based on elements that management uses to make its operating decisions ("management approach"), in line with the reporting requirements of IFRS 8.

The next table shows the main data summarising developments in the operating segments of the illimity Group in the first six months of 2022.

Economic performance	Distressed Credit	Growth Credit	Investment Banking	Direct Banking	SGR	Corporate Centre	30 June 2022
Net interest margin	54.8	15.8	1.3	2.2	-	-	74.1
Net fee and commission income	7.3	13.4	5.6	-	1.3	-	27.6
Other economic components	45.6	2.7	0.7	7.0	(0.1)	1.5	57.4
Total net operating income	**107.7**	**31.9**	**7.6**	**9.2**	**1.2**	**1.5**	**159.0**
Personnel expenses	(15.5)	(6.1)	(1.8)	(3.8)	(1.2)	(15.1)	(43.5)
Other administrative expenses and Net adjustments/ recoveries on property and equipment and intangible assets	(23.0)	(4.0)	(0.5)	(8.7)	(0.2)	(13.6)	(50.0)
Operating expenses	**(38.5)**	**(10.1)**	**(2.3)**	**(12.5)**	**(1.4)**	**(28.7)**	**(93.5)**
Operating profit (loss)	**69.2**	**21.8**	**5.3**	**(3.3)**	**(0.2)**	**(27.2)**	**65.6**
Total net adjustments/ recoveries and other provisions	(8.9)	(1.9)	(0.6)	(0.1)	-	-	(11.5)
Contributions and other non-recurring expenses	(0.3)	(0.4)	-	(0.4)	-	(1.0)	(2.1)
Other income (expenses) on investments	(0.1)	-	-	(3.7)	-	-	(3.8)
Profit (loss) from operations before taxes	**59.8**	**19.5**	**4.7**	**(7.5)**	**(0.2)**	**(28.2)**	**48.1**

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

Financial data	Distressed Credit	Growth Credit	Investment Banking	Direct Banking	SGR	Corporate Centre	30 June 2022
Financial assets measured at fair value through profit or loss	64.4	46.4	7.3	-	-	-	118.1
Loans to customers	1,013.5	1,727.7	2.5	24.2	-	-	2,767.9
Asset securities at amortised cost	430.3	140.9	15.5	0.5	-	-	587.2
Property and Equipment	65.8	-	-	-	-	25.3	91.1
Amounts due to customers and Securities issued	-	-	-	2,138.8	-	1,505.7	3,644.5
RWAs	2,146.0	1,270.2	119.0	72.8	2.7	363.1	3,973.8

Shown below are the main economic data illustrating developments in the operating segments of the illimity Group in the first half of 2021.

Economic performance	Distressed Credit	Growth Credit	Investment Banking	Direct Banking	SGR	Corporate Centre	30 June 2021
Total net operating income	101.5	17.4	2.9	4.1	0.5	0.4	126.8
Operating expenses	(32.5)	(10.1)	(1.6)	(10.1)	(1.2)	(21.0)	(76.5)
Profit (loss) from operations before taxes	**66.2**	**7.3**	**0.4**	**(10.3)**	**(0.7)**	**(21.4)**	**41.5**

The Distressed Credit Division reported approximately EUR 54.8 million of net interest income in the first half of 2022, and a net operating income of EUR 107.7 million (approximately 67.7% of the illimity Group's net operating income). Profits before taxes amounted to EUR 59.8 million for the first half of 2022.

The Growth Credit Division reported a profit before taxes of EUR 19.5 million in the first half of 2022, a net increase compared to the result achieved in the same period of the previous year, which amounted to EUR 7.3 million.

The Investment Banking Division, established on 1 January 2022, reported operating profit of approximately EUR 5.3 million, especially due to Capital Markets commissions.

The Direct Banking Division, as of 30 June 2022, reported an operating loss of approximately EUR 3.3 million and includes the positive contribution deriving from the granting of the licence to use the IT platform between illimity and the ION Group. The joint venture in Hype is expected to produce benefits, above all significant cost sharing, as well as revenues enabled from cross selling opportunities.

The SGR contributed to consolidated results as of 30 June 2022 with an operating loss of approximately EUR 0.2 million. It is believed that the growing operation of illimity SGR will gradually benefit the Group, especially in terms of improving the commission margin.

Lastly, the central functions of the Corporate Center reported an operating loss of EUR 27.2 million in the first half of 2022, which is consistent with its nature as a cost centre for all other functions of the Group.

Distressed Credit

Direct Acquisitions

As of 31 March 2022, the Distressed Credit Division had purchased EUR 9.2 billion of distressed loans, in terms of gross book value, for the price of approximately EUR 1,451 million.

Throughout the course of the second quarter of 2022, a total of approximately EUR 73 million was invested in loan purchase operations, for a total nominal value of around EUR 1,427 million.

As of 30 June 2022, business opportunities were finalised through three different structures:

- acquisitions completed through securitisation vehicles pursuant to Law 130/1999: these transactions were concluded by subscribing 100% of the notes issued by the securitisation vehicles (with the exception of the Convivio transaction, of which illimity subscribed 50% of the single-tranche note as part of a joint venture with Apollo Global Management), which in turn receive from illimity the funding necessary for the acquisition of the loans. In this case, the purchase may only concern positions classified as bad loans, or in any case revoked credit lines;
- acquisitions or new loan disbursements executed directly by illimity: loans are purchased (or disbursed) directly by illimity and accounted for in the Bank's financial statements; this case is necessary, for example, for the purchase of still-active positions, usually classified as unlikely-to-pay, for which the transfer of both the credit right and the associated banking relationship is required;
- acquisitions of Public Procurement Claims finalised through securitisation vehicles pursuant to Italian Law 130/1999: those operations were carried out through the subscription of 100% of the notes issued by the securitisation vehicles.

Also taking into account investments made in previous years, as of 30 June 2022 the Distressed Credit Division finalised investment transactions in distressed loans, both on its own and through controlled securitisation vehicles, for a total amount of approximately EUR 1,524 million, as shown below.

(Amounts in millions of euros)

Investment transactions in Distressed Loans	Price	GBV
Loans up to 31/12/2020	**1,120**	**7,567**
Q1 2021	47	245
Total as of 31/03/2021	**1,167**	**7,812**
Q2 2021	49	213
Total as of 30/06/2021	**1,216**	**8,025**
Q3 2021	35	352
Total as of 30/09/2021	**1,251**	**8,377**
Q4 2021	81	217
Total as of 31/12/2021	**1,332**	**8,594**
Q1 2022	119	631
Total as of 31/03/2022	**1,451**	**9,225**
Q2 2022	73	1,427
Total as of 30/06/2022	**1,524**	**10,652**

Senior Financing Operations

During the course of the second quarter of 2022, the operations finalised by the Senior Financing area amounted to EUR 21 million disbursed.

Also taking into consideration the investments made by the Senior Financing area in previous years, as of 30 June 2022 the Bank signed asset-backed loan-agreements in support of professional investors in the distressed credit and distressed assets sectors, for a total of EUR 564 million, as shown below.

(Amounts in millions of euros)

Asset-backed financing on Distressed Loans	Amount paid
Loans up to 31/12/2020	**456**
Q1 2021	2
Total as of 31/03/2021	**458**
Q2 2021	2
Total as of 30/06/2021	**460**
Q3 2021	9
Total as of 30/09/2021	**469**
Q4 2021	17
Total as of 31/12/2021	**486**
Q1 2022	57
Total as of 31/03/2022	**543**
Q2 2022	21
Total as of 30/06/2022	**564**

Special Situations - Real Estate operations in the context of note subscriptions

During the course of the second quarter of 2022, there were no new subscriptions of notes in the Special Situations Real Estate area.

Taking into account investments made in previous years, as of 30 June 2022 the Bank subscribed notes with the support of the Special Situations - Real Estate area, for a total amount of approximately EUR 58 million.

Energy operations

The current positions of Special Situations Energy in the portfolio are recognised under the item “financial instruments mandatorily measured at fair value” in a note (a brief description of an investment in an asset portfolio), and recognise the following income components overall in profit or loss:

- a monthly component of coupon interest related to the outstanding amount of the underwritten note, reflecting a business plan equal to 3% of portfolio profitability;
- an extra-return component recognised under the item “Net result of assets mandatorily measured at fair value”, to the extent that an amount of cash is received (therefore, net of costs and cash reserves of the operation identified by the securitisation vehicle), greater than the amount of the coupon, on condition that future cash flows of the business plan are confirmed and therefore extra cash is not attributable to time advances of future cash flows;
- a component consisting of recoveries or adjustments to increase or decrease the return recognised under the item «Net result of assets mandatorily measured at fair value» in relation to the valuation of positions for which the repossess of the plant has been completed and is expected to be sold within the next 12 months.

In addition to the above, illimity granted a revolving credit line to SpicyCo S.r.l. and Spicy Green SPV S.r.l. for a maximum agreed amount of EUR 10 million as of 30 June 2022.

In the second quarter of 2022, there were no new investments in the Special Situations Energy segment.

In view of the above, considering also the investments made in previous years, as of 30 June 2022, the Distressed Credit Division finalised investment transactions in the Special Situations Energy sector, through the securitisation vehicle in the joint venture Spicy Green SPV S.r.l., for an overall amount of approximately EUR 88 million, in terms of the purchase price of positions, against a gross nominal value of purchased positions of approximately EUR 117 million, plus it used EUR 7.2 million of the granted Revolving Credit Facility. Considering the stake held by illimity in the joint venture, the total amount in terms of net book value invested by the Bank in the Special Situations - Energy segment as of 30 June 2022 amounted to around EUR 77 million.

Growth Credit Division

As of 31 March 2022, the Growth Credit portfolio had a gross exposure of EUR 1,513 million, broken down as follows:

- former BIP portfolio, amounting to EUR 113 million (7%);
- Turnaround amounting to approximately EUR 491 million (32%);
- Crossover and Acquisition Finance amounting to EUR 618 million (41%);
- Factoring, amounting to EUR 291 million (19%).

In the second quarter of 2022, receivables of the Growth Credit Division grew significantly by approximately EUR 337 million (+22% compared to 31 March 2022), mainly due to new investments (disbursements and acquisition of loans) of approximately EUR 299 million and repayments for approximately 42 million, as well as an increase in factoring loans of EUR 84 million and in investments in corporate bonds of EUR 10 million.

The portfolio of corporate bonds as of 30 June 2022 totalled EUR 51 million, up by EUR 10 million compared to 31 March 2022. In that regard, it is noted that on 1 January 2022, with the revision of the corporate organisation and the introduction of the Investment Banking Division, the HTCS bond portfolio was removed from the responsibility of the Growth Credit Division.

In brief, the main qualitative trends relating to the second quarter of 2022 are as follows:

a) new loans secured by public guarantees for a total of approximately EUR 150 million, of which EUR 87 million relating to the Turnaround Area and EUR 63 million relating to the Crossover & Acquisition Finance Area;
b) disbursement of unsecured loans for EUR 148 million, attributable to the Crossover & Acquisition Finance Area for almost EUR 62 million and to the Turnaround Area for over EUR 86 million;
c) the entirely residual purchases of loans in the Turnaround Area (approximately EUR 0.4 million), relating to minority shares of the borrowers of positions already held;
d) repayments for almost EUR 42 million, of which approximately EUR 19 million connected with refinancing operations and EUR 23 million referring to early repayment.

As regards factoring, there was significant growth in loans, which were at values slightly higher than those recorded as of 31 December 2021, equal to EUR 370 million. The trend in turnover was also positive, amounting to EUR 454 million in the second quarter, which brought the total figure since the beginning of the year to EUR 786 million.

The run-off of the former BIP portfolio continues, which, in the second quarter of 2022 recorded a decrease in exposures of almost EUR 2 million. Note that due to operating practices the aggregate also includes loans granted to illimity Group employees.

As of 30 June 2022, the Growth Credit portfolio had a gross exposure of EUR 1,850 million, broken down as follows:

- former BIP portfolio, amounting to EUR 111 million (6%);
- Turnaround amounting to approximately EUR 656 million (36%);
- Crossover and Acquisition Finance amounting to EUR 708 million (38%);
- Factoring, amounting to EUR 375 million (20%).

Investment Banking

On 1 January 2022, the new business division named Investment Banking was established, which targets companies, financial companies and public institutions in order to support them in structuring market and private operations, to meet their needs for capital, debt and strategic growth, not only through IPOs, but also through bond issues and structuring securitisations. The offering also includes the structuring and provision of risk hedging operations and consulting for operations such as mergers, spin-offs, incorporations, acquisitions and corporate restructuring.

The Division's operations break down into the following activities:
- Capital Markets;
- Corporate Solutions;
- Structuring.

These activities are managed by dedicated, separate organisational structures in the Division.

As of 30 June 2022, the Division's KPIs were as follows (considering the previous operations carried in 2021 within the other business divisions):
- 6 IPOs successfully concluded on Euronext Growth Milan, for total funding of EUR 81 million since the date of establishment of the Unit Capital Markets;
- Investment portfolio (corporate bonds and alternative debt) of approximately EUR 117 million;
- EUR 160 million in nominal value of instruments traded with customers;
- A securitisation of trade receivables for a maximum amount of the program of EUR 100 million and the acquisition of a further 4 mandates in which it will act as Arranger, with regard to Basket Bonds, Basket Loans, securitisation of trade receivables and securitisation of secured loans.

Capital Markets Operations

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

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

As of 30 June 2022, in addition to acquiring numerous Global Coordinator, EGA and advisory mandates, the Division successfully completed two IPOs on EGM for a total of EUR 27 million in placements.

From the date of establishment of the Unit to 30 June 2022, 6 IPOs were successfully concluded on the EGM for a total of EUR 81 million.

Corporate Solutions Operations

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

With regard to the management of the investment portfolio, the structure invests in the (primary and secondary) markets of corporate bonds and alternative debt (tranches of securitisations, hybrid instruments, etc.) to support companies and finance their current operations and growth, guaranteeing quick execution and time-to-market.

As of 30 June 2022, the investment portfolio managed by Corporate Solutions amounted to a nominal value of approximately EUR 117 million, with the following characteristics:

- extensive single name, geographical and sector diversification (the portfolio is invested in over 90 instruments, with approximately 70% of investments made in domestic issuers and in around 30 industries);
- an average duration limited to 4 years.

Due to the synergies with the other business divisions, the Investment Banking Division offers customers a wide range of risk hedging solutions, providing them with the necessary instruments to reduce and limit the risks linked to their operations and statement of financial position structures. From the time it began operating up to 30 June 2022, it has managed and structured a total of EUR 160 million (of which EUR 97 million in the first half of 2022).

Structuring Operations

The activities of the Structuring Unit consist of defining and identifying efficient structured financing solutions that require extensive financial specialisation and expertise to achieve the objectives of diversifying funding sources, improving companies' financial positions and optimising the capital of our customers.

The Unit operates as an Arranger and Lead Manager in structurings and placements on the market, for institutional investors, of securitisations, basket bonds and alternative debt.

From its establishment to June 2022, Structuring has successfully concluded a securitisation of trade receivables for a maximum amount of the program of EUR 100 million and acquired a further 4 mandates in which it will act as Arranger, with regard to Basket Bonds, Basket Loans, securitisation of trade receivables and securitisation of secured loans.

Direct Banking

Direct Banking projects

Since its launch in February, b-ilty – the first digital business store for financial and credit services for SMEs with turnover mainly from EUR 2 million to EUR 10 million – has continued to grow and develop.

During the second quarter, numerous projects were launched with the goal of further improving the quality of services offered by the store, as well as to expand its value proposition. New arrangements with leading partners in the financial and technology markets were formalised, including:

- Helvetia Vita S.p.A.: based on the partnership that began in 2019 in the retail area with Helvetia Vita S.p.A. – a leading Swiss insurance company present in Italy for over 70 years, "Helvetia E-Corporate Protection", the CPI (Credit Protection Insurance) policy was developed, which aims to protect the company's ability to cover its economic commitments in the event of unforeseen events involving the company's key officers. The entire process of subscribing the policy – including signing the contracts – is carried out digitally, due to the integration of the b-ilty platform with that of Yolo – an insurtech leader on the Italian market and the technology partner of Helvetia in the project.
- Italiana Assicurazioni: this partnership provides SMEs with a wide range of solutions to protect business operations and employees, in relation to their typical risks and with specific regard to the current interconnected, digital situation. Through the b-ilty platform, companies can contact the partner, which can conducted a personalised assessment of the specific company risks and offer tailor-made solutions for the best possible coverage.
- Zucchetti: this partnership guarantees special economic terms and conditions for accessing a suite of applications to support internal management processes, available to all customers on the Zucchetti Store. This offer ranges from credit intelligence solutions and company check-ups for the economic-financial monitoring of the company to cloud computing solutions to simply and intuitively manage all operational needs of SMEs, also including specific electronic invoicing solutions.

- Microsoft, with a partnership created to support the companies that are b-ilty customers in their digital transformation processes. As a result, b-ilty customers have access to solutions dedicated to collaboration and personal and company productivity, ensuring that the work environment is more secure, digital and connected.

The new range of products and services joins the services of partners already activated since the platform was launched. Specifically, regarding training, the "Step up with Amazon" program was rendered accessible, designed to support the digitalisation of Italian SMEs, while in the area of sustainability, partnership with Eni was launched which supports the sustainable development of companies through the Open-es platform.

To promote the platform's functionalities and increase its dissemination in the Italian business fabric, a digital advertising campaign was activated on comparison websites and sector websites (over 30 players involved), with goals of awareness, consideration and performance. Moreover, additional initiatives were launched:

- a radio campaign, with the goal of increasing the consideration of b-ilty as a financial partner, a comprehensive platform created by listening to the needs of SMEs, not just a simple bank that provides credit;
- "B-iltyb-ilty webinars", online sessions aimed at both increasing customer engagement and increasing awareness by targeting potentially interested parties, presenting b-ilty through the voices of several key figures of illimity;
- "*b-ilty talks*", local meetings dedicated to specific industrial districts which, through the spokespersons of illimity and b-ilty, covered issues (also chosen through surveys of entrepreneurs) of specific interest for the world of SMEs.

With a view to improving the processes designed in the development phase, during the second quarter, the Fast Lending initiative was implements, which aims to simplify and speed up the assessment and approval process of loan applications, due to an agile process dedicated to highly virtuous customers that comply with specific risk parameters. The launch phase provides for the testing of the Fast process on tickets of limited amounts,with in order to consolidate the process and automated mechanisms, and extend its scope also to applications for loans of higher amounts.

As regards technological infrastructure, in addition to making upgrades on previous releases (e.g. the option to subscribe a CPI policy in the event of joint onboarding of a loan and an account), in the second quarter, the development of new functionalities continued on the digital platform and on the applications supporting the loan engine. To date, the processing by the fully-digital platform is joined by a parallel run, with manual assessment of applications, in order to strengthen the training of algorithms and applications already in production.

Retail Business performance

In the Retail segment, the Division continues to play the role of the main source of funding to support the Group's commitments.

As of 30 June 2022, Direct Bank funding was broken down as follows:

- the partnership with the German fintech platform Raisin, operational since May 2019, contributed EUR 606 million to funding thanks to its approximately 16,100 customers. During the specific quarter, stock of funding grew by approximately EUR 40 million (+7% quarter on quarter) and approximately 900 new customers;
- the digital bank illimitybank.com (including the customers acquired through the strategic partnership with Azimut) contributed EUR 1,467 million to funding. The funding increased by approximately EUR 45 million during the last quarter, and by approximately EUR 237 million compared to the same period of 2021 (+19%).

Total direct funding from the above channels (Raisin and illimitybank.com) amounted to EUR 2.1 billion. As regards the illimitybank.com channel, the strategy of the last year made it possible to change the cost of funding from 1.9% (end of the first quarter of 2021) to 1.7% (as of 30 June 2022).

In addition to these channels, a contribution was provided by the Hype deposit products, whose pilot phase was launched during the first quarter on a selected segment of the customer base. Including all sources of funding, the cost of funding came to 1.6%.

The Direct Bank customer base (excluding customers in the German channel Raisin) currently comprises some 59,200 customers (+20% compared to the end of the second quarter of 2021, and over 2,200 customers more in the second quarter of 2022).

As regards the main KPIs that describe the Division's operations on the Retail segment, the following is reported:

- Brand Awareness stood at 28% in Q2 2022, in line with the average of the previous quarters, despite the substantial absence of investments in the segment;
- The Net Promoter Score (NPS) came to 43 as of 30 June. The satisfaction level of retail customers in the second quarter was confirmed at the level of the two previous quarters, due to a promoter score of 56% of customers interviewed and despite the substantial absence of advertising investments in the segment:
- The number of active customers, i.e. customers who use the Bank's services, is stable, currently amounting to 89%, reflecting a customer base that is satisfied and engaged;
- The number of loyal customers, that use the products and services of the Bank to a considerable extent, which currently stands at 40%, increased by +46% in terms of the number of customers choosing illimity as the Bank their salary is paid into, compared to the same quarter of 2021;
- The number of customers that access the platform each month stands at 74%, with an average of approximately 17 visits a month, with 90% from smartphones.

b-ilty Business Performance

As of 30 June, the b-ilty portfolio had a gross exposure (GBV) of EUR 24.4 million, broken down as follows:

- Portfolio of medium/long-term loans of EUR 22.4 million (92%);
- Factoring, amounting to EUR 2.0 million (8%).

