illimity

BANCA OLTRE LA FORMA

Consolidated interim financial report
at 30 June 2019

Contents

Consolidated interim financial report at 30 June 2019

BOARD COMPOSITION

BOARD OF DIRECTORS

Chairman
Rosalba Casiraghi

Chief Executive Officer
Corrado Passera

Directors
Giancarlo Bruno
Maurizia Squinzi
Massimo Brambilla
Elena Cialliè
Robert Edward Diamond(*)
Sigieri Diaz della Vittoria Pallavicini
Alessandro Gennari

(*) In a letter dated 29 July 2019, the Board Director notified his resignation, with effect from the next Shareholders' Meeting.

BOARD OF STATUTORY AUDITORS

Chairman
Ernesto Riva

Standing Auditors
Stefano Caringi
Nadia Fontana

Substitute Auditors
Riccardo Foglia Taverna
Michela Zeme

EXECUTIVE IN CHARGE OF FINANCIAL REPORTING

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

Interim financial report

at 30 June 2019

CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2019

MANAGEMENT REPORT

This consolidated interim financial report refers to the first half of 2019 of illimity Bank S.p.A. ("illimity" or the "Bank") and entities included in the scope of consolidation (together with the Bank, the "Group").

illimity was created through the reverse merger of SPAXS S.p.A. ("SPAXS") into Banca Interprovinciale S.p.A. ("Banca Interprovinciale") undertaken with legal effect from 5 March 2019 and with tax and accounting effect from 1 January 9. The registered office of illimity is in Milan, in Via Soperga 9.

The Group includes the following entities:

i. Aporti S.r.l., formed to undertake the securitisation of non-performing loans (hereinafter "NPLs"), with the retention by the Bank of the notes issued by the special-purpose vehicle formed in accordance with Law No. 130/1999;

ii. Friuli SPV S.r.l., formed to undertake the securitisation of non-performing leases with the retention by the Bank of the notes issued by the special-purpose vehicle formed in accordance with Law No. 130/1999;

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

iv. Soperga RE S.r.l. (REOCO), a wholly-owned subsidiary of the Bank, initially held through the vehicle Aporti S.r.l., formed to manage the real estate associated with the portfolios of NPLs acquired pursuant to Law No. 130/1999 and sold to the Bank on 6 March 2019;

v. Lumen S.r.l., formed to undertake the securitisation of factoring transactions, with the retention by the Bank of the notes issued by the special-purpose vehicle formed in accordance with Law No. 130/1999;

vi. Doria SPV S.r.l., formed to undertake the securitisation of non-performing leases with the retention by the Bank of the notes issued by the special-purpose vehicle formed in accordance with Law No. 130/1999;

vii. Doria LeaseCo S.r.l., a wholly-owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of NPLs acquired, operating in accordance with Article 7.1 of Law No. 130/1999 on securitisation;

viii. River SPV S.r.l., formed to undertake the securitisation of non-performing leases with the retention by the Bank of the notes issued by the special-purpose vehicle formed in accordance with Law No. 130/1999; and

ix. River LeaseCo S.r.l., a wholly-owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of NPLs acquired, operating in accordance with Article 7.1 of Law No. 130/1999 on securitisation.

COMPOSITION AND ORGANISATIONAL STRUCTURE

illimity operates in the banking sector and is authorised to provide private banking, investment and trading services.

illimity is currently organised into operating divisions comprising the SME, NPL and Direct Banking & *Digital Operations* Divisions.

SME Division

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

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

The SME Division is active in the following segments:

- crossover lending: to high-potential businesses with a suboptimal financial structure and/or with a low rating or no rating;
- acquisition financing: short- and medium-term credit products, with different technical forms, for corporate investors and financial sponsors, to finance business combinations, acquisitions and more generally support external growth projects;
- turnaround services: involving the purchase of loans classified as unlikely-to-pay, 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; and
- factoring: offering products through a digital channel, with the aim of fully exploiting the potential of the instrument to optimise the way in which the supply chains of Italy's businesses and industrial districts are financed. Factoring is carried out directly by the bank through an external operator active in the digital factoring sector.

Up until 30 June 2019, factoring took place through a partnership with an operator active in the digital factoring sector; as from 1 July factoring is carried out directly by the Bank.

The SME Division is organised by specialised business areas, on the basis of the segments and products defined above, each of which is responsible for managing activities for its customers. Each area is tasked with analysing the customers and sector within its portfolio to design the optimal financing solution, assess the risk level of each position, define product pricing or transaction specifications, interface with customers to monitor the risk profiles of counterparties and intervene promptly, where necessary, in the event of problems, in coordination with the unit responsible for monitoring loans, and, finally, manage the back-office processes with the greatest added value of the loan chain.

These areas specialised by business segment are flanked by oversight supporting business activities: the Credit Machine area, responsible for screening the credit operations proposed by business areas and for analysing the data used in credit allocation processes; the Reporting & Management Control area, which manages the annual reporting of the Division, monitors relations with Tutors, overseeing aspects concerning performance, and manages the planning dimension of the Division; the Organic NPE & Credit Monitoring area, which is responsible for credit monitoring processes and managing positions classified as non-performing; the Legal SME area, which supports the business areas regarding legal and contractual aspects.

NPL Division

The *NPL Investment & Servicing Division* is the business area operating in the following segments:

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

At 30 June 2019, the structure of the NPL Investment & Servicing Division was as follows:

1. Portfolios and Senior Financing Areas, responsible for all origination of NPL portfolio investment and senior financing opportunities, and the coordination of the entire negotiation and bidding process, until the final closing phase;
2. the Operations & Recovery Area, responsible for performing due diligence and for adapting, implementing and monitoring recovery strategies through the coordination of internal and external servicers. The Servicing Unit, tasked with debt recovery, and which is a wholly-owned subsidiary of illimity, reports to the Operations & Recovery Area;
3. the Pricing Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models for portfolios, single names and Senior financing, together with the capital structure of all investments;
4. the PMO & Boosters Area and Strategy & Performance Management Areas are responsible for coordinating and monitoring the activities and performance of the Division's business.

Reporting directly to the *Investment & Servicing* NPL Division, this area identifies opportunities to invest in *Single Name* NPLs, monitoring and coordinating the entire negotiation and bidding process.

Moreover, in order to optimise and streamline activities in the *Investment & Servicing* NPL Division, organisational changes are underway and will be implemented during the third quarter of 2019.

In line with illimity's business model, which provides for the in-sourcing of the entire value chain, illimity mainly works with the companies Neprix S.r.l. and IT Auction S.r.l. [1] for the management of NPL portfolios, and commercial agreements are also entered into with servicers selected on the basis of the specific assets acquired.

1 At 30 June 2019, in partnership

Neprix S.r.l. (Neprix) is a company that operates, inter alia, in the non-performing loan sector and that relies on the services of professionals with specific experience and know-how in assessing and managing non-performing loans. On 30 October 2018 the Bank's Board of Directors approved the purchase of a 100% interest in Neprix, within which the servicing of the NPLs purchased by illimity are centralised, and which was granted a licence pursuant to Article 115 of the Consolidated Public Security Act on 16 January 2019.

Following the approval by the Board, the contract governing the purchase by the Bank of a 100% interest in Neprix was concluded on 21 March 2019.

On 17 July 2019, a notice was received from the Bank of Italy indicating there were no reasons preventing the acquisition of Neprix or the connected intergroup outsourcing. On 29 July 2019, Neprix was purchased by illimity, becoming a part of the Banking Group.

IT Auction S.r.l. ("IT Auction") is an operator specialised in managing and selling property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/ online auctions and a group of professionals operating nationwide. The agreement for the acquisition of a majority interest in the share capital of IT Auction was signed on 25 June 2019. The closing of the agreement to purchase IT Auction depends on the successful completion of the procedure, without rejection by the Bank of Italy, and constitutes a purchase of equity investments in an instrumental company.

IT Auction, which has been in operation since 2011, currently works on a permanent basis with over 110 Italian courts, more than 1,500 professionals and numerous leasing companies, and is the auction company of choice for over 500,000 buyers in Italy and abroad. In 2018, through its own online platform network, it registered over 16 million visits and managed some 48,000 auctions, for a total value of sold goods of over EUR 200 million, realising gross revenues of EUR 10 million and an EBITDA of EUR 2.1 million. At present, the company manages assets for a value of EUR 1.4 billion, ending 2018 with a shareholders' equity of approximately EUR 2.0 million and net profit of EUR 1.2 million. The company, which is based in Faenza, has a team of over 100 resources, including a sales network of 35 staff operating nationwide.

Once the acquisition process has been completed, illimity will establish the first operator specialised in corporate NPLs, with an end-to-end logic, with a stand-out profile thanks to the ability to cover the entire value change in managing NPLs, from acquisition to management and sale on the market of goods connected with these loans, thanks to the systematic support of the IT Auction.

To carry out its operations concerning NPLs, illimity works with the vehicles Aporti S.r.l., Friuli SPV S.r.l., Soperga Re, Doria SPV S.r.l. and with the companies River SPV S.r.l. and Friuli LeaseCo S.r.l., Doria LeaseCo S.r.l. e River LeaseCo S.r.l..

Direct Banking & Digital Operations Division

The Direct Banking & Digital Operations Division offers digital banking services to retail and corporate customers. illimity will offer families and individuals household budget management tools through a platform supported by the most innovative technologies available, built to respond effectively to the new regulations, such as the consolidation of accounts required under PSD2. A range of digital CFO services will also be developed for businesses.