With regard to medium/long-term loans, the following is noted:

- Loans were disbursed for EUR 22 million – equally distributed between the direct channel and the indirect network – of which EUR 9 million disbursed in June, with a growth rate of approximately +50% on May. That figure forms a solid basis for confirming the process defined for the second half;
- The outstanding portfolio recorded an average rate and maturity in line with those assumed in the planning phase and an average ticket of around EUR 460 thousand;
- There were no non-performing loans, which is the result of a sound approach adopted by the sales network in the origination phase and by the loans office in the assessment phase, which aims to guarantee a low risk profile;
- Projections to 31 July 2022 show a total of around EUR 50 million in loans in the advanced pipeline, including that already disbursed and approved by the Loans Office of the Bank, and thus, soon to be disbursed.

With regard to Factoring operations, as of 30 June, the Division's operations resulted in a turnover of EUR 5.3 million.

Alongside the business results reported, and with the support provided by investments in the area of awareness, engagement and consideration, as of 30 June 2022 – after only five months since the commercial launch – over 290 thousand visits to the website by over 233 thousand users were recorded. This made it possible to achieve a pipeline of loans up +64% quarter on quarter, equal to over 500 negotiations handled by the sales network (to date comprised of 14 professionals organised by geographical area and industry).

Lastly, in the second quarter of 2022, the strengthening of the networks of credit mediators continued: as of 30 June 2022 there were over 40 companies fully operational on the segment, supporting both the disbursement of medium/long-term loans and factoring operations.

Asset Management Company ("SGR")

During the first half of 2022, the SGR continuously performed the activities connected with managing the illimity Credit & Corporate Turnaround Fund, also implementing the necessary activities in preparation of deciding whether to invest in additional receivables, in line with the provisions of the Management Regulation and the Fund's policies and investment strategy.

In line with the strategies of the SGR and of the specific Group , in the rest of the year, the SGR of illimity will implement the necessary activities to pursue and differentiate business opportunities, in line with its status and having conducted the analyses necessary to ensure compliance with the regulations applicable in each case, and the consistently with its organisational structure. To that end, it is specifically noted that, in accordance with the prospects outlined in its 2021-2025 Business Plan, the SGR has launched a series of project activities aimed at extending its operations:

- to the sector of UTP loans, making use of the skills and experience of the UTP & Turnaround Funds Area in the management of problematic receivables secured by real estate assets, through the creation, through resolution of the Board of Directors of the SGR dated 29 March 2022, of a new contribution alternative investment fund (AIF) named illimity Real Estate Credit, whose marketing and launch of operations is expected to occur during the year;
- in the performing loans sector, through the creation of a Private Capital AIF in the context of the Private Capital Area.
- the NPL Small Medium Tickets Funds sector, through the setting up of an AIF with investment strategies and policies in the granular Non-Performing Loans (NPL) market, with potential counterparties both small corporates and retail businesses, and different areas of origination (utilities, consumer, commercial credit, etc.)

Corporate Centre

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

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

CIO

During the second quarter of 2022, activities continued in line with the previous months. All illimiters work at the company and remotely as necessary, facilitated by the IT architecture present as per the Bank's policy.

IT platform projects

As part of IT4IT projects, initiatives dedicated to the technological evolution of infrastructure continued. Specifically, a project was launched to upgrade the technological API management platform, which will move from an "IAAS" to a "Hybrid PAAS" paradigm. The design and analysis phases have been completed, while the execution phase will be finalised during 2022. The intervention will reduce infrastructure and platform management costs.

In the area of Data Quality, as regards the definition of ownership/responsibilities over the Core Banking data, ownership was assigned on all of the data tables available to the Bank, following meetings with the operating structures. In the same area, the "illimity Data Governance" is active, which, through the web app "Data Quality dashboard" and the "Data Quality Monitor" dashboard, accessible by Data Owners and Data Users, enables the creation, constant monitoring and analysis of the results produced by Data Quality controls.

The project is continuously expanding, with new functionalities also based on user feedback. The Data Governance team supports Data Owners in creasing data quality controls, monitors the outcomes in support of the business officers and checks the actual data reconciliation, if necessary.

In the area of security, project activities are under way to develop an Identity Governance framework. Those activities will enable the control of access to company systems based on "least privilege" and "need to know" principles. The automation of Open Source Intelligence (OSINT) is under way to prevent fraud by prospects, both in the retail and business areas.

In addition, the IT team manages Disaster Recovery and Business Continuity activities on a continual basis, also overseeing their development and consolidation. During the weekend of 18-20 March, Disaster Recovery tests were conducted for the scenario "Unavailability of the IT system – Microsoft" for all Group entities(illimity, neprix and the SGR). The areas in which tests were conducted are:

1) *Retail Banking* (web&app);
2) *Institutional websites* and public websites;
3) *b-ilty Corporate* Banking;
4) *Credit ecosystem.*

For all four areas, the overall result was positive and the tests were successfully completed. Tests on the additional scenarios set out in the Business Continuity Plan are scheduled during the year.

Projects in support of the other divisions

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

Direct Banking Division

- In the first quarter of 2022, the evolved digital transactional platform B-ilty was issued, with an inclusive value proposition of credit products and value-added services dedicated to small and micro-enterprises. The digital acquisition process is subject to prior assessment of potential prospects. In the second quarter of 2022, acquisition was extended to the entire public, save for the acceptance criteria defined by the Business.
- The evolution of Open Banking for Payment Initiation and Account Information services also continued, for the purpose of ensuring that the platform aligns with the Directives of the EBA and BankIT.

Growth Credit Division

- The development of the module in the COMS (Credit Origination & Management System) application which will centralise the management of write-downs/write-backs and reclassification of loan relations in the Group's portfolio in a single point was completed. The upgrading of the application was also launched, with a new CMIT module to manage analytical and lump-sum write-downs.
- In the first quarter of 2022, the new operations of the Trade Finance Business were launched.
- In the area of Factoring, the project to manage EIB guarantees was completed.
- The Capital Relief and Synthetic Factoring Securitisation worksites were launched, with the goals of: (i) automating the updating of the celings of the insurance policies of factoring receivables in the K4F database programme, (ii) aligning the IT systems to allow for a securitisation transaction planned by the end of the first quarter of 2023.

Investment Banking Division

Projects to support the new Investment Banking Division were launched, including:

- Extension of the scope managed to listed derivatives.
- Extension of FX derivatives to corporate customers.
- Definition and implementation of the target process for managing alternative debt instruments on a wide range of possible underlyings (receivables, basket bonds/minibonds and basket loans).
- Implementation of a centralised reporting system to provide users with automated monitoring of business activities.

Distressed Credit Division

The main projects under way during the second quarter of 2022 were:

- Upgrading of the Business Plan, Collections and Sales modules by adding new functionalities, to complete the available to Servicing, in addition to the implementation of the new Single Credit Procedure (PUC), which will adapt the systems to the new company policies;
- Implementation of the Real Estate Accounting and Administrative Database for digitised management of the Business Plan relating to the stock of real estate and those being assessed for a possible ReoCo or Datio Insolutum. In the second half of 2022, the Real Estate Accounting and Administrative Database will also implement the management of the Receivables Cycle of the ReoCos and the LeaseCos within illimity's perimeter (contract management, invoice management, cash flow management, etc.);
- Delivery of the Cost Administrative Database "on actual cost basis" planned to be implemented by the end of July 2022. That administrative database will enable the management of purchasing cycle "on an actual cost basis, relating to the SPVs, the ReoCos and the LeaseCos within illimity's perimeter, as well as partial management of the purchasing cycle at bank level (integration to be completed on Zucchetti);
- The analysis of the R1 of the new Applications Administrative Database has been completed. This will result in the disposal of the current database EPC through the porting on COMS of functionalities such as: non-captive configuration, management of principals, management of credit facilities, management of applications, in court/out-of-court workflows, management of approvals, management of warnings/notifications, VDRs for external due diligence, management of repurchase agreements, etc. Almost all the components of the Applications Administrative Database (R1) will be released for UAT by the end of November 2022 and in production in April 2023;
- Delivery of the Single Real Estate DB that centralises the real estate data at the level of the illimity Group. The Single Real Estate Database will contain the concepts of real estate units, assets and lots within illimity's perimeter or deriving from external providers. The Single Real Estate Database is the foundation of the implementation of the application MaiaReX and is the real estate underlying of the Application Administrative Database;
- Upgrading of origination modules to fulfil the requests for improvement in the user experience by Distressed Credit during 2022. In detail:
  - LDT Ingestion: the implementation of the new tailor-made record for Pricing is under way;
  - Pricing: upgrading of the pricing module with an Excel-style interface, which will significantly improve the user experience. The Pricing module will also have to be adapted to the new LDT record;
  - Due Diligence: analysis and implementation of the new Due Diligence application for captive and non-captive customers. Starting from a sub-perimeter defined by Pricing, the application will conduct legal, real estate and financial due diligence;
  - Senior Financing: module that provides periodic monitoring of Senior Financing operations, currently in UAT.
- Servicing Fees: implementation of a module that configures the rules underlying the applications of fees receivable (Neprix to illimity) and payable (subservicer to Neprix);
- PPC Module: Module needed for accurate management of the Public Claim business, whose management is fundamentally different than that of usual non-performing loans. The module will provide different management of the "master records" (at procedure level) and customised management of the accounting aspects regarding collections and Business Plans;
- Energy Module: the module will provide customised management of energy applications and the specific accounting aspects regarding collections and Business Plans;
- Numerous activities on the data side to guarantee the input and alignment of data of the entire perimeter in the implementation/upgrading and running phases.

SGR

- iRec Fund: implementation of the entire architecture (COMS, Panda and Datalake) to support direct operations of the fund or operations through No Lease and Lease securitisation vehicles. As well as to accurately manage all the POCI BP and POCI NO BP accounting aspects, and the alignments with the Master Servicer Finint (lease and no lease vehicles) and with Previnet (fund NAV).

Central Functions

With regard to the main projects under way, dedicated to the Central Functions, micro and macro measures are continuing to constantly improve the Corporate Performance Management systems, in line with the evolution of the Bank's scope of business. The reporting functionality for the calculation engine for the ITR (internal transfer rate, whose expected benefits include a better understanding and measurement of business income as well as enabling active management of interest rate risk) for managing liquidity, treasury mismatches and integration into the management control models is being released.

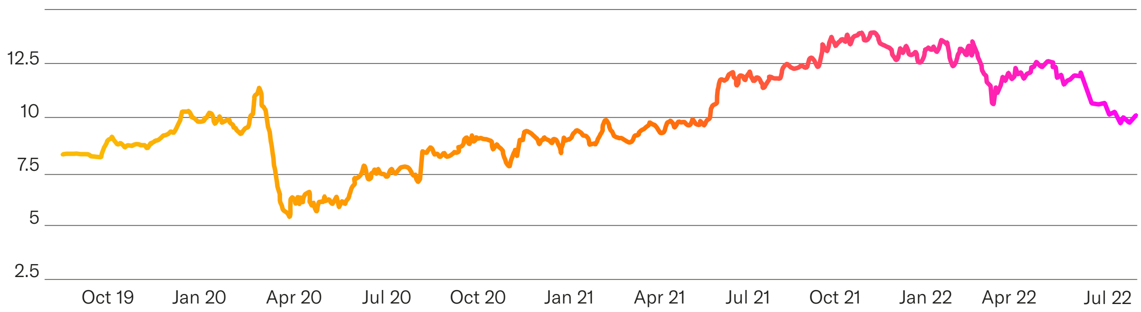
The calculation engine for profitability by product is being released, which will analyse profitability by single product/cluster and supplement the data in the forward-looking assessments of management control.

The analysis and feasibility assessment was launched for the ESG projects aimed at providing the Bank with an ESG assessment for originating transactions for customers, producing reports to the market-investors, and preparing the Non-Financial Report.

The framework is being implemented for automated management of the production of Supervisory Reports (creation of records using the Technical Formats to be sent to OASI), the flows for the Consolidated Financial Statements and the definition of the datamart for consolidating the collective risk data, on the perimeter of the new securitisation operations for the Investment Banking Division.

illimity Bank share performance

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



Significant shareholders with a stake of at least 5% in the share capital with voting rights in illimity, with the percentages calculated by the Bank based on the number of shares resulting from the most recent information available and number of ordinary shares issued, updated at 02 August 2022, are reported below:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
Banca Sella Holding S.p.A.	Banca Sella Holding S.p.A.	Owned	10.00%	10.00%
LR Trust - FIDIM	Fidim Srl	Owned	8.12%	8.12%
ION Investment Corporation Sàrl	FermION Investment Group Limited	Owned	7.26%	7.26%
Tensile Capital Management LLC	Tensile-Metis Holdings Sàrl	Owned	7.01%	7.01%
Atlas Merchant Capital LLC	AMC Metis Sàrl	Owned	6.56%	6.56%

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

Subsequent events

On 20 July 2022, illimity obtained an "A" ESG rating from MSCI, among the leading agencies providing global indices and benchmarks, and an "EE-" rating from Standard Ethics, a leading independent agency that rates the sustainability of companies.

Business outlook

The macroeconomic scenario for the second half of 2022 features continuing extensive uncertainty linked to the expected trend in inflation, the general worsening of the macroeconomic outlook and the possible monetary policy measures of the Central Bank.

In this scenario, illimity is in a good position to handle the second half of the year, as it can count on robust liquidity, excellent levels of credit quality and significant financial solidity. The financial performance of the first half shows resilience and growing diversification, and further progress in implementing high potential new initiatives.

Though in continuing uncertainty, the second half of 2022 began with a positive outlook.

The pipeline of new credit and investment opportunities looks to be extremely rich for all business lines. Therefore, even maintaining an extremely selective approach to new disbursements and investments, the stock of net loans to customers is expected to grow also in the second half of the year.

Specifically, further growth in the business volumes of the Growth Credit Division is forecast in the coming months, also based on loans already approved and the pipeline for a total of approximately EUR 180 million in July 2022, with a positive contribution from all business segments of the Division. Loans backed by a public guarantee are expected to continue to play an important role in terms of contribution to new disbursements, also in view of the extension of the measures to the whole of 2022.

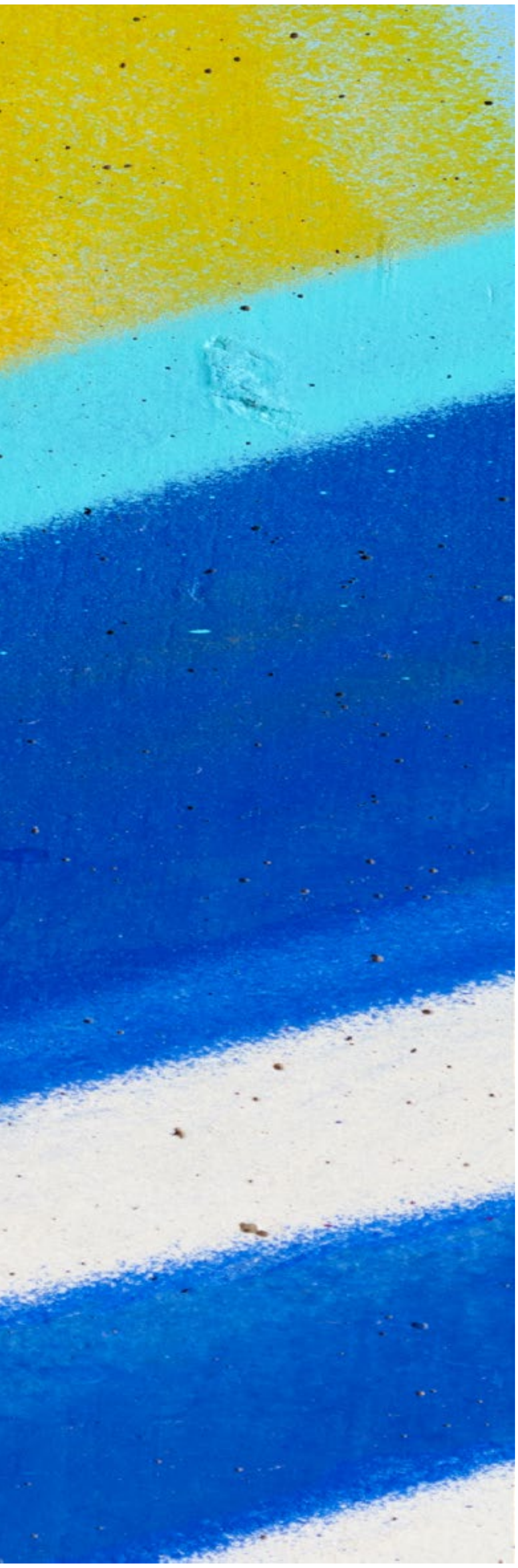
Due to the typical seasonality of the market of transactions in non-performing loans, an acceleration in investments in the Distressed Credit Division is expected in the second half of the year, also based on a robust pipeline of around EUR 1.2 billion. The recent acquisition of AREC, an important operator in the segment of large corporate secured UTP loans, will contribute to the outlook for growth in this area.

The generation of new business volumes will be the main driver of the net interest margin, in a context where the cost of funding could increase due to the tightening of conditions for accessing funding sources, even though illimity can count on numerous, diversified funding strategies and the very limited use of its assets to guarantee loans.

The good performance of net fee and commission income will continue, also supported by the new initiatives already launched – illimity SGR, investment banking services for SMEs, Quimmo, b-ilty – which will be accompanied by an expected positive contribution from the continued performance of the portfolio of investments in non-performing loans.

Operating expenses are expected to grow also in the second half of the year, due to the continuous business development and the investments in new strategic projects, b-ilty above all, which will bear fruit in the coming years.
Considering the quality of the portfolio regarding companies, and the contribution of the public guarantee loans in which a significant part of the new business generated by the Growth Credit Division will be channelled, the cost of credit for the entire year is expected to stay at levels lower than those set out in the business plan.

Positive trends in own funds through the generation of profits, despite further growth in weighted risk assets as a result of growing business volumes, will ensure a Common Equity Tier 1 ratio significantly above regulatory requirements.