More specifically, this range will focus on the following categories of products:

1. deposits: with competitive rates and a simple, customisable product structure;
2. payment services: through a platform that combines the most innovative tools available on the market, illimity will offer payment and advisory services for household budget management;
3. digital CFO dedicated to SME customers: reporting services, cash flow analysis and forecasting tools;
4. advice on a full range of other banking products for families (such as mortgages, personal loans and insurance), which will be made available to customers through partnerships with selected operators.

SIGNIFICANT EVENTS IN THE FIRST HALF OF 2019

On 18 January 2019, extraordinary sessions of the Shareholders' Meetings of SPAXS and Banca Interprovinciale unanimously approved the reverse merger of SPAXS into Banca Interprovinciale and the amendments to the by-laws required to implement the merger and the concurrent listing on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. of the company resulting from the merger, renamed illimity Bank S.p.A.

On 25 February 2019 Borsa Italiana issued order no. 8537 authorising the admission to listing on the Mercato Telematico Azionario (MTA) of the Bank's ordinary shares and assignment rights, as resulting from the reverse merger of SPAXS into Banca Interprovinciale S.p.A. On 28 February 2019 the National Commission for Companies and the Securities Exchange (CONSOB) granted authorisation for the publication of the Prospectus, which took place on 1 March 2019.

In the process of completing the merger, all shares of Banca Interprovinciale were cancelled and replaced with newly issued shares of illimity. Concurrently, the SPAXS ordinary and special shares were cancelled and replaced by new illimity ordinary and special shares with the same characteristics as the SPAXS ordinary and special shares, at the ratio of one illimity ordinary share assigned in exchange for every SPAXS ordinary share and one illimity special share assigned in exchange for every SPAXS special share. The holders of SPAXS conditional share rights, which were also cancelled upon completion of the merger, were granted one illimity conditional share right in exchange for every one SPAXS conditional share right. In addition, the shareholders of Banca Interprovinciale other than SPAXS were assigned illimity ordinary shares at the assignment ratio of one illimity ordinary share in exchange for every 137.0726 Banca Interprovinciale ordinary shares.

The merger, authorised by the Bank of Italy on 12 December 2018, entered into effect on 5 March 2019, resulting in full corporate integration with the aim of developing an Italian operator in the banking sector, primarily operating in:

a) the provision of banking and/or financial services to business customers, above all in the mid-corporate category (including those with low ratings/no ratings), classified as both performing and unlikely-to-pay, including invoice lending, crossover lending and turnarounds;

b) the NPL market, through (i) the purchase of secured and unsecured NPLs, (ii) the disbursement of loans to third investors who purchase NPLs and (iii) the recovery and development of NPLs;

c) the offering to retail investors of banking and/or financial services of a highly digitalised nature.

During the first half of 2019, securities classified as measured at fair value through other comprehensive income (held within a hold-to-collect-and-sell business model) were sold, resulting in a gain before taxes of approximately EUR 936 thousand, as well as securities measured at amortised cost (held within a hold-to-collect business model), resulting in a gain before taxes of approximately EUR 318 thousand, confirming the securities de-risking process initiated by management in the period following the business combination.

In the first half of 2019 the Group adopted a remuneration policy for its management and all its employees strongly focused on achieving the objectives laid out in the 2018-2023 strategic plan, according to a vision consistent with that of the shareholders, on the assumption 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. The remuneration policy approved by the Bank's Shareholders' Meeting calls for the following incentive plans to be provided:

illimity

1. the Stock Option Plan ("SOP”) (hereinafter also “SOP”) involving ordinary shares of illimity, reserved for employees of illimity and its direct and/or indirect subsidiaries, is intended to align the interests of its management and of its employees generally with those of its long-term shareholders, while also rewarding the achievement of the goal of the listing on the MTA of financial instruments of the Group created through the merger and supporting the Group's long-term growth. The SOP Regulation provides that the Option Rights will be allocated to each recipient after a vesting period between the MTA Trading Start day and 31 December 2023, in line with the Industrial Plan and subject to the conditions in the SOP Regulation. To service this Plan, the Shareholders' Meeting approved a divisible paid share capital increase of a maximum nominal amount of EUR 1,496,671.34, without options, pursuant to Article 2441, paragraph 8, of the Italian Civil Code, through the issue of a maximum of 2,100,000 new ordinary shares of illimity to be reserved for subscription by employees of illimity and its direct and/or indirect subsidiaries as beneficiaries of the aforementioned Stock Option Plan.

2. The "Employee Stock Option Plan" ("ESOP"), reserved for all employees of the Group and/or its subsidiaries who have had a permanent or fixed-term contract for at least six months and have a residual term of at least six months, is intended to allow all employees to participate in the success of the listing on the MTA and to motivate and engage all employees by giving them the opportunity to become shareholders of illimity. The ESOP provides for the assignment, in each cycle, of a number of shares equal to the value of EUR 2,000 for each non-executive employee, and of EUR 100 for executive staff. To service this plan, the Shareholders' Meeting of Banca Interprovinciale approved a free, divisible share capital increase up to a nominal maximum amount of EUR 498,890.45 through the issue of up to 700,000 new ordinary shares of illimity, pursuant to Article 2349 of the Italian Civil Code, to be assigned free of charge, in annual assignments, to employees of illimity and its direct and/or indirect subsidiaries as beneficiaries of the employee stock ownership plan. On 7 June 2019, illimity disclosed the new composition of share capital, following registration with the Milan Companies’ Register, of the resolution of the Board of Directors dated 10 May 2019, partially adopting the share capital increase pursuant to Article 2443 of the Italian Civil Code, assigned to it by the Shareholders’ Meeting of Banca Interprovinciale (currently illimity) on 18 January 2019 to serve the Employee Stock Option Plan (ESOP) - with an increase in share capital of EUR 30,661.81 through the issue of 43,022 new ordinary shares - also following certification as indicated in Article 2444, paragraph 1 of the Italian civil code.

3. The aim of the 2019 annual management by objectives system designated the *"2019 MBO Plan"*, intended for all employees, with the exception of top management, that is not a recipient of any incentive system, is to recognise the progress made in achieving the Industrial Plan targets, to encourage the adoption of behaviour in line with long-term planning and support the diffusion of a “value creation” culture, in keeping with the risk management objectives set out in the Group’s *Risk Appetite Framework*. This plan involves, in part, the assignment of ordinary shares of illimity. Accordingly, the Shareholders' Meeting authorised the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, to increase share capital, free of charge and on a divisible basis, up to a maximum nominal amount of EUR 85,524.08, through the issue of a maximum of 120,000 new ordinary shares of illimity Bank S.p.A. pursuant to Article 2349 of the Italian Civil Code, to be assigned free of charge to the employees of illimity Bank S.p.A. and of its direct and/or indirect subsidiaries, as beneficiaries (i) of the annual incentive system for 2019, (ii) of any compensation paid upon early termination of employment and (iii) of the remuneration policies approved from time to time by illimity Bank S.p.A. during the period of maximum duration of the authorisation, in accordance with the relevant regulations in effect from time to time.

For further details of share-based agreements based on own equity instruments, see “Part I - Share-Based Payments”.

In addition, the IT migration process from the outsourcer Consorzio Servizi Bancari (hereinafter CSE) to the new provider, Sella Technology Solutions (STS), was completed in May 2019. Consequently, the agreement with CSE was terminated in advance.

On 25 June 2019, illimity signed an agreement for the acquisition of a majority interest in the share capital of IT Auction, with the acquisition of 70% of the share capital of IT Auction for a value of EUR 10.5 million. The closing of the operation, planned before the end of 2019, is subject, inter alia, to prior authorisation from the Supervisory Authorities, and to other suspension conditions being met, which are standard for this type of operation, and provided for in the agreement. The remaining 30% of IT Auction will still be held by current shareholders, including top management, who will remain with the company to implement the industrial plan. illimity may acquire a further interest if specific circumstances occur according to mechanisms agreed between the parties with a view to aligning interests to achieving the plan’s objectives and maximising value.

SME Division

At 31 December 2018 the loans within the SME Division's portfolio amounted to approximately EUR 346 million, attributable to the following business areas:

- the former Banca Interprovinciale (BIP) portfolio, in the amount of approximately EUR 312 million (90% of the total);
- the turnaround segment, in the amount of approximately EUR 34 million (10% of the total), relating to two transactions disbursed in December.

In the first half of 2019, a change in the loans portfolio was registered, with a decrease in exposures in the former BIP run-off portfolio of approximately EUR 70 million, an increase in the turnaround area and start of operations in the Crossover, Acquisition Finance and Factoring areas. In the second quarter of the year, the partnership between the Factoring Area and Credimi became fully operational. In the first ten days of July, direct activities began, through the dedicated application integrated in the company’s core banking systems, and operations undertaken through Credimi were completed (the invoices portfolio purchased through Credimi will be repaid in upcoming months, as factored loans gradually mature).

In view of the above, at the end of June, SME portfolio use totalled EUR 375 million (up by approximately 8.4% compared to December) broken down as follows:

- the former Banca Interprovinciale (BIP) portfolio, for approximately EUR 242 million (65% of the total);
- the Turnaround segment, for approximately EUR 59 million (15% of the total);
- the Crossover and Acquisition Finance segment, for approximately EUR 49 million (13% of the total);
- loans acquired in the factoring segment for approximately EUR 25 million (7% of the total).

NPL Division

During the first half of 2019, the Bank, through securitisation vehicles pursuant to Article 130/1999, defined agreements for the purchase of loans classified as non-performing (NPL) and unlikely-to-pay (UTP) for a Gross Book Value (GBV) of EUR 704 million. Specifically:

- On 22 February 2019 the Bank purchased an NPL portfolio with a nominal value of EUR 31.5 million, consisting of 60% secured loans, through the securitisation vehicle pursuant to Article 130/1999 Aporti S.r.l. ("Aporti SPV"). The acquisition was completed at the same time as the subscription by the Bank of the notes issued by Aporti SPV.
- On 6 March 2019, a further two operations were finalised, for gross book value of EUR 63 million. In particular:
  - the first operation involved the purchase of an NPL for a nominal value of approximately EUR 23 million, secured by two hospitality facilities. The acquisition was completed, on the primary market, with the concurrent subscription by the Bank of the notes issued by Aporti SPV.
  - the second operation instead involved an agreement for the purchase, in several tranches, of an NPL portfolio with a nominal value of approximately EUR 40 million, consisting of leasing receivables claimed from corporate debtors secured primarily by commercial and industrial assets. The purchase of the first tranche for a nominal value of approximately EUR 15 million was completed on 6 March 2019. The purchase took place through another securitisation vehicle pursuant to Article 130/1999, Friuli SPV S.r.l. ("Friuli SPV"), and Friuli LeaseCo, a company operating in accordance with Article 7.1 of Law no. 130/1999 on securitisations. Friuli LeaseCo, a wholly-owned subsidiary of the Bank, was formed on 12 December 2018.
- On 29 March 2019, the Bank finalised another deal, purchasing UTP positions for a nominal value of approximately EUR 9.3 million from one of Italy's main banking groups. The portfolio consists of five positions involving corporate debtors secured by five hospitality facilities. The acquisition was completed with the concurrent subscription by the Bank of the notes issued by Aporti SPV.
- On 27 June 2019, in line with the framework agreement signed on 6 March 2019, the Bank finalised the second tranche of the aforementioned leasing portfolio, for a nominal value of approximately EUR 12.6 million. The acquisition was completed with the concurrent subscription by the Bank of the notes issued by Friuli SPV, while the company Friuli LeaseCo was used for the acquisition of the contracts underlying the loans.
- On 27 June 2019, a further two operations were finalised, for a gross book value of approximately EUR 54 million.
  - the first operation involved the purchase of two NPLs for a nominal value of approximately EUR 41.9 million, secured primarily by commercial and industrial assets. The acquisition was completed, on the primary market, through the vehicle Aporti SPV.
  - the second operation instead involved the purchase of a UTP loan for a nominal value of approximately EUR 12.1 million, secured by retail assets. The acquisition was completed, on the primary market, through the vehicle Aporti SPV.

- On 28 June 2019, the Bank signed a further agreement for the purchase, in several tranches, of an NPL portfolio with a nominal value of approximately EUR 650 million, mainly consisting of leasing receivables claimed from corporate debtors and secured by commercial and industrial assets. The purchase of the first tranche for a nominal value of approximately EUR 76.3 million was finalised on 30 June. The purchase took place through the securitisation vehicle pursuant to Article 130/1999, Doria SPV, formed on 30 May 2019, and a company operating in accordance with Article 7.1 of Law No. 130/1999 on securitisations, Doria LeaseCo, wholly owned by the Bank and also formed on 30 May 2019.

Lastly, on 30 May 2019, an additional securitisation vehicle pursuant to Article 130/1999 was formed, River SPA, and an additional company operating in accordance with Article 7.1 of Law No. 130/1999 on securitisations, River LeaseCo.

In conclusion, also considering investments made during 2018, at 30 June 2019, the total nominal amount of the positions purchased by the Bank was approximately EUR 1.4 billion, against consideration paid of EUR 159 million. In relation to the portfolio of leasing receivables, for which the framework purchase agreements were signed on 6 March and 30 June 2019, values of the overall portfolio only include the tranches purchased on 6 March, 27 June and 30 June 2019.

The following table briefly summarises investments made up to 30 June 2019.

(Amounts in millions of EUR)

NPL Investments	Price	GBV
Acquisitions at 31/12/2018	90	1,147
Acquisitions Q1 2019	21	79
Total at 31/03/2019	**111**	**1,226**
Acquisitions Q2 2019	48	143
Total at 30/06/2019	**159**	**1,369**[2]

As regards Senior Financing, three operations were finalised during the first half of 2019.

- On 13 March 2019 the Bank signed a loan agreement with a company specialised in purchasing NPL portfolios, for the amount of approximately EUR 3 million. The loan was disbursed on 15 March 2019.
- On 20 March 2019, the Bank signed another loan agreement with a major investment fund for the amount of EUR 82 million. The loan was disbursed on 12 April 2019.
- on 28 June 2019, the Bank finalised another loan operation with a major investment fund for approximately EUR 110 million. The loan was disbursed on 28 June 2019.

These loan agreements are secured by loan portfolios, primarily consisting of secured corporate non-performing loans and UTP loans, for a GBV of over EUR 1 billion.

In conclusion, also considering investments made during 2018, at 30 June 2019, 4 loan agreements had been signed for a GBV of EUR 246 million.

2 At 30 June 2019, the actual GBV (which takes account of inflows already received as well as defined positions) was equal to EUR 1,347 million.

The following table briefly summarises investments made up to 30 June 2019.

(Amounts in millions of Euro)

Senior Financing	Amount funded
Investments up to 31/12/2018	51
Investments Q1 2019	3
Total at 31/03/2019	**54**
Investments Q2 2019	192
Total at 30/06/2019	**246**[3]

Direct Banking & Digital Operations Division

On 6 May, the IT migration to the IT Target system took place, with the transition of the Core Banking System to the H20 system of Sella Technology Solutions (STS) , and the transition of illimity systems (mainly Front End and Data Analytics) to Microsoft Cloud infrastructure. Some strategic partnerships were therefore signed with companies that have the same vision as illimity, and namely customer-centric and with a strong technological drive.

In technological terms, the partnership with Microsoft is fundamental, with the Bank adopting the cloud as a platform enabling its own core business processes, in order to access latest-generation solutions more easily and quickly compared to traditional methods. In particular, Microsoft has made its market-leader cloud platforms available to the Bank, covering areas ranging from infrastructure to the productivity of staff and work teams, end-to-end management of processes and customer relations, as well as its own banking business applications.

With a view to achieving the objectives of diversifying funding, a partnership has been operative since 13 May with Raisin, the open banking fintech platform for the distribution of deposits to German retail customers, which led to over 2,000 transactions and approximately EUR 50 million of direct deposits being registered between May and June.

On 12 June, a direct banking business partnership with Azimut was signed, offering its 1,800 plus financial advisors innovative banking services and products (the Azimut daily banking fully digital platform) and exclusive solutions (prestige credit cards) for customers through illimity's Direct Bank digital platform.

In accordance with the Industrial Plan, Direct Bank services were launched, with an online account, deposit account and advanced payments system. Access - available from 27 June 2019, - is for ambassadors of the "Vai oltre la forma" web community, who contributed to developing the offering of direct banking channels. The Direct Bank's digital platform will gradually be extended to retail clients and SMEs, with targeted communication and marketing campaigns.

Lastly, the investment in the implementation of illimity's Intelligent Platform was significant. The aim of this digital platform is to guarantee (i) an optimal integration between illimity and all third parties, (ii) the quality and availability of data (illimity and third parties) through a Big Data architecture, to all bank divisions and for digital channel analytical systems, (iii) fully-comprehensive security for illimity and (iv) an optimal time-to-market through a quick, efficient development platform.

3 At 30/06/2019, the outstanding book value amounted to EUR 241 million

Investments were also made to implement new vertical platforms for factoring and develop management solutions for NPL portfolios. illimity conducted research with a focus on the technological innovation of products and distribution channels for its new customer service models.

Processes and services for SMEs, corporate NPLs and the Direct Bank were developed. Specifically, technological solutions were adopted for (i) the acquisition and management of loan portfolios, including leasing NPLs (ii) factoring for SMEs (iii) artificial intelligence for interaction with clients on digital channels (iv) the digital services platform of the Direct Bank.

To improve service quality and products for clients and employees alike, and thanks to illimity's partnership with Microsoft, the best research and development talent from both companies was involved in a joint innovation process with a particular focus on analytics, artificial intelligence and machine learning. Additional research and development is ongoing to manage big data from the credit segment.

During the second quarter, research on brand and image indicators was conducted, and assessments carried out of the digital solutions developed by illimity, that will continue in various client segments, targeting the commercial offering and multichannel strategy of the Direct Bank.

HIGHLIGHTS AND ALTERNATIVE *PERFORMANCE* MEASURES AT 30 JUNE 2019

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

The illimity Group was formed on 20 September 2018 following the closing of the acquisition of the controlling interest in Banca Interprovinciale by SPAXS (the "Material Transaction"). Accordingly, the comparative figures used to prepare the performance measures for the first half of 2018 set out below are based on the figures for Banca Interprovinciale. The comparative balance sheet figures used in preparing the measures at 31 December 2018 set out below refer to the consolidated financial statements of SPAXS. These measures, although not contemplated by IFRS/IAS, are provided in compliance with indications in CONSOB Communication no. 6064293 of 28 July 2006 and the CESR Recommendation on alternative performance measures (CESR/05-178b, presently ESMA/2015/1415).