Condensed half-yearly consolidated financial statements

as of 30 June 2022

illimity

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets		30 June 2022	31 December 2021
10.	Cash and cash equivalents	397,024	507,779
20.	Financial assets measured at fair value through profit or loss	118,137	76,679
	a) financial assets held for trading	16,400	928
	b) financial assets at fair value	-	-
	c) other financial assets mandatorily measured at fair value	101,737	75,751
30.	Financial assets measured at fair value through other comprehensive income	415,945	299,508
40.	Financial assets measured at amortised cost	3,545,818	3,229,766
	a) due from banks	30,737	267,969
	b) receivables due from customers	3,515,081	2,961,797
50.	Hedging derivatives	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	76,145	79,953
80.	Technical reinsurance reserves	-	-
90.	Property and equipment	91,147	68,735
100.	Intangible assets	127,592	85,249
	of which:		
	– goodwill	71,111	36,257
110.	Tax assets	61,302	45,672
	a) current	4,579	5,168
	b) deferred	56,723	40,504
120.	Non-current assets held for sale and discontinued operations	38,248	43,117
130.	Other assets	255,306	224,132
	Total assets	**5,126,664**	**4,660,590**

CONTINUED: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Liabilities and shareholders' equity		30 June 2022	31 December 2021
10.	Amounts due to customers	4,183,679	3,752,384
	a) due to banks	539,198	411,314
	b) due to customers	3,134,851	2,841,282
	c) securities issued	509,630	499,788
20.	Financial liabilities held for trading	13,413	59
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	-	-
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	16,211	20,256
	a) current	15,163	19,156
	b) deferred	1,048	1,100
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	103,198	105,595
90.	Employee severance pay	3,457	3,695
100.	Allowances for risks and charges	4,842	5,781
	a) commitments and guarantees given	3,233	4,482
	b) post-employment benefits	27	18
	c) other allowances for risks and charges	1,582	1,281
110.	Technical reserves	-	-
120.	Valuation reserves	(42,035)	(6,057)
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	134,076	63,904
160.	Share premium reserve	624,583	597,589
170.	Share capital	54,514	52,620
180.	Treasury shares (-)	(747)	(832)
190.	Equity attributable to minority interests (+/-)	5	5
200.	Profit (loss) for the period (+/-)	31,468	65,591
	Total liabilities and shareholders' equity	**5,126,664**	**4,660,590**

CONSOLIDATED INCOME STATEMENT

Items		30 June 2022	30 June 2021
10.	Interest income and similar income	106,135	93,478
	of which: interest income calculated according to the effective interest method	103,821	90,480
20.	Interest expenses and similar charges	(31,658)	(28,858)
30.	**Net interest margin**	**74,477**	**64,620**
40.	Fee and commission income	29,468	15,809
50.	Fee and commission expense	(2,593)	(2,635)
60.	**Net fee and commission income**	**26,875**	**13,174**
70.	Dividends and similar income	-	-
80.	Profits (losses) on trading	3,006	1,409
90.	Fair value adjustments in hedge accounting	-	-
100.	Profits (losses) on disposal or repurchase of:	1	3,485
	a) financial assets measured at amortised cost	51	302
	b) financial assets measured at fair value through other comprehensive income	(50)	3,183
	c) financial liabilities	-	-
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	5,634	2
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	5,634	2
120.	**Total net operating income**	**109,993**	**82,690**
130.	Net losses/recoveries for credit risks associated with:	24,286	35,916
	a) financial assets measured at amortised cost	24,999	37,059
	b) financial assets measured at fair value through other comprehensive income	(713)	(1,143)
140.	Profits/losses on changes in contracts without derecognition	-	-
150.	**Net result from banking activities**	**134,279**	**118,606**
160.	Net premiums	-	-
170.	Other net insurance income (expense)	-	-
180.	**Profits (losses) of banking and insurance management**	**134,279**	**118,606**
190.	Administrative expenses:	(89,702)	(74,519)
	a) personnel expenses	(43,353)	(35,540)
	b) other administrative expenses	(46,349)	(38,979)
200.	Net allowances for risks and charges	969	(1,317)
	a) commitments and guarantees given	1,007	(1,317)
	b) other net provisions	(38)	-
210.	Net adjustments/recoveries on property and equipment	(1,747)	(1,722)
220.	Net adjustments/recoveries on intangible assets	(5,577)	(3,463)
230.	Other operating income/expenses	13,776	5,587
240.	**Operating expenses**	**(82,281)**	**(75,434)**
250.	Profits (losses) on equity investments	(3,848)	(3,974)
260.	Net gains/losses on the measurement at fair value of property and equipment and intangible assets	-	-
270.	Write-downs/write-backs of goodwill	-	-
280.	Profits (losses) on disposal of investments	(77)	2,278
290.	**Profit (loss) before tax from continuing operations**	**48,073**	**41,476**
300.	Income tax for the period on continuing operations	(16,605)	(14,058)
310.	**Profit (loss) after tax from continuing operations**	**31,468**	**27,418**
320.	Net income (loss) from discontinued operations after tax	-	-
330.	**Profit (loss) for the period**	**31,468**	**27,418**
340.	Net profit (loss) for the period attributable to minority interests	-	-
350.	**Net profit (loss) for the period attributable to the parent company**	**31,468**	**27,418**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

		30 June 2022	30 June 2021
10.	**Profit (loss) for the period**	**31,468**	**27,418**
	Other comprehensive income, after tax, that may not be reclassified to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	-	-
30.	Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	848	133
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity	34	-
	Other comprehensive income, after tax, that may be reclassified to the income statement		
100.	Hedging of foreign investments	-	-
110.	Foreign exchange differences	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (undesignated elements)	-	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(36,860)	(1,357)
150.	Non-current assets held for sale and discontinued operations	-	-
160.	Share of valuation reserves for equity investments measured at equity	-	-
170.	**Total other comprehensive income (after tax)**	**(35,978)**	**(1,224)**
180.	**Other comprehensive income (Item 10+170)**	**(4,510)**	**26,194**
190.	Consolidated comprehensive income attributable to minority interests	-	-
200.	**Consolidated comprehensive income attributable to the parent company**	**(4,510)**	**26,194**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 30 JUNE 2022

	Balance as of 31 December 2021	Change in opening balances	Balance as of 1 January 2022	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Changes in reserves
Share capital:						
a) ordinary shares	51,682	–	51,682	-	–	–
b) other shares	938	–	938	-	–	–
Share premium reserve	597,589	–	597,589	-	–	–
Reserves:						
a) retained earnings	29,801	–	29,801	65,591	–	–
b) others	34,103	–	34,103	-	–	–
Valuation reserves	(6,057)	–	(6,057)	-	–	–
Equity instruments	-	–	-	-	–	–
Treasury shares	(832)	–	(832)	-	–	–
Profit (loss) the financial year	**65,591**	**–**	**65,591**	**(65,591)**	**–**	**–**
Group shareholders' equity	**772,815**	**–**	**772,815**	**-**	**–**	**–**
Shareholders' equity attributable to minority interests	**5**	**–**	**5**	**-**	**–**	**–**

CONTINUED

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

	Balance as of 31 December 2020	Change in opening balances	Balance as of 1 January 2021	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Changes in reserves
Share capital:						
a) ordinary shares	43,069	–	43,069	-	–	-
b) other shares	938	–	938	-	–	-
Share premium reserve	487,373	–	487,373	-	–	-
Reserves:						
a) retained earnings	(4,229)	–	(4,229)	31,086	–	-
b) others	25,995	–	25,995	-	–	7
Valuation reserves	(278)	–	(278)	-	–	-
Equity instruments	-	–	-	-	–	-
Treasury shares	(832)	–	(832)	-	–	-
Profit (loss) the financial year	**31,086**	**–**	**31,086**	**(31,086)**	**–**	**-**
Group shareholders' equity	**583,122**	**–**	**583,122**	**-**	**–**	**7**
Shareholders' equity attributable to minority interests	**-**	**–**	**-**	**-**	**–**	**-**

	Changes in the period									
	Shareholders' equity transactions									
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period	Shareholders' equity attributable to the Group as of 30/06/2022	Shareholders' equity attributable to minority interests at 30/06/2022
Share capital:										
a) ordinary shares	1,806	–	–	–	–	88	–	-	**53,576**	**3**
b) other shares	-	–	–	–	–	-	–	-	**938**	**-**
Share premium reserve	26,994	–	–	–	–	-	–	-	**624,583**	**-**
Reserves:										
a) retained earnings	-	–	–	–	–	3,225	–	-	**98,617**	**2**
b) others	(100)	–	–	–	–	1,456	–	-	**35,459**	**-**
Valuation reserves	-	–	–	–	–	-	–	(35,978)	**(42,035)**	**-**
Equity instruments	-	–	–	–	–	-	–	-	**-**	**-**
Treasury shares	-	–	–	–	–	85	–	-	**(747)**	**-**
Profit (loss) the financial year	**-**	**–**	**–**	**–**	**–**	**-**	**–**	**31,468**	**31,468**	**-**
Group shareholders' equity	**28,700**	**–**	**–**	**–**	**–**	**4,854**	**–**	**(4,510)**	**801,859**	**-**
Shareholders' equity attributable to minority interests	**-**	**–**	**–**	**–**	**–**	**-**	**–**	**-**	**-**	**5**

	Changes in the period									
	Shareholders' equity transactions									
	Issue of new shares	Purchase of treasury shares	Wxtraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period	Shareholders' equity attributable to the Group as of 30/06/2021	Shareholders' equity attributable to minority interests at 30/06/2021
Share capital:										
a) ordinary shares	4,785	–	–	–	–	78	-	-	**47,932**	**3**
b) other shares	-	–	–	–	–	-	-	-	**938**	**-**
Share premium reserve	56,430	–	–	–	–	-	-	-	**543,803**	**-**
Reserves:										
a) retained earnings	-	–	–	–	–	(78)	-	-	**26,779**	**2**
b) others	8,608	–	–	–	–	1,591	-	-	**36,201**	**-**
Valuation reserves	-	–	–	–	–	-	-	(1,224)	**(1,502)**	**-**
Equity instruments	-	–	–	–	–	-	-	-	**-**	**-**
Treasury shares	-	–	–	–	–	-	-	-	**(832)**	**-**
Profit (loss) the financial year	**-**	**–**	**–**	**–**	**–**	**-**	**-**	**27,418**	**27,418**	**-**
Group shareholders' equity	**69,823**	**–**	**–**	**–**	**–**	**1,591**	**-**	**26,194**	**680,737**	**-**
Shareholders' equity attributable to minority interests	**-**	**–**	**–**	**–**	**–**	**-**	**5**	**-**	**-**	**5**

CONSOLIDATED CASH FLOW STATEMENTS

INDIRECT METHODS

A. OPERATING ACTIVITIES	Amount	
	30 June 2022	30 June 2021
1. Cash flow from operations	**90,307**	**76,826**
Profit/(Loss) for the period (+/-)	31,468	27,418
Gains/losses on financial assets held for trading and other financial assets/ liabilities measured at fair value through profit or loss (-/+)	(2,393)	2,377
Profits/losses on hedging activities (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	2,770	949
Net adjustments/recoveries on property and equipment and intangible assets (+/-)	7,324	5,185
Net allocations to allowances for risks and charges and other costs/income (+/-)	11,250	7,259
Net premiums not collected (-)	-	-
Other income/expenses from insurance activities not collected (-/+)	-	-
Taxes, duties and unpaid tax credits (+)	18,771	16,185
Net adjustments/recoveries on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	21,117	17,453
2. Cash flow generated/absorbed by financial assets	**(560,909)**	**(552,275)**
Financial assets held for trading	(13,229)	19
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(25,037)	(121,694)
Financial assets measured at fair value through other comprehensive income	(168,198)	(224,393)
Financial assets measured at amortised cost	(329,581)	(97,913)
Other assets	(24,864)	(108,294)
3. Cash flow generated/absorbed by financial liabilities	**377,820**	**57,878**
Amounts due to customers	386,976	111,590
Financial liabilities held for trading	13,354	-
Financial liabilities designated at fair value	-	-
Other liabilities	(22,510)	(53,712)
Net cash generated/absorbed by operating activities	**(92,782)**	**(417,571)**

B. INVESTING ACTIVITIES	Amount	
	30 June 2022	30 June 2021
1. Cash flows from	**-**	**-**
Sales of equity investments	-	-
Dividends received on equity investments	-	-
Sales of property and equipment	-	-
Sales of intangible assets	-	-
Sales of subsidiaries and business units	-	-
2. Cash flows used in	(17,973)	(39,112)
Purchases of equity investments	(4,000)	(32,007)
Purchases of property and equipment	(908)	(18)
Purchases of intangible assets	(13,065)	(7,087)
Purchases of subsidiaries and business units	-	-
Net cash generated/absorbed by investing activities	**(17,973)**	**(39,112)**

C. FINANCING ACTIVITIES	Amount	
	30 June 2022	30 June 2021
Issues / Purchases of treasury shares	-	16,904
Issues/purchases of equity instruments	-	-
Distribution of dividends and other purposes	-	-
Sale/purchase of third-party control	-	.
Net cash generated/absorbed by financing activities	**-**	**16,904**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE PERIOD	**(110,755)**	**(439,779)**

Key:

(+) generated
(–) absorbed

RECONCILIATION

FINANCIAL STATEMENT ITEMS	Amount	
	30 June 2022	30 June 2021
Cash and cash equivalents at the start of the period	**507,779**	**953,608**
Net increase(decrease) in cash and cash equivalents in the period	(110,755)	(439,779)
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at the end of the period	**397,024**	**513,830**

Consolidated explanatory notes

as of 30 June 2022

illimity

Explanatory notes

A.1 General Information

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

Section 1 – Declaration of compliance with IAS/IFRS

This consolidated half-yearly financial report was prepared in accordance with paragraph 5 of Article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998, and in accordance with 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 according to the guidance in Bank of Italy Circular no. 262 of 22 December 2005 (seventh revision of 29 October 2021), and in the Communication of 21 December 2021 - with particular reference to the impacts of COVID-19 and measures to support the economy - in accordance with the accounting policies adopted in preparing the consolidated financial statements of the illimity Group for the year ended 31 December 2021.

There were no departures from IAS/IFRS.

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

For the purposes of preparing the consolidated half-yearly financial report financial report of the illimity Group as of 30 June 2022, the guidance and recommendations set out in the document *"Public Statement on implications of Russia's invasion of Ukraine on Half-Yearly Financial Reports"* published by ESMA on 13 May 2022 were considered.

The Report was prepared also in compliance with CONSOB ruling no. 11971 (Issuer Regulation) of 14 May 1999 as amended.

Section 2 – Basis of Preparation

The consolidated half-yearly financial report was 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 half-yearly financial report has been prepared using euros as the Group's functional currency and consists of the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated shareholders' equity, cash flow statement and the explanatory notes.

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

The consolidated half-yearly financial report as of 30 June 2022 has been prepared according to principles and policies consistent with those adopted in the consolidated financial statements of the illimity Group as of 31 December 2021, 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 2022, 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 2022".

The consolidated half-yearly financial report as of 30 June 2022 was submitted for the approval of the Board of Directors on 4 August 2022.

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 half-yearly financial report for the period ended 30 June 2022 are unchanged with respect to the consolidated financial statements for the year ended 31 December 2021.

The consolidated half-yearly financial report includes the accounting values of illimity and of the companies over which it directly or indirectly exercises control as of 30 June 2022, encompassing within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments dissimilar to that of the Parent Company.

The scope of consolidation of the financial statements as of 30 June 2022 includes the following entities:

i. **Aporti S.r.l.** ("Aporti"), in which the Bank holds a 66.7% stake, established to undertake the securitisation of Non-Performing Loans (hereinafter "NPLs"), through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
ii. **Soperga RE S.r.l.** (REOCO) ("Soperga RE") a wholly owned subsidiary of the Bank, established to manage the real estate assets associated with the portfolios of acquired NPLs pursuant to Article 7.1 of Italian Law no. 130/1999 on securitisations;
iii. **Friuli LeaseCo S.r.l.** ("Friuli LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
iv. **Friuli SPV S.r.l.** ("Friuli SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
v. **Doria LeaseCo S.r.l.** ("Doria LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
vi. **Doria SPV S.r.l.** ("Doria SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
vii. **River LeaseCo S.r.l.** ("River LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
viii. **River SPV S.r.l.** ("River SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
ix. **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;
x. **illimity SGR S.p.A.** ("illimity SGR") wholly owned by the Bank, which manages the assets of closed-end alternative investment funds (AIFs), established with own funds and the funds of third-party institutional investors;
xi. **Pitti LeaseCo S.r.l.** ("Pitti LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
xii. **Pitti SPV S.r.l.** ("Pitti SPV"), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
xiii. **Abilio Agency S.r.l.** ("Abilio Agency"), wholly-owned by Abilio, a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties;

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

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

xvi. **Abilio S.p.A.** ("Abilio"), whose entire share capital is held by illimity, and whose purpose is to execute real estate operations and develop and organise sales through online and offline public auctions;

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

xviii. **AREC S.p.A.** ("AREC"), a company in which illimity holds 100% of the share capital, established to include the assets and liabilities sold by Aurora Recovery Capital S.p.A. As part of the acquisition of the business of that company for its future incorporation into neprix;

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

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

xxi. **SpicyCo 2 S.r.l.** ("SpicyCo 2"), of which illimity holds 49% of the share capital, which is responsible for the acquisition, management and sale of equity investments. Based on the company's Articles of Association, the economic and financial rights pertaining to illimity have been defined at 77.63%.

This scope has changed with respect to the consolidated financial statements for the year ended 31 December 2021. Below is a summary of the transactions that led to the change in the scope of consolidation.

Increases

a) Establishment of the company Abilio through a proportionate spin-off from neprix, consolidated on a line-by-line basis;
b) Full subscription of the monotranching note issued by the vehicle MAUI SPE S.r.l., consolidated on a line-by-line basis;
c) Acquisition of 100% of the share capital of AREC S.p.A., consolidated on a line-by-line basis.

For further information on changes in the scope of consolidation during 2022, reference is made to Section 5 - Other aspects.

Details of the type of control and consolidation method for the scope of consolidated entities as of 30 June 2022 are given below:

Name	Operational headquarters	Registered office	Type of relationship (*)	Ownership relationship	
				Held by	Holding % (**)
Parent Company					
A.0 Ilimity Bank S.p.A.	Milan	Milan			
Companies consolidated on a line-by-line basis					
A.1 Aporti S.r.l. (SPV)	Milan	Milan	1-4	A.0	66.7%
A.2 Soperga RE S.r.l.	Milan	Milan	1	A.0	100.0%
A.3 Friuli LeaseCo. S.r.l.	Milan	Milan	1	A.0	100.0%
A.4 Friuli SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.5 Doria Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.6 Doria SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.7 River Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.8 River SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.9 neprix S.r.l.	Milan	Milan	1	A.0	100.0%
A.10 illimity SGR	Milan	Milan	1	A.0	100.0%
A.11 Pitti Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.12 Pitti SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.13 River immobiliare S.r.l.	Milan	Milan	1	A.0	100.0%
A.14 Beagle SPE S.r.l.	Milan	Milan	4	A.0	
A.15 Abilio S.p.A.	Faenza	Faenza	1	A.0	100.0%
A.16 Abilio Agency S.r.l.	Faenza	Faenza	1	A.15	100.0%
A.17 MAUI SPE S.r.l.	Milan	Milan	4	A.0	
A.18 AREC S.p.A.	Rome	Rome	1	A.0	100.0%
Companies consolidated on an equity basis					
A.19 Hype S.p.A.	Biella	Biella	5	A.0	50.0%
A.20 SpicyCo S.r.l.	Milan	Milan	6	A.0	49.0%
A.21 SpicyCo 2 S.r.l.	Milan	Milan	6	A.0	49.0%

(*) 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
5 = joint control
6 = significant influence

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

Section 4 – Subsequent events

No events occurred after the reporting date of the consolidated half-yearly financial 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

Impacts of the Ukraine crisis on the strategic and operational context of the illimity Group

The outbreak of the military conflict in Ukraine in the first quarter of 2022 had considerable consequences in terms of political and economic-financial actions by various countries and multilateral organisations, with the tightening of sanctions on Russia and, in general, significant effects in terms of stress on the global financial and money markets (primarily the spike in commodities prices).

In this context, the illimity Group set up managerial and operational actions in line with the measures that characterised its handling of the effects of the pandemic since early March 2020.

At governance level, the specific managerial committee (set up in the first quarter of 2022), that usually meets periodically, continued its work, with the aim of continuously monitoring the situation and updating the Group's governance bodies with regard to the actual and potential impacts, of an economic-financial and operational nature, of the crisis, and in order to render the process of managing risk mitigation actions more efficient.

Furthermore, a group of market indicators has been identified that is continuously monitored and reported to the aforementioned committee, in order to make it aware of the current context.

Specifically, since the start of the conflict, the direct and indirect exposures to Russian counterparties or those who depend on Russian operators and markets for their business (supply, sales, orders, etc.) were quantified in order to assess the possible impacts in terms of credit and liquidity risk. The initial analyses conducted and direct discussions with businesses show a low level of exposure, though subject to constant monitoring, given that the continuation of the crisis could produce negative impacts also on companies that are demonstrating resilience in this phase, also due to the measures implemented by company management, specifically those regarding supply chain continuity and management of commodities and energy prices. The Compliance & AML Department also operated in that context, to ensure, for borrowers, compliance with the provisions of the sanctions imposed by Italy and European and international bodies to Russian parties (natural and legal persons).

Secondly, with a view to mitigating the financial risks associated with the management of the HTCS and HTC financial portfolios, it has been ascertained that the current risk profile of the portfolios is under control, there is no direct exposure to Russia or Ukraine and that the relevant development activities, as envisaged in the 2022 Budget, are being implemented, taking due consideration of the changed context. Furthermore, considering that said portfolios relate to debts, monetary policy decisions, which could be revised given the evolution of the crisis, are continuously monitored.

Lastly, the impacts of the Ukraine-Russia crisis were factored into the (baseline and stressed) macroeconomic scenarios used to support the forward-looking assessments of capital adequacy (ICAAP 2022) and liquidity (ILAAP 2022) and in preparing the Recovery Plan, transmitted to the Supervisory Authorities at the end of April 2022.

Overall, we can confirm the resilience of illimity's business model, even in a complex and uncertain context like the current one, as a result of both its contained exposure to direct risks and its business mix, in which lines of activity have limited correlation.

5.1 Spin-off of the neprix Sales business unit to Abilio S.p.A.

Note that on 17 March 2022, the deed of partial spin-off of the sales business unit of neprix S.r.l. (which includes the equity investment in neprix agency S.r.l., whose name was changed to Abilio Agency S.r.l.) to Abilio S.p.A. was entered into. The operation became effective on 1 April 2022. The accounting and tax effects of the operation started from 1 April 2022.

5.2 Acquisition of AREC S.p.A.

On 30 June 2022, the cash purchase by illimity of 10% of AREC shares was finalised and the deed regarding the contribution to illimity of the shares representing the remaining equity investment of 90% of the share capital of AREC, for the purpose of the acquiring the entire company and the subsequent planned merger with the servicer of the illimity group, neprix S.r.l. Refer to Part G of these Explanatory notes for more details.

5.3 Hype S.p.A. Impairment Test

Following the outbreak of the Russia-Ukraine conflict, in May 2022, ESMA published the “Implications of Russia’s invasion of Ukraine on half-yearly financial reports’’, whose contents were subsequently endorsed by CONSOB. That document analyses the possible implications of the conflict on issuers’ reporting and provides recommendations on qualitative and quantitative disclosure to be presented in drawing up reports as of 30 June 2022. With regard to impairment testing pursuant to IAS 36, ESMA generally urged issuers to update the assessments made in year-end financial statements, specifically on the assumptions about future projections and other major sources of estimation uncertainty. Therefore, (i) in light of the results of the impairment tests conducted as of 31 December 2021, (ii) considering the deterioration of the macroeconomic and social scenario deriving from the outbreak of the conflict, (iii) the resulting effects observed on the monetary and real economy, and (iv) the availability of updated corporate projections, it was decided to subject the recognition value of the equity investment in Hype as of 30 June 2022 to impairment testing pursuant to IAS 36. The impairment test, conducted according to the Excess Capital variant of of the Dividend Discount Model, a recoverable value higher than the carrying amount of the subsidiary (both in the Group's consolidated financial statements and the separate financial statements of illimity Bank) was recognised, and thus, no indicators of impairment of the value of the equity investment as of 30 June 2022 were found.