(Amounts in thousands of euro)

PERFORMANCE MEASURES	30/06/19	30/06/18	Chg.	Chg. (%)
Operational total income	20,296	8,909	11,387	>100%
Total net write-downs/write-backs	(3,159)	(1,210)	(1,949)	>100%
Net result of banking operations	17,137	7,699	9,438	>100%
Operating expenses	(37,630)	(6,538)	(31,092)	>100%
Profit (loss) from operations before taxes	(20,539)	1,074	(21,613)	<100%
Profit (loss) for the period	(11,358)	681	(12,040)	<100%

illimity

(Amounts in thousands of euro)

FINANCIAL POSITION MEASURES	30/06/19	31/12/18	Chg.	Chg. (%)
Net non-performing loans - organic	**20,434**	**17,278**	**3,155**	**18%**
of which: non-performing loans	4,329	7,621	(3,292)	(43%)
of which: unlikely-to-pay positions	13,999	9,453	4,546	48%
of which: past-due positions	2,105	205	1,901	>100%
Net non-performing loans - inorganic	**188,963**	**86,449**	**102,515**	**>100%**
of which: non-performing loans	157,917	86,449	71,468	83%
of which: unlikely-to-pay positions	31,046	-	31,046	N.A.
Securities at amortised cost (HTC)	**297,711**	**113,688**	**184,023**	**>100%**
of which: Government bonds	102,760	113,688	(10,928)	(10%)
of which: Senior Financing instruments	194,951	-	194,951	N.A.
Net loans with customers (performing loans)	**370,348**	**379,985**	**(9,637)**	**(3%)**
Securities at *Fair Value*	**107,384**	**137,263**	**(29,879)**	**(22%)**
Direct funding from customers	**381,309**	**535,134**	**(153,825)**	**(29%)**
Total assets	**1,253,093**	**1,235,441**	**17,652**	**1%**
Shareholders' equity	**548,816**	**557,245**	**(8,429)**	**(2%)**

RISK INDICATORS	30/06/19	31/12/18
Gross *Organic* NPE Ratio[4]	6.2%	7.4%
Net *Organic* NPE Ratio[5]	3.5%	4.3%
Coverage ratio for organic non-performing loans[6]	45.5%	44.0%
Coverage ratio for organic bad-debt positions[7]	72.7%	54.1%
Coverage ratio for performing loans[8]	0.88%	0.97%
Cost of organic credit risk (BPS)[9]	138	190

STRUCTURAL INDICATORS	30/06/19	31/12/18
Shareholders' equity / Total liabilities	43.8%	45.1%
Interbank funding / Total funding	37.3%	16.9%
Liquidity coverage ratio	209.6%	491.0%
Net loans with customers / Total assets	70.0%	48.4%
Customer funding / Total liabilities	30.4%	43.3%

CAPITAL RATIOS	30/06/19	31/12/18
Tier I capital ratio (Tier I capital / Total weighted assets)	48.3%	89.6%
Total capital ratio [(Regulatory capital + Tier II) / Total weighted assets]	48.3%	89.6%
Own funds	480,305	526,538
of which: Tier I capital	480,305	526,538
Risk-weighted assets	995,048	587,398

4 Ratio between organic non-performing and total organic loans plus gross performing client loans and senior financing instruments.
5 Ratio between organic non-performing and total organic loans plus net performing client loans and senior financing instruments.
6 Ratio between write-downs on organic non-performing loans and gross exposure of impaired organic loans.
7 Ratio between write-downs on impaired organic loans and gross exposure of organic impaired loans.
8 Ratio between write-downs on performing client loans and gross exposure of performing client loans.
9 Ratio between the sum of write-downs on performing client loans, organic non-performing loans and senior financing instruments and net exposures of said at the end of the period.

RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AT 30 JUNE 2019

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

In this document, the mandatory financial statements have been reclassified according to a management approach better suited to representing the Bank's financial performance and financial position, in view of the typical characteristics of bank financial statements. The goal has been to simplify the use of these financial statements through the specific aggregations of line items and reclassifications detailed below.

In accordance with Communication No. DEM/6064293 of 28 July 2006, this consolidated interim report includes a reconciliation between the financial statements presented and the mandatory financial reporting format laid down in Bank of Italy Circular No. 262, the values from which have been included in the items of the reclassified financial statements.

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

- recoveries of taxes recognised among other operating costs/income are deducted directly from the indirect taxes included among other administrative expenses and therefore their amount has been set off against the relevant item of the mandatory financial statements;
- personnel costs also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations.

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

- the inclusion of cash and cash equivalents in the residual item other assets;
- the aggregation in a single item of property and equipment and intangible assets;
- the aggregation of financial assets measured at fair value through other comprehensive income and financial assets held for trading;
- the inclusion of the Provision for Risks and Charges and post-employment benefits in residual items of other liabilities;
- the aggregate indication and items comprising shareholders' equity.

The illimity Group was formed on 20 September 2018 following the closing of the acquisition of the controlling interest in Banca Interprovinciale by SPAXS.

Accordingly, the comparative figures used to prepare the reclassified income statement for the first half of 2018 are based on the figures for Banca Interprovinciale. The comparative figures used in preparing the reclassified balance sheet at 31 December 2018 refer to the official consolidated financial statements of SPAXS.

Reclassified consolidated balance sheet

(Amounts in thousands of euro)

Components of official items of the Balance Sheet	Assets	30/06/19	31/12/18	Chg.	Chg. (%)
20 a) + 20 b) + 30	Treasury portfolio - Securities at FV	100,206	137,164	(36,958)	(27%)
40 b)	Treasury portfolio - Securities at amortised cost	102,760	113,688	(10,928)	(10%)
20 c)	Financial instruments subject to mandatory fair value measurement	7,178	99	7,079	>100%
40 a)	Due with Banks	122,762	372,158	(249,396)	(67%)
40 b)	Loans with customers	579,745	483,713	96,032	20%
40 b)	Senior financing instruments at amortised cost	194,951	-	194,951	N.A.
90 + 100	Property and equipment and intangible assets	54,861	24,408	30,453	>100%
110	Tax assets	32,120	19,462	12,658	65%
10 + 120 + 130	Other assets	58,510	84,749	(26,239)	(31%)
	Total assets	**1,253,093**	**1,235,441**	**17,652**	**1%**

(Amounts in thousands of euro)

Components of official items of the Balance Sheet	Liabilities	30/06/19	31/12/18	Chg.	Chg. (%)
10 a)	Amounts due with banks	238,779	108,842	129,937	>100%
10 b)	Amounts due to customers	384,276	453,721	(69,445)	(15%)
10 c)	Securities issued	18,043	81,413	(63,370)	(78%)
60	Tax liabilities	693	280	413	>100%.
70 + 80 + 90 + 100	Other liabilities	62,486	33,940	28,546	84%
110 + 120 + 130 + 140 + 150 + 160 + 170 + 180 + 190 + 200	**Shareholders' equity**	**548,816**	**557,245**	**(8,429)**	**(2%)**
	Total liabilities and shareholders' equity	**1,253,093**	**1,235,441**	**17,652**	**1%**

Consolidated balance sheet highlights

The Group's total assets at 30 June 2019 amounted to EUR 1,253 million, compared to EUR 1,235 million at 31 December 2018, and primarily include financial assets arising from loans to customers for EUR 580 million, up from EUR 484 million at 31 December 2018 due to the new transactions relating to the new business concluded during the reporting period (as described above in this report, in the section "Significant events in the first half of 2019").

Financial assets arising from receivables measured at amortised cost - receivables from banks were down considerably, due to the decrease in current accounts and on demand deposits.

Other financial assets in the treasury portfolio decreased, as securities classified as measured at fair value through other comprehensive income (held within a hold-to-collect-and-sell business model) were sold during the first half of 2019, in addition to securities measured at amortised cost (held within a hold-to-collect business model), confirming the securities de-risking process initiated by management in the period following the business combination.

Intangible assets include goodwill of EUR 21.6 million arising from the purchase price allocation process for the net assets acquired, completed during the preparation of the consolidated financial statements at 31 December 2018[10].

The increase in property and equipment was due to the recognition of right-of-use assets acquired under leases amounting to approximately EUR 20 million, in accordance with IFRS 16, which came into effect on 1 January 2019.

Total consolidated shareholders' equity and liabilities amounted to EUR 1,253 million, consisting primarily of total shareholders' equity of EUR 549 million, amounts relative to financial liabilities measured at amortised cost due to customers of EUR 384 million and amounts due to banks of EUR 239 million. The latter item increased due to repurchase agreements being entered into during the first half of 2019.

Reclassified consolidated income statement

(Amounts in thousands of euro)

Components of official items of the Income Statement	Income Statement items	30/06/19	30/06/18	Change	Change %
10 + 20	Interest margin	16,122	5,060	11,062	>100%
40 + 50	Net fee and commission income	2,545	2,138	407	19%
80 + 100 + 110	Gains/losses on financial assets and liabilities	1,267	1,357	(90)	(7%)
140 + 230 + 280	Other net costs and earnings	362	354	8	2%
Total net operating income		**20,296**	**8,909**	**11,387**	**>100%**
130 a)	Net write-downs/write-backs for credit risk - HTC Banks	(42)	53	(95)	<100%
130 a)	Net write-downs/write-backs for credit risk - HTC Clients	(2,614)	(1,168)	(1,446)	>100%
130 b)	Net write-downs/write-backs for credit risk - HTCS	(76)	(101)	25	(25%)
200 a)	Net write-downs/write-backs for commitments and guarantees	(427)	5	(432)	<100%
Total net write-downs/write-backs		**(3,159)**	**(1,210)**	**(1,949)**	**>100%**
Net result of banking operations		**17,137**	**7,699**	**9,438**	**>100%**
190 a)	Personnel costs	(15,081)	(2,848)	(12,233)	>100%
190 b)	Other administrative costs	(21,401)	(3,577)	(17,824)	>100%
210 + 220	Net write-downs/write-backs on property and equipment and intangible assets	(1,148)	(113)	(1,035)	>100%
Operating expenses		**(37,630)**	**(6,538)**	**(31,092)**	**>100%**
200 b)	Other net provisions	(46)	(87)	41	(47%)
Profit (loss) from operations before taxes		**(20,539)**	**1,074**	**(21,613)**	**<100%**
300	Income taxes for the period on current operations	9,181	(393)	9,574	<100%
Profit (loss) for the period		**(11,358)**	**681**	**(12,040)**	**<100%**

10 For further details, see the section "Accounting policies applied to the accounting treatment of the reverse merger of SPAXS into Banca Interprovinciale".