5.4 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 2022

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Improvements to IFRS (2018-2020 cycle) [Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41]	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
Property, plant and equipment – Proceeds before Intended Use (Amendments to IAS 16)	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021

As shown in the above table, the adoption of several amendments to accounting standards endorsed by the European Commission in 2022 is mandatory with effect from 2021. These amendments are not particularly relevant to the Group.

5.5 Use of estimates and assumptions in preparing the consolidated half-yearly financial report

According to the IFRS framework, the preparation of the consolidated half-yearly financial report requires the use of estimates and assumptions that may influence the values stated in the statement of financial position and income statement.

The use of reasonable estimates is thus an essential part of preparing this report. The financial statement 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 allowances for risks and charges;
- determination of the amount of deferred taxation;
- assessments regarding the recoverability of goodwill;
- definition of the depreciation and amortisation of property and equipment and intangible assets with finite useful lives.

It should also be noted that an estimate may also be adjusted due to changes in the circumstances on which it was based, new information or greater experience. By nature, the estimates and assumptions used may change from one period to the next. Accordingly, the values presented in this half-yearly financial 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.

A.2 Section on the main financial statement items

With regard to the classification and measurement criteria of the main financial statement items, please refer to Part A.2 of the Explanatory Notes to the "2021 Financial Statements and Report".

A.3 Information on transfers between portfolios of financial assets

There were no transfers between portfolios of financial assets in the first half of 2022.

A.4 Information on fair value

Qualitative information

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

This section provides a summary, divided by type of instrument, of the measurement techniques used for instruments classified as having a level 2 and level 3 fair value. Lacking a dedicated fair value model, instruments shall be measured at purchase cost.

Assessment of non-contributed shares and equity instruments

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

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

Measurement of loans

The characteristics of loans measured at fair value result in their failing the SPPI test. In fact, illimity does not hold loans for trading. Loans are mainly measured using the discounted cash flow method. That technique is supplemented with the enterprise value measurement method of the debtor (e.g. multiples and comparable transactions) when the loan characteristics mean that its value depends on the value of the company. That dependence is normally due to the convertibility of the loan into equity or its degree of subordination.

Measurement of structured loan products

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

In the first case the exposures are part of an investment strategy that involves the subscription of the senior quota by the bank; as the originator, it is required to subscribe to part of the subordinate tranches. The starting point for the valuation is the purchase transaction; the congruency of the price is based on an analysis of the portfolio’s capacity to repay firstly the senior quota and thereafter the underlying tranches, according to a waterfall mechanism. This capacity is therefore monitored during payments in order to confirm expectations of recovery predicted during the origination stage.

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

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

Valuation of OTC derivatives

Over The Counter (OTC) derivatives, whose value cannot be directly observed on the market, are valued using specific models and inputs pursuant to the asset class and the characteristics of the specific financial product. The valuation of OTC derivatives takes into consideration, as well as the market variables to which the instruments are sensitive, the specific risks pertaining to the counterparties with which they are traded, in particular:

- for transactions negotiated within a netting and margining agreement (CSA), the counterparty risk is considered non-material and the valuation of the instruments is based exclusively on the underlying risk factors, in accordance with the principle of non-arbitrage;
- for transactions negotiated without a netting and margining agreement, the valuation is carried out by adding the valuation of the instrument, as if it were subject to netting and margining, to the adjustments associated with the counterparty risk (i.e. credit valuation adjustment and debt valuation adjustment).

Derivatives in place at the end of the period are allocated, on the underlying basis, to the interest rate and foreign exchange rate classes. For both classes, the prevalent model adopted is the discounting cash flow model, with the addition of the Black model for the valuation of caps and floors.

The table below shows information about the measurement models and non-observable inputs for assets and liabilities measured at level 3 fair value.

Financial assets	Valuation method	Principal non-observable input
Securities and loans	Discounting Cash Flows	Recovery Rate
ABSs	Discounting Cash Flows	Recovery Rate
Fund units	NAV	

A.4.2 Processes and sensitivity of valuations

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

The table below shows the sensitivity of assets and liabilities valued at level 3 fair value with regard to one or more non-observable parameters. Data are reported for instruments measured using models that allow for analysis.

Financial assets	Non-observable parameters	Sensitivity (Thousands of euros)	Change in non-observable parameter
FVTPL securities	Credit spread	(6)	1 bp
FVTPL securities	Recovery rate	(530)	(1%)

A.4.3 Fair value hierarchy

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

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

For securities held at fair value level 2:

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

For securities held at fair value level 3:

- no transfers have been made between different fair value levels;
- as the quantity of shares held and the accounting method have not changed, no gains or losses were recorded;
- in the absence of prices on active markets and without any other elements such as the financial statements, the cost method is the only method that approximates the security's fair value.

To summarise the characteristics of the different fair value levels:

Level 1

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

Level 2

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

<u>Level 3</u>

The measurement methods will value a non-listed instrument using significant non-market observable data and therefore they require the adoption of estimates and assumptions by management (the "Mark to Model Approach").
With reference to the instruments classified at level 3, a sensitivity analysis was carried out which showed that the changes in fair values are not material.

A.4.4 Other information

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

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

Quantitative information

Fair value hierarchy

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

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

Financial assets / liabilities measured at fair value	30 June 2022			31 December 2021		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	1,939	16,368	99,830	98	896	75,684
a) financial assets held for trading	-	16,368	32	-	896	32
b) financial assets at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	1,939	-	99,798	98	-	75,652
2. Financial assets measured at fair value through other comprehensive income	411,473	-	4,472	299,489	-	19
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**413,412**	**16,368**	**104,302**	**299,587**	**896**	**75,703**
1. Financial liabilities held for trading	-	13,413	-	-	59	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**13,413**	**-**	**-**	**59**	**-**

Instruments that are valued to a significant extent on the basis of non-observable parameters (Level 3) make up 19.53% of the total financial assets measured at fair value. On the reporting date they were mainly represented by investments classified in the portfolio of *"Financial assets mandatorily measured at fair value"*, relating to the Turnaround, Senior Financing and Energy areas.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**75,595**	**32**	**-**	**75,562**	**19**	**-**	**-**	**-**
2. Increases	**28,747**	**-**	**-**	**28,747**	**4,454**	**-**	**-**	**-**
2.1. Purchases	24,274	-	-	24,274	4,448	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-	-	-
2.2.1. Income Statement	4,473	-	-	4,473	-	-	-	-
- of which capital gains	4,473	-	-	4,473	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	5	-	-	-
3. Decreases	**4,511**	**-**	**-**	**4,511**	-	**-**	**-**	**-**
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Repayments	4,508	-	-	4,508	-	-	-	-
3.3. Losses recognised in:	-	-	-	-	-	-	-	-
3.3.1. Income Statement	3	-	-	3	-	-	-	-
- of which capital losses	3	-	-	3	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**99,831**	**32**	**-**	**99,798**	**4,472**	**-**	**-**	**-**

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

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

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	30 June 2022				31 December 2021			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	3,545,818	449,258	3,039	3,167,129	3,229,766	21,496	2,993	3,490,536
2. Property and equipment held for investment	-	-	-	-	-	-	-	-
3. Non-current assets and groups of assets held for disposal	38,248	-	-	-	43,117	-	-	-
Total	**3,584,066**	**449,258**	**3,039**	**3,167,129**	**3,272,883**	**21,496**	**2,993**	**3,490,536**
1. Amounts due to customers	4,183,679	477,279	-	3,760,970	3,752,384	516,329	-	3,423,818
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**4,183,679**	**477,279**	**-**	**3,760,970**	**3,752,384**	**516,329**	**-**	**3,423,818**

Key:

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

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

PART B – INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

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

2.1 Financial assets held for trading: breakdown

Items/Values	Total 30 June 2022			Total 31 December 2021		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	-	-	32	-	-	32
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**32**	**-**	**-**	**32**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial derivatives	-	16,368	-	-	896	-
1.1 held for trading	-	16,368	-	-	896	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**16,368**	**-**	**-**	**896**	**-**
Total (A+B)	**-**	**16,368**	**32**	**-**	**896**	**32**

Key:

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

2.3 Financial assets at fair value: breakdown by product type

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

2.5 Other financial assets mandatorily measured at fair value: breakdown

Items/Values	Total 30 June 2022			Total 31 December 2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**1,841**	**-**	**64,408**	**-**	**-**	**61,992**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,841	-	64,408	-	-	61,992
2. Equity securities	**-**	**-**	**9,068**	**-**	**-**	**9,875**
3. Units of UCIs	**98**	**-**	**3,822**	**98**	**-**	**3,786**
4. Loans	**-**	**-**	**22,500**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	22,500	-	-	-
Total	**1,939**	**-**	**99,798**	**98**	**-**	**75,653**

Key:

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

Financial assets mandatorily measured at fair value through profit and loss amounted to EUR 101.7 million as of 30 June 2022, up by EUR 26 million on 31 December 2021. The increase is mainly attributable to the disbursement of a new loan measured at air value referring to the Growth Credit Division for EUR 22.5 million and the revaluation of the investment in the energy area.

As of 30 June 2022, those assets include, in addition to the new loan, instruments linked to the operations of the Energy Business for EUR 60.5 million, Equity Instruments/Earnouts referring to the Growth Credit Division for EUR 9.1 million, units of a UCI managed by the Group's Asset Management Company (SGR) for EUR 3.8 million and notes of securitisation vehicles for EUR 0.9 million, debt securities for EUR 1.9 million referring to the Investment Banking Division, investments in Senior Financing for EUR 2.9 million and units of UCIs for EUR 0.1 million referring to the Corporate Center.

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

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

Items/Values	Total 30 June 2022			Total 31 December 2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**411,473**	**-**	**4,453**	**299,489**	**-**	**-**
1.1 Structured securities	4,352	-	-	2,986	-	-
1.2 Other debt securities	407,121	-	4,453	296,503	-	-
2. Equity securities	**-**	**-**	**19**	**-**	**-**	**19**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**411,473**	**-**	**4,472**	**299,489**	**-**	**19**

Key:

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

The debt securities in the financial statement item were issued by governments (EUR 247.5 million), credit institutions (EUR 89.7 million), financial companies (EUR 33.7 million) and non-financial companies (EUR 45.1 million).

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

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

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

Type of operations/ Values	Total 30 June 2022						Total 31 December 2021					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	-	-	-	X	X	X	-	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**30,737**	**-**	**-**	**-**	**-**	**30,768**	**267,969**	**-**	**-**	**-**	**-**	**268,029**
1. Loans	30,737	-	-	-	-	30,768	267,969	-	-	-	-	268,029
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Time deposits	22,429	-	-	X	X	X	69,792	-	-	X	X	X
1.3. Other loans:	8,308	-	-	X	X	X	198,177	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	191,292	-	-	X	X	X
- Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Others	8,308	-	-	X	X	X	6,885	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**30,737**	**-**	**-**	**-**	**-**	**30,768**	**267,969**	**-**	**-**	**-**	**-**	**268,029**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The obligations to maintain the Compulsory reserve are fulfilled through BFF, and the balance is recognised in the sub item “Time deposits”.

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

Type of operations/Values	Total 30 June 2022						Total 31 December 2021					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
1. Loans	**1,907,319**	**26,181**	**994,409**	**264,138**	**-**	**2,823,782**	**1,640,359**	**21,024**	**1,048,358**	**-**	**-**	**2,846,631**
1.1 Current accounts	1,080	5,264	189,946	X	X	X	10,127	5,492	213,507	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Mortgages	198,975	6,034	481,051	X	X	X	202,968	5,335	518,561	X	X	X
1.4 Credit cards and personal loans, including wage assignment loans	738	52	2,121	X	X	X	683	143	2,227	X	X	X
1.5 Loans for leasing	-	-	123,277	X	X	X	-	-	111,805	X	X	X
1.6 Factoring	357,668	4,959	-	X	X	X	350,659	4,868	-	X	X	X
1.7 Other loans	1,348,858	9,872	198,014	X	X	X	1,075,922	5,186	202,258	X	X	X
2. Debt securities	**499,336**	**-**	**87,837**	**185,120**	**3,039**	**312,579**	**242,019**	**-**	**10,037**	**21,496**	**2,993**	**375,876**
1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2. Other debt securities	499,336	-	87,837	185,120	3,039	312,579	242,019	-	10,037	21,496	2,993	375,876
Total	**2,406,655**	**26,181**	**1,082,246**	**449,258**	**3,039**	**3,136,361**	**1,882,378**	**21,024**	**1,058,395**	**21,496**	**2,993**	**3,222,507**

Other debt securities amounted to EUR 587.2 million. That portfolio was composed of EUR 160.8 million in government bonds, EUR 265.6 million in senior financing securities, EUR 77.7 million in inorganic securities relating to the Distressed Credit Division, EUR 10.1 million in inorganic securities relating to the Growth Credit Division, EUR 59.6 million in high-yield securities in the Growth Credit Division and EUR 13.3 million in investments in the Investment Banking Division.

4.4 Financial assets measured at amortised cost: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs			
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired
Debt securities	498,285	161,038	3,046	-	87,837	1,882	112	-	-
Loans	2,474,543	370,419	67,831	45,914	994,409	603,968	352	19,733	-
Total 30/06/2022	**2,972,828**	**531,457**	**70,877**	**45,914**	**1,082,246**	**605,850**	**464**	**19,733**	**-**
Total 31/12/2021	**2,092,725**	**369,205**	**65,106**	**39,555**	**1,061,785**	**9,968**	**568**	**18,530**	**337**

4.4a Loans measured at amortised cost receiving COVID-19 support measures: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs			
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired
1. Loans granted in accordance with GL	-	-	-	-	-	-	-	-	-
2. Loans subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	-	-	-	30	-	-	-	8	-
4. New funding	673,977	-	29,101	10,024	-	3,246	113	1,072	-
Total 30.06.2022	**673,977**	**-**	**29,101**	**10,054**	**-**	**3,246**	**113**	**1,080**	**-**
Total 31.12.2021	**499,745**	**-**	**28,569**	**5,589**	**-**	**2,488**	**223**	**820**	**-**

Section 5 – Hedging derivatives – Item 50

The Group has no hedge accounting operations.

Section 9 – Property and equipment – Item 90

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

Assets/Values	Total 30 June 2022	Total 31 December 2021
1. Proprietary assets	**1,975**	**1,159**
a) land	-	-
b) buildings	-	-
c) furniture and fittings	625	578
d) electronic systems	624	509
e) others	726	72
2. Rights of use acquired through lease agreements	**23,341**	**19,321**
a) land	-	-
b) buildings	21,768	18,133
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	1,573	1,188
Total	**25,316**	**20,480**
of which: obtained by enforcement of guarantees received	-	-

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

Assets/Values	Total 30 June 2022	Total 31 December 2021
1. Inventories of property and equipment obtained through enforcement of guarantees received	**65,831**	**48,255**
a) land	-	-
b) buildings	65,831	48,255
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	-	-
2. Other assets inventories	**-**	**-**
Total	**65,831**	**48,255**
of which: measured at fair value net of costs to sell	-	-

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown

Assets/Values	Total 30 June 2022		Total 31 December 2021	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**71,111**	**X**	**36,257**
A.1.1 attributable to the group	X	71,108	X	36,254
A.1.2 attributable to minorities	X	3	X	3
A.2 Other intangible assets	**56,481**	**-**	**48,992**	**-**
of which: software	54,621	-	40,440	-
A.2.1 Assets measured at cost:	56,481	-	48,992	-
a) Intangible assets generated internally	5,862	-	5,557	-
b) Other assets	50,619	-	43,435	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**56,481**	**71,111**	**48,992**	**36,257**

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

Main deductible temporary differences: IRES	30 June 2022	31 December 2021
Depreciation of loans and receivables with customers	1,237	1,324
Tax losses	458	663
ACE	-	-
Write-down of securities HTCS/FVOCI	18,024	2,696
Goodwill	7,971	7,971
Others	19,713	21,258
Total	**47,403**	**33,912**

Main deductible temporary differences: IRAP	30 June 2022	31 December 2021
Depreciation of loans and receivables with customers	152	163
Write-down of securities HTCS/FVOCI	3,651	546
Goodwill	1,510	1,510
Others	4,007	4,733
Total	**9,320**	**6,592**

As of 30 June 2022, deferred tax assets amounted to EUR 56.7 million, up on the EUR 40.5 million recognised as of 31 December 2021, mainly due to the increase in deferred tax assets attributable to the impairment recorded on the fair value through other comprehensive income securities portfolio.

Deferred tax assets are recognised on the basis of the probability of their recovery or the possibility of there being sufficient future taxable income.

The rates used for advance taxes for IRES and IRAP purposes are 27.50% (including the supplement) and 5.57% respectively.

11.2 Deferred tax liabilities: breakdown

Tax liabilities relating to deferred taxes amounted to EUR 1 million as of 30 June 2022, in line with 31 December 2021.

Main taxable temporary differences: IRES	30 June 2022	31 December 2021
Gains by instalments	-	-
Revaluation of securities FVOCI	19	32
Others	892	936
Total	**911**	**968**

Main taxable temporary differences: IRAP	30 June 2022	31 December 2021
Revaluations of FVOCI securities	4	7
Others	133	125
Total	**137**	**132**

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

11.8 Other information

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

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

Current fiscal assets: breakdown

Type of operations/Values	30 June 2022	31 December 2021
Deferred taxes paid to tax authority	3,916	4,726
Withholding taxes	-	1
Other receivables from the Treasury	663	441
Total	**4,579**	**5,168**

Current fiscal liabilities: breakdown

Main taxable temporary differences: IRAP	30 June 2022	31 December 2021
Balance for the previous year	19,156	3,460
Provision for taxes	15,163	19,156
Withdrawals to pay taxes	(19,156)	(3,460)
Total	**15,163**	**19,156**

LIABILITIES

Section 1 – Amounts due to customers – Item 10

1.1 Amounts due to customers: breakdown of amounts due to banks

Type of operations/Values	Total 30 June 2022				Total 31 December 2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**311,459**	**X**	**X**	**X**	**182,355**	**X**	**X**	**X**
2. Due to banks	**227,739**	**X**	**X**	**X**	**228,959**	**X**	**X**	**X**
2.1 Current accounts and on-demand deposits	34,669	X	X	X	1	X	X	X
2.2 Time deposits	39,008	X	X	X	37,843	X	X	X
2.3 Loans	146,051	X	X	X	190,674	X	X	X
2.3.1 Repurchase agreements - payable	145,760	X	X	X	190,649	X	X	X
2.3.2 Others	291	X	X	X	25	X	X	X
2.4 Liabilities in respect of commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	8,011	X	X	X	441	X	X	X
Total	**539,198**	**-**	**-**	**539,198**	**411,314**	**-**	**-**	**411,314**

Key:

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

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

Type of operations/Values	Total 30 June 2022				Total 31 December 2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	**894,113**	**X**	**X**	**X**	**919,139**	**X**	**X**	**X**
2. Time deposits	2,201,135	X	X	X	1,888,701	X	X	X
3. Loans	7,329	X	X	X	7,636	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	7,329	X	X	X	7,636	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	28,139	X	X	X	23,110	X	X	X
6. Other payables	4,135	-	-	-	2,697	-	-	-
Total	**3,134,851**	**-**	**-**	**3,221,783**	**2,841,283**	**-**	**-**	**2,998,583**

Key:

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

1.3 Amounts due to customers: breakdown of securities issued

Type of securities/Values	Total 30 June 2022				Total 31 December 2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	509,630	477,279	-	-	499,788	516,329	-	13,921
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	509,630	477,279	-	-	499,788	516,329	-	13,921
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**509,630**	**477,279**	**-**	**-**	**499,788**	**516,329**	**-**	**13,921**

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

Securities issued were equal to EUR 509.6 million, compared to EUR 499.8 million as of 31 December 2021, mainly due to the components of interest accrued *pro-rata* during the first half of 2022.

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product type

Type of operations/Values	Total 30 June 2022					Total 31 December 2021				
	NV	Fair Value			Fair Value*	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. Cash and cash equivalents liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	-
3.1 Bonds	-	-	-	-	X	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	-	13,413	-	X	-	-	59	-	-
1.1 Held for trading	X	-	13,413	-	X	X	-	59	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	X	-	-	-	-	-
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**-**	**13,413**	**-**	**X**	**X**	**-**	**59**	**-**	**X**
Total (A+B)	**X**	**-**	**13,413**	**-**	**X**	**X**	**-**	**59**	**-**	**X**

Key:
NV = Net value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Section 3 – Financial liabilities designated at fair value – Item 30

The Group does not hold such liabilities on the reporting date.