Consolidated income statement highlights

Total net income amounted to approximately EUR 20 million, compared to EUR 9 million in the first half of 2018, mainly due to an increase in the interest margin as a result of the new businesses described in this report.

Personnel costs increased by approximately EUR 12 million compared to 30 June 2018; as a result of new hiring, other administrative costs increased by approximately EUR 18 million compared to the same period of the previous year and refer primarily to one-off charges relating to the launch of new activities and to consultancy and advisory costs.

Net write-downs/write backs for credit risk concerning securities measured at amortised cost and at fair value through OCI of approximately EUR 3 million mainly include analytical and collective assessments on loans to clients and the effects of the review of expected cash flows referable to new NPL portfolios acquired.

The loss for the period ended 30 June 2019, gross of taxes, amounted to EUR 20.5 million.

Deferred tax assets, equal to EUR 9.2 million, include the tax benefit resulting from the recognition of the tax asset on the tax loss generated by the incorporated SPAXS in 2018 and on the subsidy for economic growth (ACE) and were recognised in the consolidated interim financial report at 30 June 2019 for an amount equal to EUR 3.8 million, following the positive outcome of the request for non-application.

The consolidated net loss reported in the first half of 2019 was equal to EUR 11.4 million.

The basic and diluted loss per share in the first half of 2019, calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue, was equal to EUR 0.19120.

KEY BALANCE SHEET FIGURES

Invested assets

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

(Amounts in thousands of euro)

DETAILS OF INVESTED ASSETS	30/06/19		31/12/18		Change	
	Book value	Inc. (%)	Book value	Inc. (%)	Absolute	Chg. (%)
Cash and cash equivalents	**42,405**	**3.69%**	**68,088**	**5.80%**	**(25,683)**	**(38%)**
Financial assets held for trading	**10,243**	**0.89%**	**29,251**	**2.49%**	**(19,008)**	**(65%)**
Financial assets subject to mandatory fair value measurement:	**7,178**	**0.62%**	**99**	**0.01%**	**7,079**	**>100%**
- Business NPL	388	0.03%	-	-	388	N.A.
- Business SME	6,691	0.58%	-	-	6,691	N.A.
- Treasury portfolio	100	0.01%	99	0.01%	1	1%
HTCS financial assets:	**89,962**	**7.82%**	**107,913**	**9.18%**	**(17,842)**	**(17%)**
- Treasury portfolio	89,962	7.82%	107,913	9.18%	(17,842)	(17%)
Due with Banks	**122,763**	**10.68%**	**372,158**	**31.68%**	**(249,395)**	**(67%)**
- of which: Repurchase agreements	53,582	4.66%	-	-	53,582	N.A.
Due from customers - Loans:	**579,745**	**50.41%**	**483,712**	**41.17%**	**96,033**	**20%**
- Organic non-performing loans	20,434	1.78%	17,278	1.47%	3,155	18%
- Inorganic non-performing loans	188,963	16.43%	86,449	7.36%	102,515	>100%
- Performing loans	370,348	32.20%	379,985	32.34%	(9,637)	(3%)
Due from customers - Securities:	**297,710**	**25.89%**	**113,688**	**9.68%**	**184,022**	**>100%**
- Business NPL (Senior financing)	194,951	16.95%	-	-	194,951	N.A.
- Treasury portfolio	102,760	8.94%	113,688	9.68%	(10,928)	(10%)
Total invested assets	**1,150,007**	**100%**	**1,174,908**	**100%**	**(24,793)**	**(2%)**

Loans to customers amounted to approximately EUR 580 million, up from EUR 484 million at the end of the previous year, due to the new transactions relating to the new businesses. The item also includes NPLs for approximately EUR 189 million classified as POCI (Purchased or Originated Credit Impaired), up from EUR 86.4 million recorded at 31 December 2018, following the activities of the SME Division and purchase transactions concluded by the NPL Division during the half year. Considering Senior Financing, customer loans amounted to EUR 775 million.

Financial assets measured at fair value through other comprehensive income held within a hold-to-collect-and-sell business model, amounted to approximately EUR 90 million, and were represented mainly by government bonds and bank securities.

Financial assets measured at fair value through profit or loss amounted to EUR 17 million. In particular, financial assets held for trading consist almost exclusively of an investment in an UCI of approximately EUR 10 million, which was partially sold in early 2019, whereas financial assets subject to mandatory measurement at fair value include an investment in an equity instrument of EUR 6.7 million attributable to a transaction concluded by the SME division.

The remaining securities of EUR 298 million are measured at amortised cost (hold-to-collect business model) and consist primarily of government bonds and EUR 195 million of senior financing notes.

INVESTED ASSETS BY TECHNICAL FORM	30/06/19	Incidence	31/12/18	Incidence	Change	
					Absolute	Percentage
Cash	**42,405**	**4%**	**68,088**	**6%**	**(25,683)**	**(38%)**
Current accounts and deposits	69,181	6%	372,158	32%	(302,977)	(81%)
Repurchase agreements - receivable	53,582	5%		0%		
Loans to banks	**122,763**	**11%**	**372,158**	**32%**	**(249,395)**	**(67%)**
Current accounts held by customers	56,000	5%	112,395	10%	(56,395)	(50%)
Loans	523,745	46%	371,318	32%	152,427	41%
Loans with customers	**579,745**	**50%**	**483,713**	**41%**	**96,032**	**20%**
Debt securities	388,047	34%	221,587	19%	166,460	75%
- Government bonds	114,475	10%	194,381	17%	(79,906)	(41%)
- Bank bonds	52,736	5%	27,084	2%	25,652	95%
- Others	220,836	19%	123	0%	220,713	
Equity instruments	6,691	1%	-	0%	6,691	
Equity securities	14	0%	13	0%	1	8%
Units of UCIs	10,343	1%	29,350	2%	(19,007)	(65%)
Securities	**405,095**	**35%**	**250,950**	**21%**	**154,145**	**61%**
Total	**1,150,007**	**100%**	**1,174,908**	**100%**	**(24,901)**	**(2%)**

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 to banks totalled EUR 123 million, up compared to 31 December 2018, mainly due to repurchase agreements being entered into during the first half of 2019. Loans to customers were also up considerably, due to the new businesses described in this report.

Lastly, securities were up by EUR 154 million, mainly as a result of the new transactions undertaken by the NPL Division (Senior Financing). Government bonds (almost exclusively Italian government bonds) accounted for 10% of invested assets (without considering loans to banks), down significantly compared to the previous year as a result of the sovereign debt de-risking process that was undertaken by the Bank in the second half of 2018 and that continued in the first half of 2019.

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

(Amounts in thousands of euro)

INVESTED ASSETS BY BUSINESS DIVISION	30/06/19	Amount %	31/12/18	Amount %
NPL Division	399	45.5%	138	23.1%
SME Division	133	15.2%	34	5.7%
Loans to ordinary former BIP customers	242	27.6%	312	52.3%
Portfolio of securities at amortised cost	103	11.7%	114	19.1%
Total loans to customers at amortised cost	**877**	**100%**	**597**	**100%**

Financial assets at amortised cost

The following table provides an overview of the Bank's main invested assets at amortised cost, compared with the relevant figures at 31 December 2018.

(Amounts in thousands of euro)

Financial assets at amortised cost	30/06/19						31/12/18					
	Gross exposure		Write-downs/ write-backs	Book value		Coverage ratio	Gross exposure		Write-downs/ write-backs	Book value		Coverage ratio
Loans with banks	**122,962**	**12.1%**	**(199)**	**122,763**	**12.3%**	**0.2%**	**372,254**	**37.7%**	**(96)**	**372,158**	**38.4%**	**0.03%**
- Loans	122,962	12.1%	(199)	122,763	12.3%	0.2%	372,254	37.7%	(96)	372,158	38.4%	0.03%
Stage 1/2	122,962	12.1%	(199)	122,763	12.3%	0.2%	372,254	37.7%	(96)	372,158	38.4%	0.03%
Loans to customers	**897,099**	**87.9%**	**(19,643)**	**877,456**	**87.7%**	**2.19%**	**613,617**	**62.3%**	**(16,217)**	**597,400**	**61.6%**	**2.64%**
- Securities	298,186	29.2%	(475)	297,711	29.8%	0.2%	113,920	11.6%	(232)	113,688	11.7%	0.2%
Stage 1/2	298,186	29.2%	(475)	297,711	29.8%	0.2%	113,920	11.6%	(232)	113,688	11.7%	0.2%
- Loans	598,913	58.7%	(19,168)	579,745	58.0%	3.2%	499,698	50.7%	(15,985)	483,713	49.9%	3.2%
Stage 1/2	373,628	36.6%	(3,280)	370,348	37.1%	0.9%	383,708	38.9%	(3,722)	379,986	39.2%	0.97%
Stage 3	225,285	22.1%	(15,888)	209,397	20.9%	7.1%	115,990	11.8%	(12,263)	103,727	10.7%	10.6%
Total financial assets at amortised cost	**1,020,061**	**100%**	**(19,842)**	**1,000,219**	**100%**	**1.95%**	**985,871**	**100%**	**(16,312)**	**969,559**	**100%**	**1.65%**

At 30 June 2019 loans to banks amounted to EUR 123 million, compared to EUR 372 million at 31 December 2018, and consisted primarily of current accounts and demand deposits. Such loans are classified as Stage 1 and 2.

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

(Amounts in thousands of euro)

Loans to customers	30/06/2019 Gross exposure		30/06/2019 Write-downs/ write-backs	30/06/2019 Book value		30/06/2019 Coverage ratio	31/12/2018 Gross exposure		31/12/2018 Write-downs/ write-backs	31/12/2018 Book value		31/12/2018 Coverage ratio
Non-performing loans - organic	**37,506**	**4.18%**	**(17,073)**	**20,434**	**2.33%**	**45.5%**	**30,854**	**5.0%**	**(13,576)**	**17,278**	**2.9%**	**44.0%**
- Non-performing loans	15,843	1.77%	(11,514)	4,329	0.49%	72.7%	16,587	2.7%	(8,966)	7,621	1.3%	54.1%
- Unlikely-to-pay positions	19,227	2.14%	(5,228)	13,999	1.60%	27.2%	13,948	2.3%	(4,495)	9,453	1.6%	32.2%
- Past-due positions	2,436	0.27%	(331)	2,105	0.24%	13.6%	319	0.1%	(114)	205	0.0%	35.9%
Non-performing loans - inorganic	**187,778**	**20.93%**	**1,185**	**188,963**	**21.54%**	**N.A.**	**85,136**	**13.9%**	**1,313**	**86,449**	**14.5%**	**N.A.**
- Non-performing loans	156,502	17.45%	1,415	157,917	18.00%	N.A.	85,136	13.9%	1,313	86,449	14.5%	N.A.
- Unlikely-to-pay positions	31,276	3.49%	(230)	31,046	3.54%	0.7%	-	-	-	-	-	-
Performing loans	**671,814**	**74.89%**	**(3,755)**	**668,059**	**76.14%**	**0.6%**	**497,627**	**81.1%**	**(3,954)**	**493,673**	**82.6%**	**0.8%**
- Securities	298,186	33.24%	(475)	297,711	33.93%	0.2%	113,920	18.6%	(232)	113,688	19.0%	0.2%
- Loans	373,628	41.65%	(3,280)	370,348	42.21%	0.9%	383,707	62.5%	(3,722)	379,985	63.6%	1.0%
Total loans to customers	**897,099**	**100%**	**(19,643)**	**877,456**	**100%**	**2.2%**	**613,617**	**100%**	**(16,217)**	**597,400**	**100%**	**2.6%**

Organic non-performing loans amounted to approximately EUR 20.4 million, up slightly compared to EUR 17.3 million at 31 December 2018, due to new positions in the UTP category. Organic bad-debt positions decreased from EUR 7.6 million to EUR 4.3 million.

Inorganic non-performing loans amounted to EUR 189 million, of which:

- EUR 157.9 million relating to transactions concluded by the NPL Division classified as bad-debt positions, up from EUR 86.5 million at 31 December 2018;
- EUR 31 million relating to transactions concluded by the SME Division, classified as UTP positions, and referring to the Turnaround business.

Performing loans amounted to EUR 370 million, down compared to EUR 380 million at 31 December 2018 regarding the reorganisation of the bank's business. Securities at 30 June 2019 were up compared to December 2018, due to new transactions in senior financing instruments.

Funding

(Amounts in thousands of euro)

DEPOSITS BY TECHNICAL FORM	30/06/2019		31/12/2018		Change	
	Book values	Inc. (%)	Book values	Inc. (%)	Absolute	(%)
Amounts due to customers (A)	**384,276**	**60%**	**453,721**	**70%**	**(69,445)**	**(15%)**
- *of which:Liabilities for leasing (B)*	21,010	3%	-	-	21,010	N.A.
Securities issued (C)	**18,043**	**3%**	**81,413**	**13%**	**(63,370)**	**(78%)**
Amounts due to banks (D)	**238,779**	**37%**	**108,842**	**17%**	**129,937**	**>100%**
Total direct deposits from customers (A) - (B) + (C)	**381,309**	**-**	**535,134**	**-**	**(153,825)**	**(29%)**
Total deposits (A) + (C) + (D)	**641,098**	**100%**	**643,976**	**100%**	**(2,878)**	**(0.4%)**

At the end of the reporting period, direct deposits amounted to approximately EUR 641 million, in line with 31 December 2018, due to changes in offsetting deposits.

Property and equipment and intangible assets

Property and equipment amounted to approximately EUR 24.2 million at 30 June 2019, up from EUR 2.5 million at 31 December 2018.

The increase was mainly due to the recognition of right-of-use assets acquired under leases in accordance with IFRS 16, equal to approximately EUR 20 million.

The item also includes the value of an owned property for functional purposes, as well as property held for investment purposes, purchased through an auction as part of NPL lease operations.

Intangible assets amounted to approximately EUR 30.6 million at 30 June 2019, up from EUR 21.9 million at 31 December 2018. The item consists primarily of the goodwill arising from the business combination of EUR 21.6 million. At 30 June 2019, analysis on internal and external impairment indicators was conducted and no factors leading to an impairment in goodwill were identified. Therefore the conclusions reached after the impairment test conducted on 31 December 2018 were confirmed.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 32.1 million at 30 June 2019, up from EUR 19.5 million carried at 31 December 2018.

Deferred-tax assets stood at EUR 28.2 million at 30 June 2019. Deferred-tax assets had amounted to EUR 17.5 million at 31 December 2018.

Current tax assets at 30 June 2019 amounted to EUR 3.9 million compared to EUR 2 million carried at 31 December 2018.

Deferred-tax liabilities stood at EUR 693 thousand at 30 June 2019. Deferred-tax liabilities had amounted to EUR 280 thousand at 31 December 2018.

Advance tax assets other than those convertible into tax credits (Article 2 paragraphs 55 and following of Decree Law 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences.

A probability test was performed in support of the future recovery of deferred tax assets justifying their recognition in the financial statements in accordance with IAS 12.

The test consists of simulating the ability to recover the deductible temporary differences and tax losses accrued at the reporting date using future taxable income.

The probability test conducted on the basis of the Bank's industrial plan yielded positive results, indicating that deferred tax assets would be reabsorbed in 2020.

For the purposes of preparing the consolidated interim financial report at 30 June 2019, deferred tax assets were recognised relating to tax losses and the economic growth aid (ACE) tax relief relative to the incorporated company SPAXS (merged with Banca Interprovinciale on 5 March 2019) for 2018, following the positive outcome of the request for the non-application of anti-avoidance rules governing the carry-forward of tax losses following the reverse merger of SPAXS with Banca Interprovinciale. Deferred tax assets relative to the tax benefit arising from the use of tax losses and economic growth tax relief were recognised in the consolidated interim financial report at 30 June 2019 for an amount equal to EUR 3.8 million.

FINANCIAL PERFORMANCE

Interest margin

(Amounts in thousands of euro)

Items/Technical forms	Debt securities	Loans	Other transactions	30/06/2019	30/06/2018	Chg.	Chg. (%)
Interest and similar income							
1. Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-
Held for trading	-	-	-	-	-	-	-
Designated at FV	-	-	-	-	-	-	-
Subject to mandatory fair value measurement	-	-	-	-	-	-	-
2. Financial assets measured at FV through other comprehensive income	749	-	-	749	1,730	(981)	(57%)
3. Financial assets at amortised cost	1,731	15,861	-	17,592	4,973	12,619	>100%
Of which: Due with Banks	-	161	-	161	180	(19)	(11%)
Of which: Loans with customers	1,731	15,700	-	17,431	4,793	12,638	>100%
4. Hedging derivatives	-	-	-	-	-	-	-
5. Other assets	-	-	170	170	-	170	-
6. Financial liabilities	-	-	-	126	408	(282)	(69%)
Total interest income	**2,480**	**15,861**	**170**	**18,637**	**7,111**	**11,526**	**>100%**
Interest and similar expense							
1. Financial liabilities at amortised cost	(209)	(2,107)	(165)	(2,481)	(1,964)	(517)	26%
Of which: Amounts due to central banks	-		(17)	(17)	(36)	19	(53%)
Of which: Amounts due with banks	-	(549)		(549)	(75)	(474)	>100%
Of which: Amounts due to customers	-	(1,558)	-	(1,558)	(815)	(743)	91%
Of which: Securities issued	(209)	-	(148)	(357)	(1,038)	681	(66%)
Of which: Leasing transactions	-	(527)	-	(527)	-	(527)	N.A.
2. Financial liabilities held for trading	-	-	-	-	-	-	-
3. Financial liabilities designated at FV	-	-	-	-	-	-	-
4. Other liabilities and provisions	-	-	(1)	(1)	-	(1)	-
5. Hedging derivatives	-	-	-	-	-	-	-
6. Financial assets	-	-		(33)	(87)	54	(62%)
Total interest expense	**(209)**	**(2,107)**	**(166)**	**(2,515)**	**(2,051)**	**(464)**	**23%**
Interest margin	**2,271**	**13,754**	**4**	**16,122**	**5,060**	**11,062**	**>100%**

At 30 June 2019, the interest margin amounted to approximately EUR 16 million, up considerably on the same period of the previous year when it amounted to EU 5 million. This change is mainly due to the increase of approximately EUR 12 million in interest income from loans to customers, due to the new businesses described in this report.