Section 10 – Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: breakdown

Items/Components	Total 30 June 2022	Total 31 December 2021
1. Allowances for credit risk relating to commitments and financial guarantees given	3,106	4,482
2. Provisions for other commitments and guarantees issued	127	-
3. Post-employment benefits and similar commitments	27	18
4. Other allowances for risks and charges	1,582	1,281
4.1 legal and tax disputes	575	612
4.2 personnel cost	749	609
4.3 others	258	60
Total	**4,842**	**5,781**

During the second quarter, the Bank received several requests for compensation as part of the sale of a loan portfolio. The Bank conducted a specific analysis of those requests, concluding that the risk of losing the proceedings is not high enough to require allocations to allowances for risks and charges at the date of this report, also considering the deductibles recognised to the benefit of the Bank.

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 30 June 2022	Total 30 June 2021
1. Financial assets measured at fair value through profit or loss:	822	-	-	822	279
1.1 Financial assets held for trading	-	-	-	-	80
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	822	-	-	822	199
2. Financial assets measured at fair value through other comprehensive income	3,404	-	X	3,404	2,120
3. Financial assets measured at amortised cost:	10,895	88,796	-	99,691	90,331
3.1 Due from banks	-	105	X	105	433
3.2 Loans to customers	10,895	88,691	X	99,586	89,898
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	1,316	1,316	64
6. Financial liabilities	X	X	X	902	684
Total	**15,121**	**88,796**	**1,316**	**106,135**	**93,478**
of which: interest income on impaired assets	1,391	64,391	-	65,782	65,916
of which: interest income on finance leasing	X	762	X	762	-

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debt	Securities	Other transactions	Total 30 June 2022	Total 30 June 2021
1. Amounts due to customers	(20,340)	(9,842)	X	(30,182)	(26,877)
1.1 Amounts due to central banks	(19)	X	X	(19)	(16)
1.2 Amounts due to banks	(1,312)	X	X	(1,312)	(2,614)
1.3 Amounts due to customers	(19,009)	X	X	(19,009)	(18,910)
1.4 Securities issued	X	(9,842)	X	(9,842)	(5,337)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(1,476)	(1,981)
Total	**(20,340)**	**(9,842)**	**-**	**(31,658)**	**(28,858)**
of which: interest expense relative to leasing liabilities	(892)	X	X	(892)	(753)

2.1 Fee and commission income: breakdown

Type of service/Values	Total 30 June 2022	Total 30 June 2021
a) Financial instruments	1	2
1. Placement of securities	1	2
1.1 With underwriting and/or on the basis of an irrevocable commitment	-	-
1.2 Without an irrevocable commitment	1	2
2. Receipt and transmission of orders and execution of orders for customers	-	-
2.1 Receipt and transmission of orders of one or more financial instruments	-	-
2.2 Execution of orders for customers	-	-
3. Other fees and commissions connected with activities related to financial instruments	-	-
of which: proprietary trading	-	-
of which: individual portfolio management	-	-
b) Corporate Finance	4,336	1,969
1. Consultancy on mergers and acquisitions	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	4,336	1,969
c) Investment consultancy activities	-	-
d) Netting and settlement	-	-
e) Collective portfolio management	1,282	396
f) Custody and administration	-	1
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	-	1
g) Central administrative services for collective portfolio management	-	-
h) Fiduciary activities	-	-
i) Payment services	586	561
1. Current accounts	181	211
2. Credit cards	222	138
3. Debit cards and other payment cards	46	35
4. Bank transfers and other payment orders	50	59
5. Other fees and commissions related to payment services	87	118
j) Distribution of third party services	79	67
1. Collective portfolio management	-	-
2. Insurance products	2	-
3. Other products	77	67
of which: individual portfolio management	-	-
k) Structured finance	-	-
l) Servicing activities for securitisation operations	-	-
m) Commitments to disburse funds	-	-
n) Financial guarantees issued	193	25
of which: credit derivatives	-	-
o) Loan operations	13,736	5,135
of which: for factoring operations	2,987	1,306
p) Currency trading	19	28
q) Goods	-	-
r) Other fee and commission income	9,236	7,625
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading systems	-	-
Total	**29,468**	**15,809**

The “j) other services” sub-item of fee and commission income mainly includes commissions from the specific business of Group companies referred to neprix and neprix, Abilio and Abilio Agency - and in particular commissions from auctions and related services, accrued for the use of the companies’ property portals - for approximately EUR 6.2 million, as well as commissions on the operations of the Distressed Credit and Growth Credit Divisions of the Bank.

2.2 Fee and commission expenses: breakdown

Type of service/Values	Total 30 June 2022	Total 30 June 2021
a) Financial instruments	-	(198)
of which: trading in financial instruments	-	(198)
of which: placement of financial instruments	-	-
of which: individual portfolio management	-	-
- Proprietary	-	-
- Delegated to third parties	-	-
b) Netting and settlement	-	-
c) Collective portfolio management	-	-
1. Proprietary	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(111)	(70)
d) Collection and payment services	(699)	(377)
of which: credit cards, debit cards and other payment cards	(577)	(262)
f) Servicing activities for securitisation operations	(182)	(903)
g) Commitments to receive funds	-	-
h) Financial guarantees received	-	(1)
of which: credit derivatives	-	-
i) Off-site distribution of financial instruments, products and services	-	-
j) Currency trading	-	-
k) Other fee and commission expense	(1,601)	(1,086)
Total	**(2,593)**	**(2,635)**

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

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**2,315**
4. Derivatives	**11,721**	**1,508**	**(9,478)**	**(1,223)**	**691**
4.1 Financial derivatives:	11,721	1,508	(9,478)	(1,223)	691
- On debt securities and interest rates	11,721	1,508	(9,478)	(1,223)	2,528
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	(1,837)
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	-
Total	**11,721**	**1,508**	**(9,478)**	**(1,223)**	**3,006**

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

6.1 Profits (Losses) on disposal/repurchase: breakdown

Item/Income item	Total 30 June 2022			Total 30 June 2021		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortised cost	69	(18)	51	306	(4)	302
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	69	(18)	51	306	(4)	302
2. Financial assets measured at fair value through other comprehensive income	133	(183)	(50)	3,496	(313)	3,183
2.1 Debt securities	133	(183)	(50)	3,496	(313)	3,183
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**202**	**(201)**	**1**	**3,802**	**(317)**	**3,485**
Amounts due to customers	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

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

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

The Group has no macro hedge accounting operations.

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

Transaction/Income items	Capital gains (A)	Realised profits (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**4,472**	**1,772**	**(610)**	**-**	**5,634**
1.1 Debt securities	4,230	87	(517)	-	3,800
1.2 Equity instruments	116	-	(3)	-	113
1.3 UCITS units	126	1,685	(90)	-	1,721
1.4 Loans	-	-	-	-	-
2. Financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**4,472**	**1,772**	**(610)**	**-**	**5,634**

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

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

Transaction/Income items	Adjustments (1)						Recoveries (2)				Total 30 June 2022	Total 30 June 2021
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Due from banks	(54)	-	-	-	-	-	238	-	-	-	184	(3)
- Loans	(54)	-	-	-	-	-	238	-	-	-	184	(3)
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans to customers	(3,725)	(237)	-	(2,646)	-	(61,003)	2,167	365	978	88,916	24,815	37,062
- Loans	(2,582)	(125)	-	(2,646)	-	(61,003)	1,724	247	978	88,916	25,509	37,190
- Debt securities	(1,143)	(112)	-	-	-	-	443	118	-	-	(694)	(128)
Total	(3,779)	(237)	-	(2,646)	-	(61,003)	2,405	365	978	88,916	24,999	37,059

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

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

Transaction/Income items	Net losses/recoveries						Total 30 June 2022	Total 30 June 2021
	Stage one	Stage two	Stage three		Purchased or originated impaired			
			Write-offs	Others	Write-offs	Others		
1. Loans granted in accordance with GL	-	-	-	-	-	-	-	-
2. Loans subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	-	-	-	-	-	-	-	(21)
4. New funding	(1,101)	-	-	-	-	-	(1,101)	(407)
Total	**(1,101)**	**-**	**-**	**-**	**-**	**-**	**(1,101)**	**(428)**

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

Transaction/Income items	Losses (1)						Recoveries (2)				Total 30 June 2022	Total 30 June 2021
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Debt securities	(1,164)	-	-	-	-	-	451	-	-	-	(713)	(1,143)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	(1,164)	-	-	-	-	-	451	-	-	-	(713)	(1,143)

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

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

Section 12 – Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of expense/Amount	Total 30 June 2022	Total 30 June 2021
1) Employees	(41,092)	(33,521)
a) wages and salaries	(21,928)	(19,354)
b) social security contributions	(6,558)	(5,515)
c) provision for employee severance pay	-	-
d) pension costs	-	-
e) provision for employee severance pay	(785)	(650)
f) provision for post-employment benefits and similar provisions:	(45)	(20)
- defined contribution	(45)	(20)
- defined benefits	-	-
g) payments to external supplementary pension funds:	(523)	(475)
- defined contribution	(523)	(475)
- defined benefits	-	-
h) costs related to share-based payments	(909)	(474)
i) other employee benefits	(10,344)	(7,034)
2) Other personnel in service	(1,048)	(963)
3) Directors and statutory auditors	(1,213)	(1,056)
4) Early retirement costs	-	-
Total	**(43,353)**	**(35,540)**

12.5 Other administrative expenses: breakdown

Type of expense/Amount	Total 30 June 2022	Total 30 June 2021
Insurance	(1,632)	(1,557)
Various consulting services	(5,222)	(4,025)
Sundry contributions	(2,089)	(1,972)
Cost of services	(2,271)	(1,741)
Financial information	(1,505)	(1,152)
Adverts and advertising	(3,049)	(1,270)
Financial statement audit	(401)	(321)
IT and software expenses	(11,882)	(10,255)
Legal and notary's fees	(4,445)	(2,879)
Property management expenses	(1,614)	(1,126)
Expenses for professional services	(6,007)	(4,564)
Utilities and services	(818)	(789)
Other indirect taxes and duties	(4,309)	(6,606)
Others	(1,105)	(722)
Total other administrative expenses	**(46,349)**	**(38,979)**

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

14.1 Net adjustments/recoveries on property and equipment: breakdown

Asset/Income items	Amortisation (a)	Write-downs/ write-backs for impairment (b)	Write-backs (c)	Net profit/loss (a + b - c)
A. Property and equipment				
1. Used in the business	(1,640)	-	-	(1,640)
- Owned	(247)	-	-	(247)
- Rights of use acquired through lease agreements	(1,393)	-	-	(1,393)
2. Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through lease agreements	-	-	-	-
3. Inventories	X	(107)	-	(107)
Total	**(1,640)**	**(107)**	**-**	**(1,747)**

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

15.1 Net adjustments/recoveries on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Write-downs/ write-backs for impairment (b)	Write-backs (c)	Net profit/loss (a + b - c)
A. Intangible assets	**(5,577)**	**-**	**-**	**(5,577)**
of which: software	(5,079)	-	-	(5,079)
A.1 Owned	(5,577)	-	-	(5,577)
- Generated internally by the company	(1,545)	-	-	(1,545)
- Other	(4,032)	-	-	(4,032)
A.2 Rights of use acquired through lease agreements	-	-	-	-
B. Assets held for sale	**-**	**-**	**-**	**-**
Total	**(5,577)**	**-**	**-**	**(5,577)**

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

The item includes the negative economic results recorded by the companies Hype S.p.A., SpicyCo S.r.l. And SpicyCo 2 S.r.l. for the respective shares belonging to the illimity Group, in accordance with their consolidation using the equity method. The item includes the negative effects of EUR 3.7 million attributable to the consolidation of Hype.

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

Income taxes for the period on continuing operations at 30 June 2022 amounted to EUR 16.6 million, as follows: a charge of EUR 15.9 million relating to current taxes, a charge of EUR 1 million relating to the change in IRES and IRAP prepaid taxes, and an income of EUR 0.3 million relating to the change of IRES deferred taxes.

21.2 Reconciliation of theoretical tax charge with actual tax charge

The theoretical tax charge considered on an individual basis was equal to 33.07% (24% ordinary IRES, 3.5% additional IRES and 5.57% IRAP) for banks and financial entities, and equal to 27.9% (24% ordinary and additional IRES and 3.9% IRAP) for industrial and service companies. The effective tax rate for the half-year was 34.5%, which was mainly influenced by the negative effect resulting from Hype's equity investment, as well as the positive IRES effects deriving from the rules on economic growth aid (“ACE”).

Section 25 – Earnings per share

25.1 Average number of ordinary shares with diluted capital

Basic earnings per share as of 30 June 2022, calculated by dividing the result for the period by the weighted average number of ordinary shares issued, was equal to EUR 0.40, while diluted earnings per share as of the same date amounted to EUR 0.39.

(amounts in thousands of euros)

Basic and diluted earnings per share	Profit/(Loss) for the period	Average number of shares	Basic and diluted earnings per share
Period ended 30 June 2022	31,468	79,352,210	0.40
Period ended 30 June 2021	27,418	73,276,910	0.37

(amounts in thousands of euros)

Diluted earnings (losses) per share	Profit/(Loss) for the period	Average number of shares	Diluted earnings (losses) per share
Period ended 30 June 2022	31,468	81,383,304	0.39
Period ended 30 June 2021	27,418	73,276,910	0.37

25.2 Other information

There is no other information as of the reporting date.

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Introduction

Risk Management Process and Internal Control System

The illimity Group has a structured Risk Management Process (PGR), used as a reference model in the organisational and procedural development and systematic performance of all operations and business activities put in place - which may be standard, or non-systematic or contingent. In line with the mission assigned, strategies and objectives pursued, these operations and activities entail undertaking and continually managing risks, in order to contribute to a sustainable value creation process, while also ensuring regulatory compliance and, among others, a coordinated use of human resources, technologies and methodologies.

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

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

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

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

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

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

- a system of risk limits and objectives (Risk Appetite Framework, RAF), that represents an organic and structured approach which has implications on integrated risk management and governance processes and impacts on all company functions. It is structured and expressed at operational level for the Division and operational teams, and covers escalation processes, metrics and quantitative limits, as well as qualitative guidelines set out annually in the Risk Appetite Statement (RAS).

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

- the Internal Capital Adequacy Assessment Process (ICAAP), a process for the self-assessment of the liquidity profile (so-called ILAAP). The objective of the ICAAP and ILAAP processes is to provide an internal assessment of the current and forward-looking adequacy, under ordinary and stress conditions, of available assets in relation to exposure to operational risks, and of the operational liquidity and structural profile in relation to related reserves;
- a process for the ex ante assessment of Major Transactions (OMR), with a prior opinion on their sustainability at a credit and income level and coherence with the RAF.

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

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

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

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

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

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

Below is specific information about the risk management system and specific information about material risks, indicated below, and the related management, control and hedging policies adopted by the Group:
- credit risk (which also includes concentration risk);
- market risk (interest rate risk and price risk - regulatory trading portfolio);
- interest rate (interest rate risk and price risk of banking portfolio);
- liquidity risk;
- operational risk;
- IT risk;
- ESG risk (for further information, please refer to the information published in the Consolidated Non-Financial Statement of the illimity Group (pursuant to Italian Legislative Decree 254/2016)).

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

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

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

For details on the objectives and strategies of individual risks in the new context of the epidemiological crisis, reference is made to the specific section in Part A – Risks, uncertainties and impacts of the *COVID-19* epidemic.

Section 1 – Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Performing and non-performing credit exposures: amounts, write-downs/write-backs, changes, and economic breakdown

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

Portfolio/quality	Bad loans	Unlikely-to-pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	655,448	452,844	135	58,060	2,379,331	3,545,818
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	415,926	415,926
3. Financial assets at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	88,749	88,749
5. Financial assets held for sale	-	-	-	-	38,248	38,248
Total 30.06.2022	**655,448**	**452,844**	**135**	**58,060**	**2,922,254**	**4,088,741**
Total 31.12.2021	**704,416**	**374,868**	**136**	**3,410**	**2,551,533**	**3,634,363**

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

Portfolio/quality	Non-performing			Performing			Total (net exposure)
	Gross exposure	Total write-downs/write-backs	Net exposure	Gross exposure	Total write-downs/write-backs	Net exposure	
1. Financial assets measured at amortised cost	1,128,160	(19,733)	1,108,427	3,044,275	(606,884)	2,437,391	3,545,818
2. Financial assets measured at fair value through other comprehensive income	-	-	-	417,660	(1,734)	415,926	415,926
3. Financial assets designated at fair value	-	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	X	X	88,749	88,749
5. Financial assets held for sale	-	-	-	38,248	-	38,248	38,248
Total 30.06.2022	**1,128,160**	**(19,733)**	**1,108,427**	**3,500,183**	**(608,618)**	**2,980,314**	**4,088,741**
Total 31.12.2021	**1,097,949**	**(18,529)**	**1,079,420**	**2,504,845**	**(11,893)**	**2,554,943**	**3,634,363**

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

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

Section 2 – Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

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

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

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

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

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

- The main operational factors that contribute to determining and managing credit risk relate to:
- loan application processes;
- credit risk management;
- monitoring of exposures;
- debt recovery.

The quality of the lending portfolio is preserved by adopting specific operational methods at every stage of the loan management process (contact, application stage, decision and disbursement, monitoring and litigation). Credit risk is controlled right from the first stage of the application process, by means of:
- checking creditworthiness, with particular attention to the customer's current and forward-looking capacity to produce income and, above all, sufficient cash flows to honour the debt;
- an assessment of the nature and scope of the required loan in relation to the actual needs and the financial and economic capacity of the applicant, the performance of the account if already in existence, and the sources of repayment;
- the membership in Legal and Economic Groups.

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

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

With regard to the Risk Appetite Framework, the Group verifies aspects including the following, in relation to the risk in question and certain aspects of the relative concentration risk:
- the ratio of the volume of non-performing exposures to the total portfolio;
- the level of concentration, with regard to exposures to a counterparty or group of connected counterparties (single name exposures), and at sectoral level;
- the collections made compared with those forecast with regard to non-performing exposures;
- the limits on "Large Risks";
- the Bank's level of exposure to related parties (IAS 24) and parties in conflict of interests (pursuant to Article 2391 of the Italian Civil Code);
- observance of the limits provided for by the supervisory regulations.

For the purposes of determining internal capital in relation to credit risk, the Group uses the standardised methodology adopted for the calculation of prudential requirements in relation to said risk.

Impacts of the COVID-19 pandemic

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

To assess forward-looking credit risk scenarios related, in particular, with suspension or moratoria measures being stopped, the *business* areas began specific monitoring of credit lines (suspension pursuant to Decree Law 18/2020 and/or ABI moratoria) and contracts with affected customers, to verify whether, in future, there could be problems with resuming payments, so as to take prompt management measures (e.g., the preparation of *forbearance* measures, classification as higher risk, etc.).

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

As regards risk measurement and control systems, and in relation to the measurement of expected losses, the methodological choices that underpinned the models used to determine the probability of default used at the end of 2020 were maintained. In particular, the improvement in the economic cycle forecast for 2022, though decreased on previous estimates, has been minimised from a prudential perspective, since the moratoria have delayed the manifestation of the economic crisis in terms of companies' solvency.

In addition, the analysis models and tools used for second level risk management controls and relative reporting processes continued their consolidation in 2022, along with the analysis of main drivers determining the asset quality of the credit portfolio.

Impacts of the Russia - Ukraine conflict
The continuous monitoring of credit exposure makes it possible to promptly identify situations of potential difficulty deriving from the economic and geopolitical context. At the start of the hostilities between Russia and Ukraine, careful analyses were conducted that made it possible to identify the borrowers impacted by sanctions, trade freezes and commodities costs, even indirectly. Following the initial months of the conflict, it can be affirmed that many counterparties have implemented mitigation actions sufficient to preserve their credit risk profiles. Only in a few, limited cases has the continuation of the crisis made it necessary to revise the classifications and allowances, effects which, in any event, are mitigated by the state guarantees on those loans.

2. Credit risk management policies

2.1 Organisational aspects

Refer to the following paragraph.

2.2 Management, measurement and control systems

Growth Credit Division

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

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

The Growth Credit Division is active in the following segments:

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

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

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

Distressed Credit Division

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

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

The Distressed Credit Division has the following structure:

1) 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 & Asset Optimisation Area, which is responsible for optimising portfolio, single name and Repossessed Property management by identifying market opportunities for their sale (or redevelopment in the case of properties), in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase to post-sales;
4) The Pricing Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models of portfolios/single name (special situations)/ senior financing and the capital structure of all investments, as well as the activities of Due Diligence Coordination;
5) Business Portfolio Analysis & Monitoring Area, responsible for governing and managing the cost monitoring process, the income statement and the portfolios/single names or the trend in performance of the Division;
6) The Operations & Analytics Area, tasked with coordinating and monitoring the Division's activities, overseeing relations with other Bank units and decision-making bodies and providing legal advice related to individual investment opportunities and initiatives. It is also responsible for governing and managing the process of acquiring, transforming and using the data originated and used by the Division in business processes and for managing the onboarding process.