The item interest expense instead was basically in line with the previous period, even if the internal composition was different; interest expense in the past mainly referred to securities issued, while at 30 June 2019, it referred to interest for payables to customers.

Commission margin

(Amounts in thousands of euro)

Items/Technical forms	30/06/19	30/06/18	Chg.	Chg. (%)
Fee and commission income				
a. guarantees given	154	136	18	13%
c. management, brokerage and advisory services	124	202	(78)	(39%)
d. collection and payment services	279	442	(163)	(37%)
f. factoring services	2	-	2	-
i. current account keeping and management	832	1,529	(697)	(46%)
j. other services	2,719	99	2,620	>100%
Total commission income	**4,110**	**2,408**	**1,702**	**71%**
Fee and commission expense				
a. guarantees received	(7)	(18)	11	(61%)
c. management and brokerage services	(29)	(28)	(1)	4%
d. collection and payment services	(1,321)	(104)	(1,217)	>100%
e. other services	(208)	(120)	(88)	73%
Total commission expense	**(1,565)**	**(270)**	**(1,295)**	**>100%**
Net commission	**2,545**	**2,138**	**407**	**19%**

Net commissions amounted to EUR 2.5 million, up by 19% on the amount recognised by Banca Interprovinciale at the end of the first half of 2018.

The sub-item other services under commission income mainly refers to structuring commission; commission expense under collection and payment services includes servicing commission.

Other operating expenses and income

(Amounts in thousands of euro)

Items/Technical forms	30/06/19	30/06/18	Chg.	Chg. (%)
Other operating expenses				
Theft and robbery charges	-	(15)	15	(100%)
Amortisation of leasehold improvements	-	(27)	27	(100%)
Other operating costs	(72)	(85)	12	(15%)
Total operating expenses	**(72)**	**(126)**	**54**	**(43%)**
Other operating income			-	
Sundry customer expenses on deposits and current accounts	266	84	182	>100%
Other income	167	397	(230)	(58%)
Total operating income	**434**	**482**	**(48)**	**(10%)**
Other operating expenses/income	**362**	**354**	**6**	**2%**

Other operating expenses/income of EUR 362 thousand mainly refers to the recovery of other expenses from clients.

Personnel expenses

(Amounts in thousands of euro)

Items/Technical forms	30/06/19	30/06/18	Chg.	Chg. (%)
1. Employees	(14,212)	(2,410)	(11,802)	>100%
2. Other personnel in service	(203)	(50)	(152)	>100%
3. Directors and statutory auditors	(666)	(388)	(278)	72%
Personnel expenses	**(15,081)**	**(2,848)**	**(12,232)**	**>100%**

Personnel costs amounted to approximately EUR 15 million and consist mainly of employee wages and salaries and the related social security contributions.

The Group had a total of 246 employees at 30 June 2019, up on 31 December 2018 (138). The following table shows the number of employees at 30 June 2019, broken down by classification, together with changes compared to 31 December 2018.

	30/06/19			31/12/18			Changes	
Level	**Average age**	**No. emp.**	**No. emp. (%)**	**Average age**	**No. emp.**	**No. emp. (%)**	**Abs. chg.**	**Chg. (%)**
Executives	45	39	16%	46	34	25%	5	15%
Middle managers	38	138	56%	42	60	43%	78	130%
White-collar	32	69*	28%	34	44	32%	26	59%
Total		**246**	**100%**		**138**	**100%**	**109**	**79%**

* Part-time employees considered at 50%

Other administrative costs

(Amounts in thousands of euro)

Items/Technical forms	30/06/19	30/06/18	Chg.	Chg. (%)
Rental of premises	(218)	(194)	(24)	12%
Insurance	(103)	(43)	(60)	>100%
Various payments	(1,597)	(151)	(1,446)	>100%
Various consulting services	(11,113)	(397)	(10,716)	>100%
Membership fees	(193)	(60)	(133)	>100%
DGS, SRF contribution and voluntary scheme	(463)	(430)	(33)	8%
Financial information	(786)	(61)	(725)	>100%
Adverts and advertising	(352)	(225)	(127)	57%
Maintenance and repair costs	(330)	(48)	(282)	>100%
Business expenses	(200)	(72)	(128)	>100%
IT and software expenses	(2,014)	(410)	(1,604)	>100%
Legal and notary's fees	(1,228)	(766)	(462)	60%
Personnel recruitment expenses and consulting fees	(413)	(5)	(408)	>100%
Postal and stationery expenses	(153)	(88)	(65)	74%
Utilities and services	(1,368)	(137)	(1,231)	>100%
Other indirect taxes and duties	(262)	(424)	(153)	36%
Others	(609)	(66)	(987)	>100%
Total other administrative expenses	**(21,402)**	**(3,577)**	**(18,584)**	**>100%**

Other administrative costs amounted to EUR 21.4 million, up on the figure reported by the Bank at the end of the first half of the previous year, and consisted primarily of costs for professional and advisory services, and IT and software expenses.

It has to be pointed out that administrative costs include non-recurring charges of EUR 3.2 million, due mainly to the migration of IT systems to a new outsourcer and the listing on the Mercato Telematico Azionario (MTA) and the contribution of the extraordinary single settlement fund relative to 2017.

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

(Amounts in thousands of euro)

Items/Technical forms	30/06/19	30/06/18	Chg.	Chg. (%)
Net write-downs/write-backs on property and equipment				
Property and equipment with functional use	(898)	(111)	(787)	>100%
of which: Own property and equipment	(192)	(111)	(81)	73%
of which: Lease rights of use	(706)	-	(706)	N.A.
Total	**(898)**	**(111)**	**(787)**	**>100%**
Net write-downs/write-backs on intangible assets			**-**	
Limited duration	(250)	(2)	(248)	>100%
Unlimited duration	-	-	-	-
Total	**(250)**	**(2)**	**(248)**	**>100%**
Total net write-downs/write-backs on property and equipment and intangible assets	**(1,148)**	**(113)**	**(1,035)**	**>100%**

Net write-downs/write-backs on property and equipment and intangible assets amounted to approximately EUR 1.1 million, compared to EUR 113 thousand recorded in the second half of the previous year. The increase was due to amortisation of right-of-use assets acquired through leasing transactions as lessee, in accordance with IFRS 16, which account for the majority of total adjustments.

Taxes

(Amounts in thousands of euro)

Amount	30/06/19	30/06/18	Chg.	Chg. (%)
1. Current taxes	-	(68)	68	(100%)
2. Change in deferred tax assets (+/-)	8,437	(325)	8,762	<100%
3. Change in deferred taxes (+/-)	744	-	744	N.A.
Income taxes for the period on current operations	**9,181**	**(393)**	**9,574**	**<100%**

Income taxes amounted to EUR 9.2 million, due to the change in deferred tax assets that include non-recurring income related to the positive outcome of the request for non-application, as referred to previously.

A probability test was performed in support of the future recovery of deferred tax assets justifying their recognition in accordance with IAS 12. The probability test conducted on the basis of the Bank's industrial plan yielded positive results, indicating that deferred tax assets would be reabsorbed in 2020.

QUARTERLY TREND

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

BALANCE SHEET

(Amounts in thousands of euro)

Assets	illimity consolidated financial statements at 30/06/2019	illimity consolidated financial statements at 31/03/2019	SPAXS consolidated financial statements at 31/12/2018
Treasury portfolio - securities at FV	100,205	88,170	137,164
Treasury portfolio securities at amortized cost	102,760	117,095	113,688
Financial instruments mandatorily measured at fair value	7,178	6,782	99
Due with Banks	122,763	137,373	372,158
Loans with customers	774,696	512,916	483,713
Property and equipment and intangible assets	54,861	44,878	24,408
Tax assets	32,121	23,407	19,462
Other assets	58,509	189,333	84,749
Total assets	**1,253,093**	**1,119,953**	**1,235,441**

(Amounts in thousands of euro)

Liabilities	illimity consolidated financial statements at 30/06/2019	illimity consolidated financial statements at 31/03/2019	SPAXS consolidated financial statements at 31/12/2018
Amounts due with banks	238,779	71,361	108,842
Amounts due to customers	384,276	382,701	453,721
of which: Debt securities issued	18,043	63,682	81,413
Tax liabilities	693	946	280
Other liabilities	62,486	49,013	33,940
Shareholders' equity	548,816	552,250	557,245
Total liabilities and shareholders' equity	**1,253,093**	**1,119,953**	**1,235,441**

INCOME STATEMENT

(Amounts in thousands of euro)

Income Statement items	Q2 2019	Q1 2019	Q4 2018
Interest margin	8,939	7,183	4,690
Net fee and commission income	1,933	612	87
Net trading and hedging result and purchase/sale of financial assets	343	924	(2,086)
Other net costs and earnings	85	277	(83)
Total net operating income	**11,300**	**8,996**	**2,608**
Net write-downs/write-backs for credit risk - HTC Clients	(2,725)	110	(3,324)
Net write-downs/write-backs for credit risk - HTC Banks	42	(84)	28
Write-downs/write-backs for credit risk - HTCS	161	(237)	(116)
Net write-downs/write-backs for commitments and guarantees	(398)	(29)	(33)
Total net write-downs/write-backs	**(2,919)**	**(240)**	**(3,445)**
Net result of banking operations	**8,381**	**8,756**	**(837)**
Personnel expenses	(8,717)	(6,364)	(3,799)
Other administrative costs	(11,379)	(10,022)	(13,567)
Operating costs	**(20,096)**	**(16,386)**	**(17,365)**
Net write-downs/write-backs on property and equipment and intangible assets	(670)	(478)	(80)
Other net provisions	168	(214)	(2,378)
Pre-tax profit (loss) from current operations	**(12,217)**	**(8,322)**	**(20,660)**
Income taxes for the period on current operations	6,798	2,383	4,844
Profit (loss) from current operations net of taxes	**(5,417)**	**(5,940)**	**(15,816)**

The economic results of illimity in the second quarter showed an increase in revenues, which should accelerate from the next quarter, due to the business generated in the last part of the quarter and in July. The operating structure was completed, with the addition of 52 new resources in the quarter and further investments in business activities, the digital platform and direct bank. The Bank also reported adjustments on receivables to promptly manage the bad-debt position of the ex-BIP portfolio.