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

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

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

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

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

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

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

Following the merger with IT Auction S.r.l., Mado S.r.l. and Core S.r.l. (the company acquired by the Group in 2020) into neprix S.r.l. with legal effect from 1 February 2021, the neprix Sales Area was created. That area, along with a portion of Neprix Tech, was then demerged from neprix S.r.l. through a partial proportionate spin-off, resulting in the contribution of those areas to Abilio S.p.A., a company incorporated and wholly-owned by the Bank, operational since 1 April 2022. The new company manages and sells property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a network of professionals operating nationwide.

To carry out its operations concerning distressed credit, illimity works with the vehicles Aporti, Friuli SPV, Doria SPV, River SPV, Pitti SPV, Beagle SPE and Maui SPE and with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, River Immobiliare, SpicyCo and SpicyCo 2.

Chief Risk Officer and CFO & Central Functions

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

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

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

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

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

2.3 Methods of measuring expected losses

Among the main elements characterising this principle are:

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

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

Changes due to COVID-19

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

- <u>assessment of the significant increase in risk (SICR):</u> staging criteria adopted (management of the transition from stage 1 to stage 2), and in particular the adoption of the "principle of the significant increase in risk" (SICR), were not changed as a result of the COVID-19 pandemic. In adopting the SICR, the Group carries out an analytical assessment, position by position, taking into account both the outlook of each borrower and impact of the government support measures (e.g. moratoria), in the light of the specific internal policy governing the adoption of criteria to classify forborne loans in the context of a systemic crisis;
- <u>measurement of expected losses:</u> the economic scenarios supplied by the info provider Oxford Economics and used in the process of calculating collective impairment were examined in 2021, but the methodological choices that underpinned the models used to determine the probability of default used at the end of 2020 were maintained. In particular, the improvement in the economic cycle forecast for 2022 has been minimised from a prudential perspective, since the moratoria have delayed the manifestation of the economic crisis in terms of companies' solvency;

- financial assets covered by business renegotiations and exposures subject to concessions: the effect of measures supporting the economy is included in the process to assess SICR, by adopting a forborne policy, as mentioned previously, that regulates the various types of concession granted to customers as a result of temporary financial difficulties caused by the pandemic, in order to define cases in which these concessions must be considered as forbearance measures or otherwise.

Significant increase in credit risk

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

Quantitative criteria

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

Qualitative criteria

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

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

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

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

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

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

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

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

In accordance with IFRS9, the Group has defined a specific methodological framework aimed at modelling the following risk parameters, which are relevant for the calculation of IFRS 9 impairment:
- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD);
- stage allocation criteria;
- calculation of expected losses including point-in-time elements.

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

For this purpose, the illimity Bank Group has maintained a model (hereinafter, the “Main Model”) that implements the following approaches, differentiated by type of portfolio:
- application of an evolved model for the shadow rating of exposures originating from illimity, and attribution of the relative probabilities of default based on the expected default rates for Italian Growth Credit, also considering the expected macroeconomic scenario;
- application of an external rating to the remaining exposures (former Banca Interprovinciale Portfolio) and attribution of the relative probabilities of default based on historical default rates and expectations also linked to the macroeconomic scenario, using the PD forward looking Model;
- adoption of the new LGD model based on the estimate of recovery percentages in the case of bad loans calibrated based on the business plans of bad loans of the Distressed Credit Division;
- application of a model for collective impairment of factoring portfolios that uses ratings provided by the rating agency Crif as inputs. The Risk Management function has developed an engine for calculating Expected Credit Loss, which will make it possible to manage in house any methodological choice relating to the application of Probability of Default (PD) and Loss Given Default (LGD) parameters, in line with the continuous developments in terms of business practices and obtaining greater alignment with the portfolio’s risk profile.

2.4 Credit risk mitigation techniques

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

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

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

During the first half of 2022, the illimity Bank Group further increased the share of its portfolio represented by loans backed by state guarantees, also taking advantage of the measures put in place by the government in light of the pandemic.

3. Non-performing credit exposures

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

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

- **"non-performing past due exposures"**, which correspond to on-balance sheet credit exposures other than those classified under bad loans or unlikely-to-pay positions, which on the reporting date were past-due or have been overrun continuously for more than 90 days;
- **"unlikely-to-pay positions**, which, rather, correspond to exposures for which it is considered unlikely that the borrower will fulfil their loan obligations without the recourse to actions such as enforcement of guarantees. This assessment is made regardless of whether or not there are any amounts or instalments overdue and unpaid. There is thus no need to wait for an express signal such as non-repayment, if there are factors that imply a risk of the borrower defaulting (for example a crisis in the industry they operate in). The total on- and off-balance sheet exposures to the same borrower in the above situation will be termed an unlikely to pay position unless there are conditions for classifying the borrower among bad loans;
- **"bad loans"**, which correspond to on- and off-balance sheet exposures to a borrower in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Group. They do not, therefore, take into account any secured or personal guarantees given in respect of the loan. They exclude exposures where the irregularity relates to country risk aspects.

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

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

The main forborne exposures or support measures are:

- changes to the terms and conditions of a loan that the counterparty cannot repay, by including new conditions that would not have been granted if the customer had not been in financial difficulty;

- total or partial refinancing, meaning the use of a loan disbursement intended to ensure the full or partial repayment of other existing loan agreements, which would not have been granted if the counterparty had not been in financial difficulty.

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

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

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

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

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

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

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

4. Financial assets subject to commercial negotiations and forborne exposures

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

Quantitative information

A. Credit quality

A.1. Performing and non-performing credit exposures: amounts, write-downs/write-backs, changes, and economic breakdown

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

Type of exposures/values	Gross exposure					Total write-downs/write-backs and total provisions						
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A. On-balance sheet credit exposures												
A.1 On demand	397,078	397,078	-	-	-	54	54	-	-	-	397,024	-
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	397,078	397,078	-	X	-	54	54	-	X	-	397,024	-
A.2 Other	121,058	120,426	632	-	-	179	179	-	-	-	120,879	-
a) bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely-to-pay	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Non-performing past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	121,058	120,426	632	X	-	179	179	-	X	-	120,879	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**518,136**	**517,504**	**632**	**-**	**-**	**233**	**233**	**-**	**-**	**-**	**517,903**	**-**
B. Off-balance sheet credit exposures												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	13,728	13,728	-	X	-	-	-	-	X	-	13,728	-
Total (B)	**13,728**	**13,728**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,728**	**-**
Total (A+B)	**531,864**	**531,232**	**632**	**-**	**-**	**233**	**233**	**-**	**-**	**-**	**531,631**	**-**

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

Type of exposures/values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired	
A. On-balance sheet credit exposures											
a) bad loans	669,813	X	-	19,487	650,326	14,365	X	-	14,365	-	655,448
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-
b) Unlikely-to-pay	458,184	X	-	26,264	431,920	5,340	X	-	5,340	-	452,844
- of which: forborne exposures	47,241	X	-	6,074	41,167	1,564	X	-	1,564	-	45,677
c) Non-performing past due exposures	163	X	-	163	-	28	X	-	28	-	135
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-
d) Performing past due exposures	58,358	56,595	1,764	X	-	298	288	10	X	-	58,060
- of which: forborne exposures	212	-	212	X	-	3	-	3	X	-	209
e) Other performing exposures	3,409,517	3,241,804	167,712	X	-	608,711	608,257	454	X	-	2,801,376
- of which: forborne exposures	16,114	1	16,113	X	-	55	-	55	X	-	16,059
Total (A)	**4,596,035**	**3,298,400**	**169,476**	**45,914**	**1,082,246**	**628,742**	**608,545**	**464**	**19,733**	**-**	**3,967,293**
B. Off-balance sheet credit exposures											
a) Non-performing	49,774	X	-	42,257	7,517	2,944	X	-	2,687	256	46,830
b) Performing	111,061	102,918	8,143	X	-	215	199	16	X	-	110,846
Total (B)	**160,835**	**102,918**	**8,143**	**42,257**	**7,517**	**3,159**	**199**	**16**	**2,687**	**256**	**157,676**
Total (A+B)	**4,756,870**	**3,401,318**	**177,619**	**88,171**	**1,089,763**	**631,900**	**608,744**	**480**	**22,420**	**256**	**4,124,970**

A.1.5a On-balance sheet credit exposures to customers subject to COVID-19 support measures: gross and net

Type of exposures/Values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired	
A. Bad loans:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-
B. Loans unlikely to pay:	**10,054**	**-**	**-**	**10,054**	**-**	**(1,080)**	**-**	**-**	**(1,080)**	**-**	**8,974**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	30	-	-	30	-	(8)	-	-	(8)	-	22
d) New loans	10,024	-	-	10,024	-	(1,072)	-	-	(1,072)	-	8,952
C. Non-performing past-due loans:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-
D. Past due performing loans:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-
E. Other non-performing loans:	**703,079**	**673,978**	**29,101**	**-**	**-**	**(3,360)**	**(3,246)**	**(114)**	**-**	**-**	**699,719**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-
d) New loans	703,079	673,978	29,101	-	-	(3,360)	(3,246)	(114)	-	-	699,719
Total (A+B+C+D+E)	**713,133**	**673,978**	**29,101**	**10,054**	**-**	**(4,440)**	**(3,246)**	**(114)**	**(1,080)**	**-**	**708,693**

B.4 Large exposures

	30 June 2022
Book value	1,697,040
Weighted value	380,756
Number	6

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

1.2 Market risk

1.2.1 Interest rate risk and price risk - regulatory trading book

Qualitative information

General aspects

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

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

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

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

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

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

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

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

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

For unlisted or illiquid financial instruments, the fair value is determined by applying measurement techniques aimed at determining the price that the instrument would have had on the market where freely negotiated between the parties motivated by usual commercial considerations. The techniques include:
- reference to market prices of similar instruments with the same risk profiles as those being valued (comparable approach);
- valuations based on generally accepted pricing models (i.e. Black & Scholes, Discount Cash Flow Model, etc.) or internal models, based on market input data and possibly on estimates or assumptions (Mark to Model).

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

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

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

1.2.2 Interest rate risk and price risk – banking book

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

Qualitative information

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

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

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

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

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

Fair value hedging activities

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

Cash flow hedging activity

There are no cash flow hedges.

Hedges of foreign investments

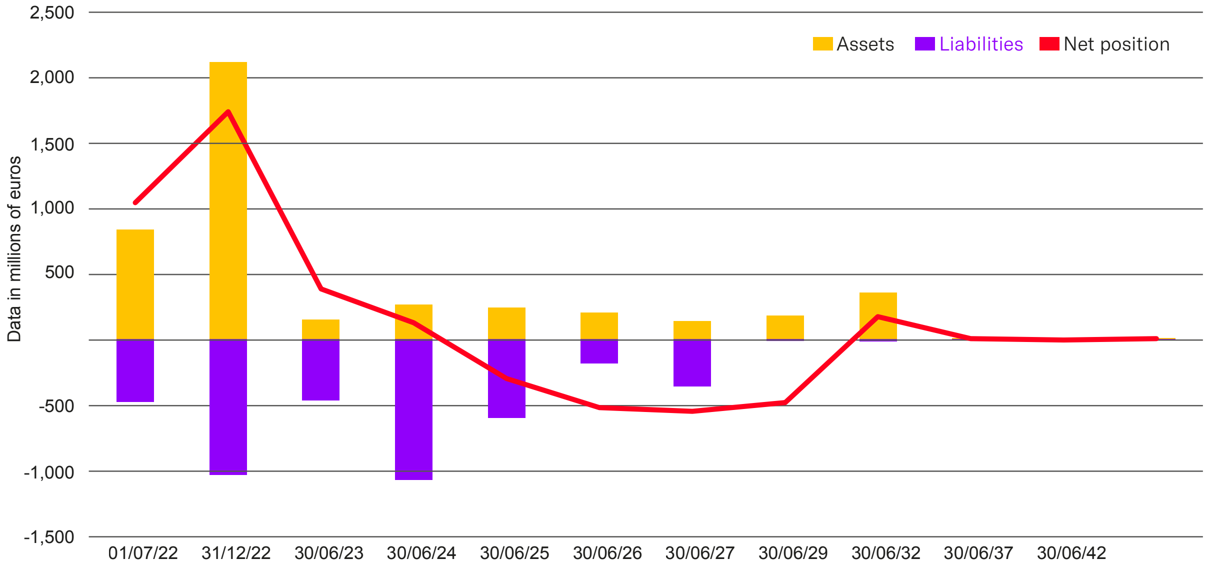
There are no hedges of foreign investments.

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

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

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

The following graphic shows the distribution by maturity bands of net imbalances of assets and liabilities in the banking book as of 30 June 2022, based on which the exposure to the interest rate risk was estimated.



On the reporting date, the measurements indicated a decrease in the value of equity equal to approximately EUR 14.4 million in relation to a parallel shock of the interest rates curve of 200 basis points; banking book exposure to interest rate risk is, therefore, marginal in terms of the ratio compared to the value of own funds, amounting to a minor level of approximately 1.7%.

In addition to the Sensitivity analysis, an estimate of the change in net interest margin is also carried out. The sensitivity of the margin is measured using a methodology that estimates the expected change in the net interest margin following a curve shock, produced by items that are sensitive to a change in the rate, within a gapping period set at 12 months from the date of the analysis. The analysis considers both the change in the margin of the exposed and term deposits. This measurement is carried out from a static financial statement perspective (constant assets and liabilities), thus excluding potential effects from new operations or future changes in the mix of assets and liabilities. In the scenario of positive rate shock of +100 bps, the change in the margin would amount to approximately EUR +12.2 million, while in the negative shock scenario of -100 bps, the estimated change would be equal to EUR 12.2 million.

1.2.3 Exchange risk

Qualitative information

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

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

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

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

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

B. Exchange rate risk hedging

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

2. Internal models and other methods of sensitivity analysis

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

1.3 Derivative instruments and hedging policies

Trading in derivatives was authorised with effect from 2021: the main type of derivatives used is interest rate swaps (IRS), either plain or structured (with the presence of caps and floors).

Derivatives are mainly traded in the context of over-the-counter (OTC) agreements with customers in relation to financing operations. Derivatives operations are carried out within the trading portfolio and involve the active management of market risks, through the hedging of the derivatives with institutional counterparties.

Derivatives operations are not used for the purposes of hedging the interest rate risk of the banking book.

The Group does not apply any hedge accounting rules for the recognition of derivatives.

1.4 Liquidity risk

Qualitative information

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

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

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

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

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

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

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

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

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

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

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

At the reporting date, the Group had a level of LCR of NSFR in line with the internal limits defined in the RAF.

Impacts of the COVID-19 pandemic

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

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

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

1.5 Operational risks

Qualitative information

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

Operational risk is the risk of incurring losses due to inadequate or malfunctioning procedures, human resources or internal systems, or due to exogenous events. This type of risk includes internal and external fraud, errors in the performance of operational processes, interruptions to operations, unavailability of systems, cases of contractual non-fulfilment and natural disasters. This definition does not cover strategic or business risk and reputational risk, but does cover IT risk and legal risk, with the latter being understood as the risk deriving from the infringement of laws or other regulations in force, or from failure to honour contractual and extra-contractual responsibilities. In some cases, operational risks may include certain cases of risk classifiable as deriving from ESG (Environmental, Social and Governance) aspects in terms of causal factors, if such cases arise from the inadequacy of processes used for the internal assessment or management of the environmental, social and governance impact of financial counterparties and of the Bank itself.

Operational risk is therefore characterised by a cause and effect, such that an adverse event, and the related operating loss, is generated by one or more triggers. This loss is defined as the entire set of negative financial effects generated by an operational risk event, as recognised in the company accounts and likely to have an impact on the income statement.

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

The primary objective of the framework is, in fact, the prevention and containment of the impact on business functions of such risk events through the *ex ante i*mplementation of organisational and operational controls, and ex post targeted mitigation measures. The guiding principles on which the operational risk prevention and mitigation framework is based include:
- increasing the efficiency and security of internal and third party-facing processes;
- increasing overall operational and IT security;
- ensuring the regulatory and organisational compliance of business activities;
- promoting the culture of risk among personnel;
- mitigating the effects of the occurrence of risk events;
- transferring any risks that are not to be maintained, where possible, using insurance-type contracts;
- protecting relations with stakeholders, reputation and the brand.

The mitigation tools available within the Group therefore include insurance policies that offer broad coverage against various types of adverse event. In that respect, the Group took out adequate policies covering various instances of operational risk and, in particular, cyber risk, property risk, employee infidelity risk, risk of non-integrity of the real estate repossessed by the Group and of the value of the properties received as collateral in the purchase of non-performing loans, and risk of disregard for advanced electronic signatures and graphometrics. This insurance is subject to valuation and continuous adjustment, including based on the progressive operational and structural evolution of the Group.

With regard to the management of critical information technology risks, the Group has adopted a disaster recovery plan, which sets out the technical and organisational measures necessary to deal with the unavailability of IT systems or infrastructure. The plan aims to guarantee the functioning of critical IT procedures at alternative sites to those of production, and forms an integral part of the business continuity plan, ensuring the return to normal Group operations within reasonable timing. In line with the regulatory instructions issued by the Bank of Italy, and based on a control integration logic, this system is managed both internally by the ICT security unit, and externally by the outsourcer Centrico, and by front-end service providers.

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

In order to guarantee the correct management and integrated oversight of operational risk, the Group has put in place a continuous structured loss data collection (LDC) process and a process to determine the Group’s forward-looking exposure to operational risk, based on an annual Risk Self Assessment (RSA).

Through the Loss Data Collection process, the main information related to the Group's operational risk events and their economic effects is collected and analysed in a timely manner. The process extends throughout the entire banking group, also involving the subsidiaries for which illimity carries out risk management activities as an outsourcer. The activity of reporting and gathering data also makes use of IT applications and processes that guarantee the ordered and systematic inclusion of events and operational losses, thereby facilitating the recording of such information for the purposes of monitoring and assessing adequate mitigation measures.

RSA activity instead aims to quantify exposure to the Group's operational risks in the year following the assessment, based on a forward-looking self assessment which is conducted from main operating areas. This activity is launched through the definition of and agreement on possible and plausible future operational risk scenarios, is carried out through a structured process involving the assessment of the frequency, expected impact and worst case scenario for the main operational risk events that may characterise each organisational unit. These forward-looking estimates are then screened by the control functions based on objective criteria which are, lastly combined to provide an overall vision of expected and unexpected operational losses at an individual Company or Group level. This is also accompanied by a qualitative assessment of the status of controls (regulatory, checks and systems and resources).

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

The operational risk data collection process in the first half of 2022 benefited from the active contribution of illimity Bank, and from its subsidiaries.

In the first six months of the year, there was a rather low number of operational loss events, with a total financial impact far below the risk appetite thresholds.

The material events refer to the Bank's continuing operations, specifically, to the management of relations with several suppliers or outsourcers (mistakes in communications/requests for data, errors/delays in IT procedures monitored by those parties) with a low impact of the losses.

As regards the subsidiaries, no particularly significant risk events were recorded.

Overall, it is noted that the events recorded mainly fall within the category of traditional errors in execution, delivery or process management, (ET 7), followed by events linked to clients, products and business practices (ET4), and a few cases of theft of IT equipment of employees (ET2).

No internal fraud occurred (ET1) or disputes regarding work practices (ET3).

Impacts of the COVID-19 pandemic

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

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

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

In any case the advent of the COVID-19 pandemic led to a new focus on formulating new risk scenarios during the Risk Self Assessment (RSA) in 2021 and 2022, analysing possible operational risks and the economic effects of the pandemic within the Group's various business units.

In terms of the impact of IT risk, no episodes of IT system or customer banking service unavailability due, for example, to a lack of critical resources or the interruption of processes, were reported. Moreover, in terms of IT security and cyber attacks, no particular risk events prompted by the pandemic were detected, nor were any changes in the safeguards present within the Group as a response to the pandemic found to be necessary (e.g. firewalls, multi-factor authentication, conditional access, the least privilege principle, tokens, etc.).

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

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

Impacts of the Russia - Ukraine conflict

The Russia–Ukraine conflict did not generate specific impacts in terms of increase/decrease in the operational risk to which the Group is exposed. No impacts occurred, for example, in terms of unavailability of human or IT resources or cyber attacks connected with the start of the conflict. Also in terms business continuity, no repercussions were observed on the Group's business.

OTHER IMPORTANT RISKS

Risk of over-leverage

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

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

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

Settlement risk

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

Counterparty risk

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

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

Transfer risk

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

Sovereign risk

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

Strategic and business risk

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

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

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

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

Compliance risk

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

Money laundering risk

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

Reputation risk

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

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

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

ESG Risks

With the presentation of the 2021-2025 Strategic Plan, in June 2021, the illimity Group presented its results and commitments on environmental and social sustainability and governance (ESG) to the market.

Specifically, the Group established the following strategic ESG targets:

Environmental Topics:

- the maintenance of the Group's carbon neutrality (Scope 1 and Scope 2 emissions) and the measurement and addressing of the so-called “funded emissions” (Scope 3);
- the reactivation of renewable energy plants, exploiting the Energy Desk (Distressed Credit Division);
- the integration of ESG factors into credit assessment and the Risk Appetite Framework (RAF);

Social Topics:

- doubling the number of women in managerial roles;
- the maintenance of the balance between men and women in the formalised "talent pool" and a range of remuneration between men and women (gender pay gap) with a maximum deviation of 5%;
- maintaining the Group's employee engagement rate above 70%;
- the implementation of impact projects in the real estate sector, through the illimity foundation;

Corporate governance topics:

- the improvement of the Bank's ESG ratings;
- the integration of ESG objectives into incentive plans.

In order to achieve these strategic objectives in the ESG field, the Group's business, central and control structures were involved, to identify, organise and launch the operational projects and the actions necessary to achieve them, implementing a Group ESG Project Programme, which led to the identification of over 30 ESG Ambassadors (identified within the different Departments, responsible for developing specific ESG initiatives and promoting a culture of sustainability within their teams).

Sustainability issues are monitored, according to international best practices, by a board committee specifically set up in January 2020 and comprising three Board Directors. The CEO and Head of Strategy, Sustainability & IR are permanent attendees of the Committee meetings.

illimity’s Sustainability Board Committee is mainly tasked with assisting the Board of Directors, in giving advice, making assessments and taking decisions on sustainability issues. The Committee is assisted by the Sustainability & ESG Function, and promotes a responsible, sustainable culture within the Group, establishing medium/long-term sustainability goals.

The Board of Directors approves the materiality matrix resulting from Sustainability & ESG activities, as well as the Consolidated Non-Financial Statement, which represent and convey the Bank’s commitment, results and goals for improvement in terms of sustainability issues.

The Sustainability & ESG area monitors the Group’s sustainability activities and coordinates the process to monitor and report on these issues, working at all times with the Group’s various Functions and Divisions.

The entire ESG material and risk management applications, in particular with reference to climate-environmental risks, are characterised by a stage of continuous evolution, with a rich, progressive regulatory framework and with emerging risk assessment and measurement methods, not yet consolidated, which are affected by the lack of adequate internal and external data systems.

As already illustrated during reporting for 2021, in accordance with Legislative Decree 254/2016, for 2022 the Group has once again identified - via a process conducted by the CRO, with the support of the Sustainability & ESG Area - the main environmental, social and governance risk factors associated with each significant topic subject to reporting, connecting them to existing risk scenarios (for further details, please refer to the Non-Financial Statement, specifically the paragraph on “Risk management and ESG risks”, which lists the main ESG risk factors classified as generated or suffered, to which the illimity Group may be exposed).

Furthermore, the illimity Group acknowledges that climate change and environmental degradation give rise to structural changes that influence economic activity and, consequently, the financial system, as well as the risk profiles of individual intermediaries. Therefore, in this context the CRO concentrated mainly on the “E”, or environmental, aspect in 2021.

The management of climate and environmental risks focuses on the following two types of risk:

- Physical risk indicates the impact of climate change, including more frequent extreme weather events and gradual changes in the climate, as well as environmental degradation, i.e. atmospheric, water and ground pollution, water stress, loss of biodiversity and deforestation. These can be classed as “acute” risks, if caused by extreme events such as drought, floods, cyclones, storms, heatwaves and forest fires; or as “chronic”, if caused by gradual changes such as rising temperatures, rising sea levels, water stress, changes in atmospheric precipitation levels, loss of biodiversity and scarcity of resources. Such a risk can directly cause, for example, material damage or a drop in productivity, or can indirectly cause subsequent events such as the interruption of production and logistical chains.
- Transition risk indicates the financial loss that the Bank may incur, directly or indirectly, as a result of the process of adjusting to a low-carbon and more environmentally sustainable economy. This situation could be caused, for example, by the relatively unexpected adoption of climate and environmental policies, technological progress, or changes in market confidence and preferences. Such an impact may be direct, for example by means of lower income for companies or write-downs of assets, or indirect, through macro-financial changes.

Furthermore, physical and transition risks act as causal factors for other categories of risk, particularly with regard to credit, operational, market and liquidity risk, as well as risks not included in the first pillar, such as migration risk, credit spread risk for the banking portfolio, property risk and strategic risk.

The various instances of risk (and the ways in which they manifest) have therefore been mapped for the Group's various business lines, giving an assessment of their significance, predicting the main channels of transmission (connecting them to pre-existing risk categories) and providing an overall view of their impact on the Group’s risk profile. In particular, for each risk factor, physical and transition, its possible impact on the Group's operations has been represented. For example:

- with regard to transition risk, the impact of an increase in carbon taxes and the macroeconomic impact of transition trends (technological developments, increased competition, over-funding);
- with regard to physical risk, the direct impact of climate events on real guarantees, on owned and repossessed property, and on operating activities carried out by employees; and the indirect impact on the creditworthiness of financial counterparties/issuers, and on the services provided by suppliers/partners.

Furthermore, the transmission mechanism with which the risk factor manifests has been represented (increased probability of default, increase in Loss Given Default, lower Internal Rate of Return, etc.), as has the connection to the pre-existing risk type involved (credit, business, operational, liquidity or market risk, etc.).

Secondly, once the way in which climate and environmental risks impact the Group’s business had been mapped, the methods with which to measure them were identified.

Activities are under way aimed at methodological development and collection (including through external providers) of data useful for defining and implementing a set of management indicators in order to monitor the Group's ESG risk profile and, prospectively, estimate the different components of expected and unexpected loss connected with climate and environmental risks.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 – Consolidated shareholders' equity

A. Qualitative information

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

B. Quantitative information

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

Items in shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	54,517	-	-	-	**54,517**
2. Share premium reserve	624,583	-	-	-	**624,583**
3. Reserves	134,078	-	-	-	**134,078**
4. Equity instruments	-	-	-	-	**-**
5. (Treasury shares)	(747)	-	-	-	**(747)**
6. Valuation reserves:	(42,035)	-	-	-	**(42,035)**
- Equities measured at fair value through other comprehensive income:	5	-	-	-	**5**
- Hedging of equity instruments measured at fair value through other comprehensive income	-	-	-	-	**-**
- Financial assets (other than equity instruments) at fair value through other comprehensive income	(42,664)	-	-	-	**(42,664)**
- Property, plant and equipment	-	-	-	-	**-**
- Intangible assets	-	-	-	-	**-**
- Hedging of foreign investments	-	-	-	-	**-**
- Cash flow hedges	-	-	-	-	**-**
- Hedging instruments [undesignated elements]	-	-	-	-	**-**
- Foreign exchange differences	-	-	-	-	**-**
- Non-current assets and asset groups held for sale	-	-	-	-	**-**
- Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)	-	-	-	-	**-**
– Actuarial gains (losses) relating to defined benefit plans	624	-	-	-	**624**
– Shares of valuation reserves for equity investments measured at equity	-	-	-	-	**-**
- Special revaluation laws	-	-	-	-	**-**
7. Profit (loss) (+/-) for the period attributable to the Group and minority interests	31,468	-	-	-	**31,468**
Total	**801,864**	**-**	**-**	**-**	**801,864**

Section 2 – Own funds and capital ratios

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

On 17 March 2022 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 2022. 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 communicated the following capital levels, which the illimity Banking Group was invited to maintain on an ongoing basis:

- Common Equity Tier 1 (CET1) ratio of 9.10%;
- Tier 1 ratio of 11.00%;
- Total Capital ratio of 13.50%.

In that regard, it is noted that the Bank continues to substantially comply with the original voluntary commitment to maintain the CET1 ratio at a level above 15% on an ongoing basis.

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

(amounts in thousands of euros)

Capital ratios	30 June 2022	31 December 2021
Common Equity Tier 1 (CET1) capital	**641,674**	**642,467**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**204,947**	**200,432**
Total own funds	**846,621**	**842,899**
Credit risk	*295,621*	*253,619*
Credit valuation adjustment risk	*-*	*-*
Settlement risks	*-*	*-*
Market risks	*4,233*	*780*
Operational risk	*18,518*	*18,518*
Other calculation factors	*-*	*-*
Total minimum requirements	**317,907**	**272,917**
Risk-weighted assets	**3,973,836**	**3,411,468**
Common Equity Tier 1 ratio (Phased-in)	**16.15%**	**18.83%**
Common Equity Tier 1 ratio (Fully Loaded)	**15.79%**	**18.74%**
Total capital ratio (Phased-in)	**21.30%**	**24.71%**
Total capital ratio (Fully Loaded)	**20.95%**	**24.61%**

The difference between the Fully Loaded ratio and the Phased-in ratio is due to the application of Regulation 2020/873, specifically: temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic, and to a residual extent to the application of IFRS 9 to own funds and capital ratios.

As of 30 June 2022, the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds. Moreover, on 21 June, EU Regulation 2022/954 was published in the Official Journal of the European Union, amending the regulatory technical standards as regards the specification of the calculation of specific and general losses/recoveries for credit risk. The application of that regulation, in force from July 2022, requires, for credit exposures acquired with a discount of 20% or more, a weighting factor of 100% on the non-guaranteed portion (instead of 150%). That effect, estimated as of 30 June, entails a benefit of EUR 271 million in RWAs.

Based on the above and considering the conversion of special shares, the CET 1 ratio (Phased-in) amounts to 17.72% and the Total Capital Ratio (Phased-in) 23.25%.

PART G – BUSINESS COMBINATIONS

Section 1 – Transactions completed during the half year

1.1 Transactions of business combinations

1.1.1 Description of the transaction

On 30 June 2022, the cash purchase by illimity of 10% of AREC shares was finalised and the deed regarding the contribution to illimity of the shares representing the remaining equity investment of 90% of the share capital of AREC, for the purpose of the acquiring the entire company and the subsequent planned merger with the servicer of the illimity group, neprix S.r.l..

Through this acquisition, illimity aims to strengthen its positioning and innovative approach to servicing distressed corporate loans, through neprix, confirming its position as a comprehensive market leader capable of covering the entire value chain of the management process, from investment to the remarketing of assets guaranteeing these loans.

The highly specialised approach as a servicer on UTP loan portfolios, with a focus on the mid and large corporate real estate segment, which is the basis of AREC's business model, will be preserved following its planned integration with neprix, with an additional goal of applying the same approach to small and granular loans, expanding its skills in managing large real estate operations and significantly increasing its third party management mandates.

1.1.2 Accounting for the transaction

The information elements are provided below regarding the process of recognising the accounting effects of the acquisition of AREC and the methods used to recognise the remaining difference to be provisionally allocated to goodwill in the consolidated half-yearly financial report financial report of the illimity Bank Group as of 30 June 2022. It should be noted that illimity used the full goodwill method to determine the provisional goodwill.

The acquisition was accounted for in accordance with the methods set out in the international accounting standard *IFRS 3 – Business Combinations*.

Pursuant to that standard, an undertaking shall account for any business combinations by applying the acquisition method. In accordance with IFRS 3.5, that method requires:

- identifying the acquirer and determining the acquisition date;
- determining the consideration for the transfer of the business combination;
- determining the allocation of the acquisition cost:
  - the acquirer shall measure the identifiable assets acquired and the liabilities assumed at fair value at the acquisition date;
  - in a second phase, any other assets and liabilities specifically connected with the business combination. The acquirer may recognise assets and liabilities previously not accounted for in the acquired undertaking: this is the case for intangible assets, potential liabilities that arise as a result of the business combination, or deferred tax assets relating to tax losses recognised by the acquired company, where the latter did not recognise those assets, as the conditions for recognition were not met;
  - in a third phase, the acquirer shall recognise the goodwill at the acquisition date, measured as the difference between:
    - the acquisition costs borne by the acquiring undertaking, calculated as the sum of the consideration transferred and
    - the net value of the amounts of the identifiable assets acquired and the identifiable liabilities assumed (see IFRS 3.32). If the difference between these components is negative (bargain purchase), this gives rise to negative goodwill (also called badwill) and the acquirer shall account for that amount as profit in the income statement for the year, at the acquisition date. The acquirer shall recognise the resulting profit in the income statement at the acquisition date. The capital gain is attributed to the acquirer.

In accordance with IFRS 3, if the initial recognition of a business combinations is not completed by the end of the year in which the combination takes place, the acquirer shall report in its financial statements the provisional amounts for the items whose accounting is incomplete. Within one year from the acquisition date, the acquirer shall adjust the provisional amounts recorded at the acquisition date to reflect the new information obtained.

1.1.2.1 Identification of the acquirer and determination of the acquisition date;

Without prejudice to the identification of illimity as the acquirer, another important aspect in accounting for a business combination is the acquisition date, defined as the date on which the acquirer obtains control of the acquiree (see IFRS 3.8). The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree: the closing date.

With reference to the acquisition of AREC, on 30 June 2022 all the conditions were met for the closing of the acquisition and, therefore, the business combination took effect from that date.

1.1.2.2 Determination of the consideration transferred

According to IFRS 3.37, the consideration transferred in a business combination shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer to the former owners of the acquiree, the liabilities of the acquiree incurred or assumed by the acquirer and the equity interests issued by the acquirer and used as the consideration for the merger at the acquisition date.

The acquisition cost (or consideration transferred) is thus composed of the financial resources transferred to the acquiree:

- in the event of cash, it is composed of the amount paid. The acquisition cost thus equals the amount of cash transferred to the acquiree;
- in the event that the consideration is represented by financial instruments traded on the market, the acquisition cost is represented by the fair value of those financial instruments at the date of the exchange.

Where the acquisition is carried out through the exchange of shares listed in active markets, the list price provides the most reliable evidence of the fair value and must be used without adjustments to determine the fair value, where available.

As part of the transaction, the consideration transferred by the acquirer is represented by:

- the fair value at the acquisition date of the shares issued for the purpose of the contribution to illimity of 90% of the shares of the NewCo;
- the fair value at the acquisition date of the cash consideration paid for the remaining 10% of the shares of the NewCo.

As a result:

- for the portion relating to the cash consideration paid, the fair value is composed of the nominal value of the consideration, adjusted, in accordance with the contractual provisions, based on the net financial position of the acquired company;
- for the part relating to the share issues, the fair value is composed of the value of the illimity share listed on Euronext Milan at the acquisition date, which amounted to EUR 10.4 per share.

1.1.2.3 Determination of the remaining difference from the business combination to be allocated

For the purpose of determining the remaining difference to be allocated, reference was made to the accounting figures in the statement of financial position drawn up by AREC at the closing date of the operation.

Comparing the total acquisition cost and the book value of the shareholders' equity as of 30 June 2022 results in a remaining difference to be allocated of EUR 34.9 million, provisionally recorded under goodwill.

As previously indicated, IFRS 3 allows for the provision initial recognition of a business combination, and grants the acquirer a period of 12 months to obtain the information necessary for the purposes of final accounting for the business combination, thus correcting the provisional amounts with retroactive effect from the acquisition date.

That amount may be determined following the finalisation of the allocation of the cost of the business combination.

1.2 Transactions between subjects under common control

On 17 March 2022, the deed of partial spin-off of the sales business unit of neprix S.r.l. (which includes the equity investment in Abilio Agency S.r.l.) to Abilio S.p.A. was entered into. The operation became effective on 1 April 2022. The accounting and tax effects of the operation started from 1 April 2022.

Section 2 – Business combinations carried out after the period

2.1 Transactions of business combinations

There were no business combinations governed by IFRS 3 after the end of H1 2022.

Section 3 – Retrospective adjustments

During H1 2022 no retrospective adjustment was made to business combinations taking place in previous years.

PART H – TRANSACTIONS WITH RELATED PARTIES

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

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

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

In the first half of 2022 there were no minor or material related party transactions, which significantly affected the Bank's or the Group's capital or profit and loss.

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

According to IAS 24, related parties are parties:

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

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

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

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

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

1. Information on remuneration of key senior managers

The total remuneration and other benefits paid pertaining to the period to directors, statutory auditors and other key senior managers is EUR 7,541 thousand. As required by the new IAS 24, paragraph 17, further information has been provided about the following categories of remuneration for senior managers with strategic responsibilities and employees:

(Thousands of euros)

Category	Amount
a) short-term benefits	4,792
b) post-employment benefits	153
c) share-based payments	1,383
d) compensation of members of the Board of Directors and the Board of Statutory Auditors	1,213

2. Information on related party transactions

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

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

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

(Thousands of euros)

STATEMENT OF FINANCIAL POSITION Assets		Book value	of which with related parties	Impact of related parties
10.	**Cash and cash equivalents**	**397,024**	**3,166**	**0.80%**
	- To other related parties		3,166	0.80%
20.	**Financial assets measured at fair value through profit or loss**	**118,137**	**92**	**0.08%**
	c) other financial assets mandatorily measured at fair value	101,737	92	0.09%
	- To other related parties		92	0.09%
40.	**Financial assets measured at amortised cost**	**3,545,818**	**82,646**	**2.33%**
	b) loans to customers	3,515,081	82,646	2.35%
	- To companies subject to significant influence		2,531	0.07%
	- To key senior managers		2,411	0.07%
	- To other related parties		77,704	2.21%
70.	**Equity investments**	**76,145**	**76,145**	**100%**
	- To companies subject to significant influence		292	0.04%
	- In companies subject to joint control		75,853	99.96%
110.	**Non-current assets held for sale and discontinued operations**	**38,248**	**38,248**	**100%**
	- From subsidiaries		38,248	100%
120.	**Other assets**	**255,306**	**12,760**	**5.00%**
	- To other related parties		12,760	5.00%

(Thousands of euros)

STATEMENT OF FINANCIAL POSITION Liabilities		Book value	of which with related parties	Impact of related parties
10.	**Amounts due to customers**	**4,183,679**	**82,772**	**1.98%**
	b) due to customers	3,134,851	82,772	2.64%
	- To companies subject to significant influence		70	0.00%
	- To key senior managers		3,281	0.10%
	- In companies subject to joint control		53,114	1.69%
	- To other related parties		26,307	0.84%
80.	**Other liabilities**	**103,198**	**3,810**	**3.69%**
	- To key senior managers		1,423	1.38%
	- To other related parties		2,387	2.31%
90.	**Employee severance pay**	**3,457**	**319**	**9.23%**
	- To key senior managers		264	7.64%
	- To other related parties		55	1.59%
100.	**Allowances for risks and charges**	**4,842**	**74**	**1.53%**
	a) commitments and guarantees given		74	2.29%
	- To other related parties		74	2.29%
140.	**Reserves**	**134,076**	**3,590**	**2.68%**
	- To key senior managers		3,590	2.68%
	- To other related parties			

(Thousands of euros)

INCOME STATEMENT Items		Book value	of which with related parties	Impact of related parties
10.	**Interest income and similar income**	**106,135**	**1,357**	**1.28%**
20.	**Interest expenses and similar charges**	**(31,658)**	**(19)**	**0.06%**
40.	**Fee and commission income**	**29,468**	**1,063**	**3.61%**
50.	**Fee and commission expense**	**(2,593)**	**(1)**	**0.04%**
160.	**Administrative expenses:**	**(89,702)**	**(12,418)**	**13.84%**
	a) personnel expenses	(43,353)	(7,564)	17.45%
	b) other administrative expenses	(46,349)	(4,854)	10.47%
230.	**Other operating income/expenses**	**13,776**	**8,709**	**63.22%**

PART I – SHARE-BASED PAYMENTS

Qualitative information

1. Description of payment agreements based on own equity instruments

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

- an "*Employee Stock Ownership Plan*" (ESOP), intended for all the employees of the Bank and/or of its subsidiaries, who have, either with the Company or with one of its direct or indirect subsidiaries (i) a permanent contract of employment, or (ii) a fixed-term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment");
- a "*Long Term Incentive Plan*" LTI), for the CEO and other Top Management of illimity (the "Beneficiaries"), who are identified as key senior managers.

Quantitative information

1. Annual changes

Items/Number of options and exercise prices	30 June 2022			31 December 2021		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balance	**1,882,977**	**-**	**31 December 2024**	**1,771,199**	**7.23**	**30 April 2024**
B. Increases			**X**			**X**
B.1 New issues	19,409	-	31 December 2024	1,882,977	-	31 December 2024
B.2 Other changes			X			X
C. Decreases			**X**			**X**
C.1 Derecognised	(135,157)	-	31 December 2024	(1,771,199)	7.23	30 April 2024
C.2 Exercised	-	-	X	-	-	X
C.3 Past-due	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**1,767,229**	**-**	**31 December 2024**	**1,882,977**	**-**	**31 December 2024**
E. Options exercised as of the end of the financial year	**-**	**-**	**X**	**-**	**-**	**X**

1. Other information

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

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

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

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

The beneficiaries' entitlement to the Ordinary Shares is subject to the following conditions being met:
- admission for trading on the MTA of the Ordinary Shares and Conditional Share Rights;
- the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiary on the allocation date of the Ordinary Shares;
- the maintenance of certain capital and liquidity requirements (so-called *gates*), in line with the applicable laws and regulations on the date of allocation of the Ordinary Shares.

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

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

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

During 2022, as part of the ESOP, 117,946 illimity shares were assigned to Group employees.

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

On 15 December 2021, the illimity Bank S.p.A. Ordinary Shareholders' Meeting, on the premise that remuneration represents one of the most important factors for attracting and retaining individuals with the professional expertise and skills appropriate to the company's medium- and long-term needs, approved a *Long Term Incentive Plan* ("LTIP", "the Plan") for the 2021-2025 period, associated with the economic, financial and ESG targets set out in the new Strategic Plan.

This LTI Plan replaces:
- the "Stock Option Plan" ("SOP") whose adoption was resolved upon on 18 January 2019 by the Shareholders' Meeting, reserved for a select number of employees of illimity and of companies directly and/or indirectly controlled by illimity; and
- the 2020-2023 Long Term Incentive Plan reserved for the Chief Executive Officer and the rest of illimity's Top Management, whose adoption was resolved upon on 22 April 2020 by the Shareholders' Meeting.

The new LTI Plan aims to ensure that the time horizon of the long-term incentive plan for key resources of the Bank is aligned with that of the 2021-25 Strategic Plan presented on 22 June 2021; to ensure strict alignment between the interests of the Bank, its shareholders and the beneficiaries of the LTI Plan, by incentivising commitment to achieving the Strategic Plan goals; and to support the achievement of ESG (Environmental, Social & Governance) targets in addition to economic and financial targets, in accordance with the overall framework of the aforementioned Strategic Plan.

Part L – Segment reporting

illimity Group operating segments

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

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

Financial data broken down by operating segment

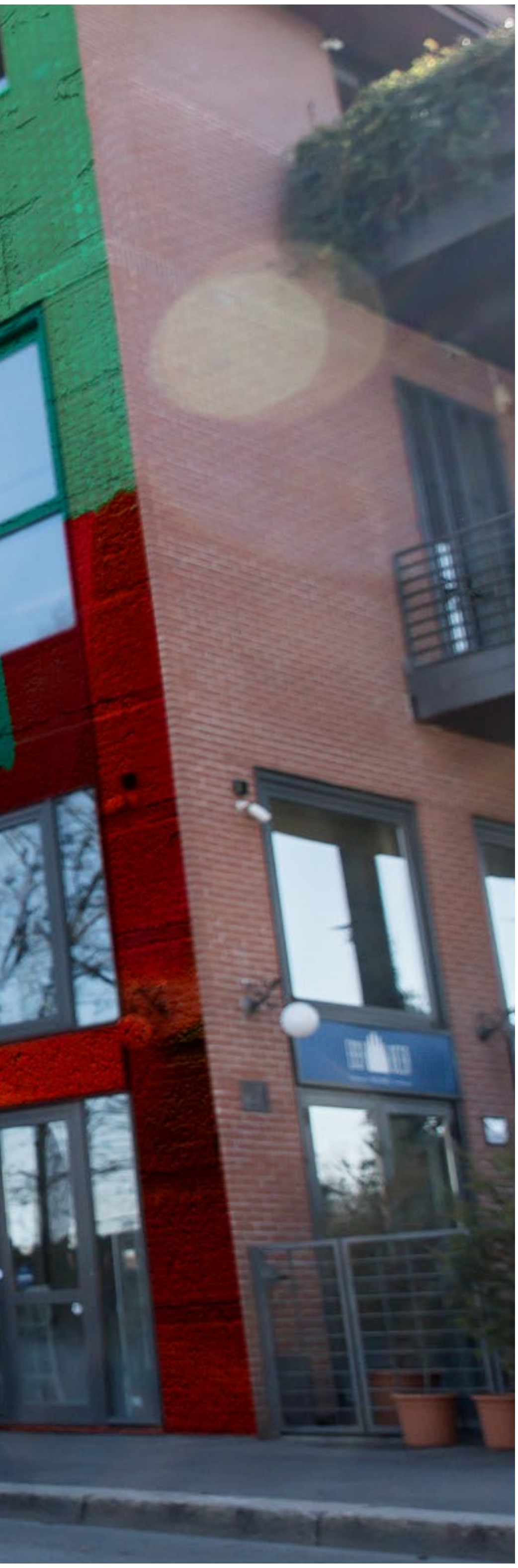
	Distressed Credit	Growth Credit	Investment Banking	Direct Banking	SGR	Corporate Centre	Consolidated 30 June 2022
Economic performance							
Total net operating income	107.7	31.9	7.6	9.2	1.2	1.5	159.0
Operating expenses	(38.5)	(10.1)	(2.3)	(12.5)	(1.4)	(28.7)	(93.5)
Operating profit (loss)	69.2	21.8	5.3	(3.3)	(0.2)	(27.2)	65.6
Gross Profit	59.8	19.5	4.7	(7.5)	(0.2)	(28.2)	48.1
Other financial data							
Financial assets measured at fair value through profit or loss	64.4	46.4	7.3	-	-	-	118.1
Loans to customers	1,013.5	1,727.7	2.5	24.2	-	-	2,767.9
Asset securities at amortised cost	430.3	140.9	15.5	0.5	-	-	587.2
Property and Equipment	65.8	-	-	-	-	25.3	91.1
Amounts due to customers and securities issued	-	-	-	2,138.8	-	1,505.7	3,644.5
RWAs	**2,146.0**	**1,270.2**	**119.0**	**72.8**	**2.7**	**363.1**	**3,973.8**

	Distressed Credit	Growth Credit	Investment Banking	Direct Banking	SGR	Corporate Centre	Consolidated 30 June 2021
Economic performance							
Total net operating income	101.5	17.4	2.9	4.1	0.5	0.4	126.8
Operating expenses	(32.5)	(10.1)	(1.6)	(10.1)	(1.2)	(21.0)	(76.5)
Gross Profit	66.2	7.3	0.4	(10.3)	(0.7)	(21.4)	41.5

Information on geographical areas

The illimity Group mainly operates in Italy.

Frame the image using the Aria App to watch the
“Agency” video



Certification and other Reports

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

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in relation to the characteristics of the enterprise and
   - the effective application of the administrative and accounting procedures used to prepare the consolidated half-yearly financial report during the first half of 2022.
2. The adequacy of the administrative and accounting procedures used to draft the consolidated half-yearly financial report as of 30 June 2022 is checked according to an internally defined model that refers to the principles of the “Internal Control – Integrated Framework” (CoSO) and the “Control Objective for IT and related Technologies” (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.
3. We can also certify that:

   3.1 the consolidated half-yearly financial statements:
      a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) No. 1606/2002 of the European Parliament and Council, of 19 July 2002;
      b) correspond to the accounting records;
      c) provide a true and fair view of the financial position and performance and cash flows of the issuer and the group of companies included in the consolidation.

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

Milan, 04 August 2022

Chief Executive Officer
Corrado Passera
Signed

Financial Reporting Officer
Sergio Fagioli
Signed

KPMG S.p.A.
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(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Report on review of condensed interim consolidated financial statements

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

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the illimity Bank Group, comprising the statement of financial position as at 30 June 2022, the income statement and the statements of comprehensive income, changes in shareholders' equity and cash flows for the six months then ended and notes thereto. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

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

Conclusion

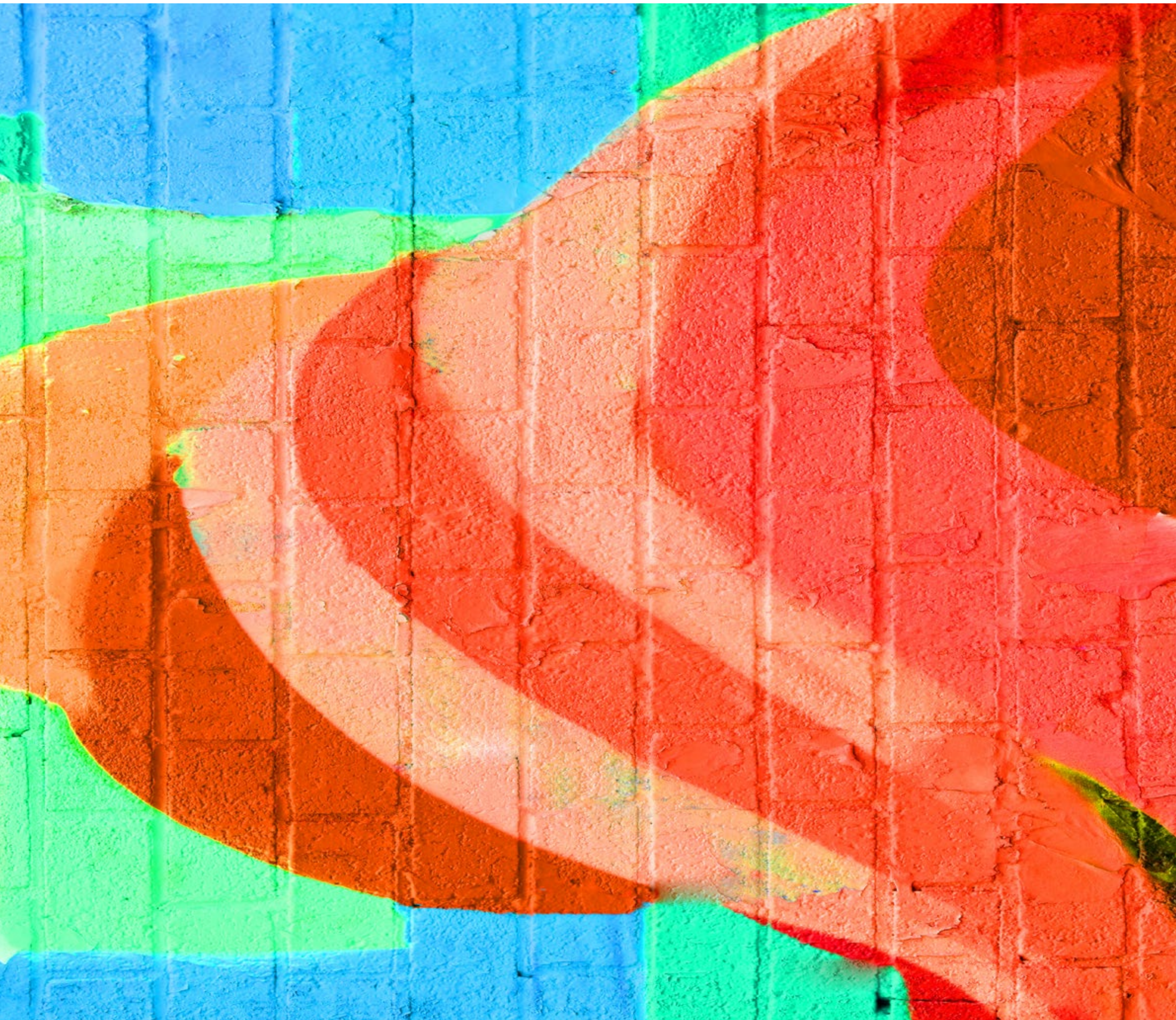
Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the illimity Bank Group as at and for the six months ended 30 June 2022 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

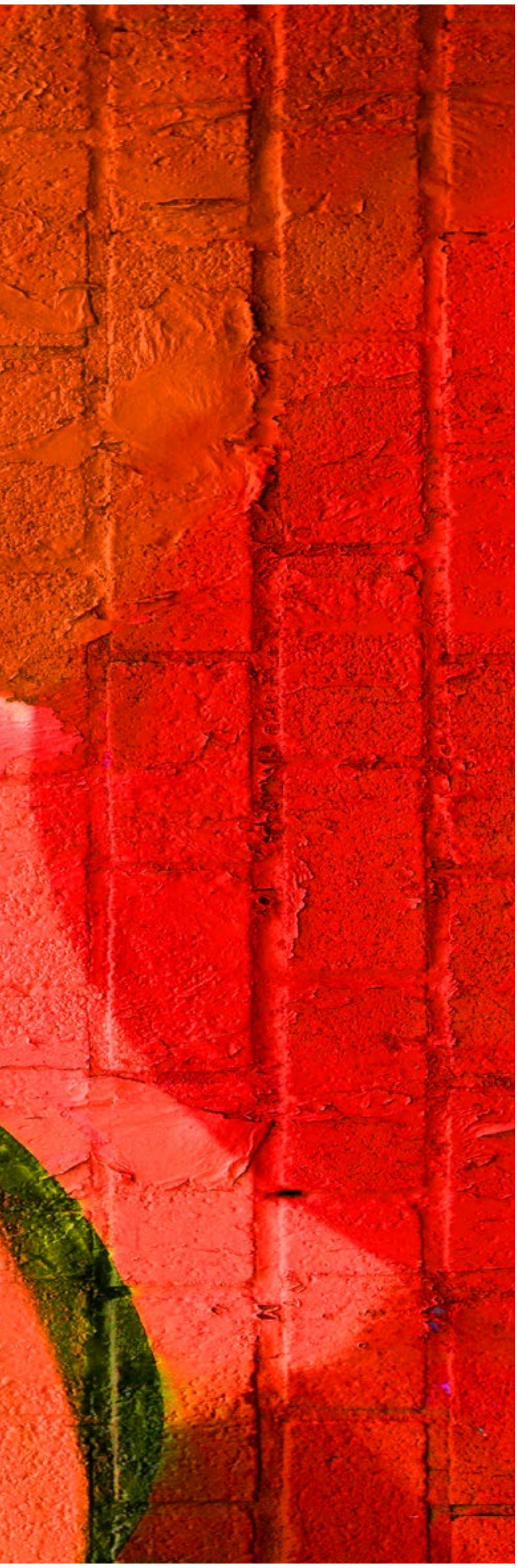
Milan, 5 August 2022

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit





Annexes

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

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

Reclassified Consolidated Statement of Financial Position

Assets	Values as of 30 June 2022
Own portfolio - Securities at FV	**432,345**
Item 20. a) Financial assets held for trading	16,400
Item 30. Financial assets measured at fair value through other comprehensive income	415,945
Financial instruments mandatorily measured at fair value	**79,237**
Item 20. c) Other financial assets mandatorily measured at fair value	101,737
To be deducted:	
Loans mandatorily measured at fair value	*(22,500)*
Loans mandatorily measured at fair value	**22,500**
Due from banks	**30,737**
Item 40. a) Due from banks	30,737
Loans to financial entities	160,022
Loans to financial entities	160,022
Government Bonds HTC	160,846
Loans to customers - HTC	2,767,885
Item 40. b) Loans to customers	3,515,081
To be deducted:	
Loans to financial entities	(160,022)
Government Bonds HTC	(160,846)
Loans to customers – Distressed Credit, Growth Credit and Investment Banking Business securities	(426,328)
Securities at amortised cost - Growth Credit	**69,751**
Item 40. b) Loans to customers	3,515,081
To be deducted:	
Loans to customers - HTC	*(2,767,885)*
Government Bonds HTC	*(160,846)*
Loans to financial entities	*(160,022)*
Distressed Credit Business securities	*(343,323)*
Investment Banking Business Securities	*(13,254)*
Securities at amortised cost – Distressed Credit	**343,323**
Item 40. b) Loans to customers	3,515,081
To be deducted:	
Loans to customers	*(2,767,885)*
Government Bonds HTC	*(160,846)*
Loans to financial entities	*(160,022)*
Business Growth Credit securities	*(69,751)*
Investment Banking Business Securities	*(13,254)*
Securities at amortised cost – Investment Banking	**13,254**
Item 40. b) Loans to customers	3,515,081
To be deducted:	
Loans to customers	*(2,767,885)*
Government Bonds HTC	*(160,846)*
Loans to financial entities	*(160,022)*
Business Growth Credit securities	*(69,751)*
Distressed Credit Business securities	*(343,323)*

Assets	Values as of 30 June 2022
Investments in equity	**76,145**
Item 70. Equity investments	76,145
Property and equipment and intangible assets	**218,739**
Item 90. Property and equipment	91,147
Item 100. Intangible assets	127,592
Tax assets	**61,302**
Item 110. Tax assets	61,302
Other assets	**690,578**
Item 10. Cash and cash equivalents	397,024
Item 120. Non-current assets held for sale and discontinued operations	38,248
Item 130. Other assets	255,306
Total assets	**5,126,664**

Liabilities and shareholders' equity	Values as of 30 June 2022
Due to banks	**539,198**
Item 10. a) Due to banks	539,198
Amounts due to customers	**3,106,712**
Item 10. b) Due to customers	3,134,851
To be deducted:	
Lease Liability (IFRS 16)	*(28,139)*
Securities issued	**509,630**
Item 10. c) Securities issued	509,630
Financial liabilities in own portfolio - instruments at FV	**13,413**
Item 20. Financial liabilities held for trading	13,413
Tax liabilities	**16,211**
Item 60. Tax liabilities	16,211
Other liabilities	**139,636**
Item 80. Other Liabilities	103,198
Increase:	
Lease Liability (IFRS 16)	*28,139*
Item 90. Employee severance pay	3,457
Item 100. Allowances for risks and charges	4,842
Shareholders' equity	**801,864**
Capital and reserves	
Item 120. Valuation reserves	(42,035)
Item 150. Reserves	134,076
Item 160. Share premium reserves	624,583
Item 170. Share capital	54,514
Item 180. Treasury shares (-)	(747)
Item 190. Equity attributable to minority interests (+/-)	5
Item 200. Profit (loss) for the period	31,468
Total liabilities and shareholders' equity	**5,126,664**

Reclassified consolidated income statement

Income Statement items	Values as of 30 June 2022
Net interest margin	**74,055**
Item 10. Interest income and similar income	106,135
Item 20. Interest expenses and similar charges	(31,658)
Reclassification of Raisin operating components	*(1,314)*
To be deducted:	
IFRS 16 interest expenses	*892*
Net fee and commission income	**27,646**
Item 40. Fee and commission income	29,468
Item 50. Fee and commission expense	(2,593)
To be deducted:	
Raisin operating components	*771*
Profits/losses on financial assets and liabilities	**8,641**
Item 80. Profits (losses) on trading	3,006
Item 100. Profits (losses) from disposal or repurchase	1
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	5,634
Net write-downs/write-backs on closed positions	**36,751**
of which: Net write-downs/write-backs on closed positions - Clients - POCI	*36,828*
Reclassification from item 280. Profits (losses) on disposal of investments	*(77)*
Other profits (losses) from the disposal of investments	**-**
Item 280. Profits (losses) on disposal of investments	(77)
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	*77*
Other operating expenses and income	**11,956**
Item 230. Other operating income/expenses	13,776
To be deducted:	
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*(1,820)*
Total net operating income	**159,049**
Personnel expenses	**(43,469)**
Item 190. Administrative expenses: a) Personnel expenses	(43,353)
To be deducted:	
Reclassification of HR expenses from other administrative expenses	*(116)*
Other administrative expenses	**(42,673)**
Item 190. Administrative expenses: b) Other administrative expenses	(46,349)
Reclassification of IFRS 16 interest expenses	*(892)*
Reclassification of HR expenses to personnel expenses	*116*
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*1,820*
Raisin operating components	*543*
Reclassification of contributions and other non-recurring expenses	*2,089*

Income Statement items	Values as of 30 June 2022
Net adjustments/recoveries on property and equipment and intangible assets	**(7,324)**
Item 210. Net adjustments/recoveries on property and equipment	(1,747)
Item 220. Net adjustments/recoveries on intangible assets	(5,577)
Operating expenses	**(93,466)**
Operating profit (loss)	**65,583**
Net losses/recoveries for credit risk - HTC Banks	**21**
Net losses/recoveries for credit risk - HTC Financial entities	**(9)**
Net losses/recoveries for credit risk - HTC Clients	**(11,468)**
Item 130. Losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost	24,999
Reclassification of Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance to item 200	*373*
To be deducted:	
Net losses/recoveries for credit risk - HTC Banks	*(21)*
Net losses/recoveries for credit risk - HTC Financial entities	*9*
Net write-downs/write-backs on closed positions – Clients – POCI	*(36,828)*
Net losses/recoveries for credit risk - HTCS	**(713)**
Item 130. Losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income	(713)
Net adjustments/recoveries for commitments and guarantees	**634**
Item 200. Net allowances for risks and charges: a) commitments and guarantees given	1,007
To be deducted:	
Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance	*(373)*
Total net adjustments/recoveries	**(11,535)**
Other net provisions	**(38)**
Item 200. Net allowances for risks and charges: b) other net provisions	(38)
Other income (expenses) on investments	**(3,848)**
Item 250. Profits (losses) on equity investments	(3,848)
Contributions and other non-recurring expenses	**(2,089)**
of which: Contributions and other non-recurring expenses	*(2,089)*
Other profits (losses) from the disposal of investments	**-**
Item 280. Profits (losses) on disposal of investments	(77)
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	*77*
Profit (loss) from operations before taxes	**48,073**
Income tax for the period on continuing operations	**(16,605)**
Item 300. Income tax for the period on continuing operations	(16,605)
Profit (loss) for the period	**31,468**

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Redpoint Communication

Gruppo illimity Bank S.p.A.

illimity.com

May 2022

illimity Bank S.p.A.
Registered office: Via Soperga, 9 – 20124 Milan

Share capital: EUR 56,083,976.14 (of which EUR 54,513,905.72 subscribed and paid up)
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Representative of the "illimity" VAT Group, VAT No. 12020720962
ABI (Bankers' Association) code 03395 – Member of the Interbank Deposit Protection Fund
A registered bank no. 5710 - A Parent Company of the Gruppo illimity Bank S.p.A. A registered Banking Group no. 245

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