In more detail, the interest margin amounted to EUR 8.9 million in the second quarter, up by 24% compared to figures for the first quarter of 2019. This result only partially includes the effects of the business originating from the Bank in the second quarter, mainly signed in June, and therefore this revenue component is expected to pick up from the next quarter. In line with the industrial plan, the contribution from the NPL Investment & Servicing Division was significant, with inflows relative to purchased portfolios in the quarter higher than figures in relative recovery plans.

Total income for the second quarter amounted to EUR 11.3 million, up by 26% compared to the first quarter. Revenues for the period include EUR 1.9 million of commissions, up considerably compared to the first quarter (EUR 0.9 million), thanks to the contribution of upfront structuring commissions of NPL senior financing transactions and Crossover & Acquisition finance operations.

Total income also includes approximately EUR 0.3 million arising from the sale of an additional 27 million of government bonds in the quarter.

Personnel costs, equal to approximately EUR 9 million, refer to the recruitment of new resources, while other administrative expenses of EUR 11.4 million include EUR 1.1 million of non-recurring costs mainly related to completion of the migration to the new IT system, the rationalisation of branches and includes the extraordinary contribution to the Single Settlement fund. Overall, non-recurring costs amounted to EUR 3.8 million in the first half of 2019.

During the quarter, illimity recorded write-downs/write-backs on receivables for EUR 2.7 million, to manage the bad debt positions in the portfolio of Banca Interprovinciale, corresponding to an annualised credit cost of approximately 190 BPS with reference only to the second quarter and 138 BPS for the entire first half of 2019.

Deferred tax assets, equal to EUR 6.8 million in the second quarter, include the tax benefit resulting from the recognition of the tax asset on the tax loss generated by the incorporated SPAXS in 2018 and on the tax relief for economic growth (ACE) for EUR 3.8 million, following the positive outcome of the request for non-application.

The quarter ended with a loss of EUR 5.4 million, resulting in a net profit for the first six months of 2019 of EUR 11.4 million, in line with figures in the industrial plan.

ONGOING SHAREHOLDERS' EQUITY

At 30 June 2019, shareholders' equity, inclusive of the loss for the period, amounted to approximately EUR 548.8 million, down from EUR 557.3 million at the end of 2018, primarily due to the net loss for the period.

Shareholders' equity attributable to the Group

(Amounts in thousands of euro)

Items/values	30/06/19	31/12/18
1. Share capital	43,408	62,781
2. Share premium	480,156	517,827
3. Reserves	35,502	-
4. Equity instruments	-	-
5. (Treasury shares)	(96)	-
6. Valuation reserves	1,204	26
7. Profit (loss) for the period	(11,358)	(23,542)
Total shareholders' equity attributable to the Group	**548,816**	**557,092**
Shareholders' equity attributable to non-controlling interest	**-**	**153**
Total shareholders' equity	**548,816**	**557,245**

Share capital and ownership structure

At 30 June 2019 the Bank's share capital amounted to EUR 44,904,333.15, of which EUR 43,407,661.81 subscribed and paid in, divided into 59,465,883 ordinary shares and 1,440,000 special shares, without par value.

At the same date there were 28,492,827 conditional share rights in issue.

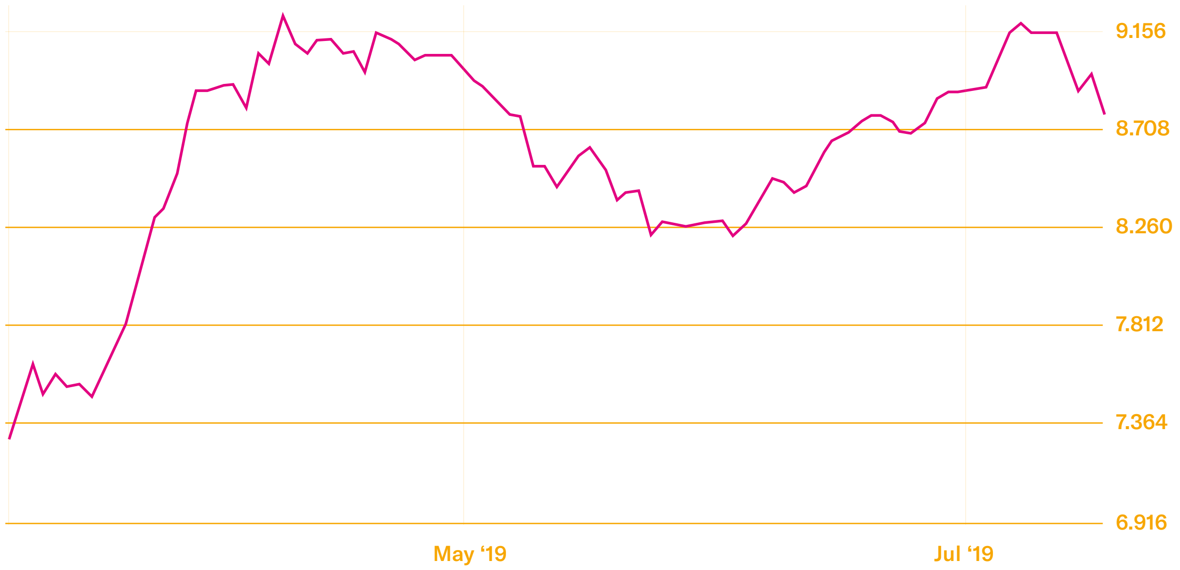
The Ordinary Shares and Conditional Share Rights were admitted to trading on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. on 5 March 2019. The Bank's Special Shares are not traded.

In accordance with the Terms and Conditional Share Rights, the Assignment Rights entitle their holders to receive one conversion share, having the same characteristics as the Ordinary Shares, for every five Assignment Rights. Assignment will take place on 20 September 2019, the first anniversary of the effective date of the Material Transaction.

On 7 June 2019, illimity disclosed the new composition of share capital, with an increase in share capital of EUR 30.6 thousand through the issue of 43,022 new ordinary shares and EUR 355.2 thousand of the share premium reserve, to serve the Employee Stock Option Plan (ESOP).

Illimity Bank share

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



Based on available information, published by CONSOB, updated on 15 July 2019, the main shareholders of the Bank are as follows:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding% of the voting capital
TENSILE CAPITAL MANAGEMENT LLC	TENSILE-METIS HOLDINGS SARL.	Owned	7.010%	7.010%
Atlas Merchant Capital LLC	AMC METIS SARL	Owned	7.741%	7.741%
SDP CAPITAL MANAGEMENT LTD	SDP CAPITAL MANAGEMENT LTD	Discretionary asset management	9.875%	9.875%

Based on available information, the Bank is not aware of any shareholders' agreements.

EVENTS AFTER THE REPORTING DATE

On 3 July 2019, illimity announced its support for Italy's first and biggest co-living company, DoveVivo, through a structured loan for a total of EUR 22.5 million. The refinancing agreement will provide a new loan of EUR 14.5 million, targeting the company's further growth, while the remaining EUR 8 million will refinance the existing exposure. The agreement has enabled illimity to became the main banking partner of DoveVivo.

On 17 July 2019, illimity received a notice from the Bank of Italy concerning its "Registration with Register of Banking Groups and amendments to by-laws". The Bank of Italy notified that it had registered the illimity Bank Group, comprising the parent company Illimity and subsidiaries Soperga RE, Friuli LeaseCo, River LeaseCo and Doria LeaseCo in the Register of Banking Groups, with effect from 24 June 2019. In addition, the notice stated that there were no reasons preventing the acquisition of Neprix or the connected intergroup outsourcing.

On 26 July 2019, illimity announced it had acquired non-performing loans, in three separate operations, for a Gross Book Value of over EUR 340 million. The first acquisition was signed with UniCredit for a gross book value of approximately EUR 240 million and refers to an NPL portfolio comprising unsecured corporate positions. The second agreement was finalised with a leading financial company, for the purchase, in several tranches of a leasing receivable portfolio with a gross book value of approximately EUR 80 million. The third operation involved the purchase of a single loan for a nominal value of approximately EUR 23 million. This loan refers to a secured corporate position, guaranteed by logistic assets in North Italy.

On 29 July 2019, illimity, given the absence of reasons preventing the operation notified by the Bank of Italy, finalised the acquisition of Neprix.

On 31 July 2019, illimity announced it had finalised two now operations in the non-performing loan segment with Banca Monte dei Paschi di Siena S.p.A., for a gross book value of approximately EUR 700 million. The acquired portfolio refers to loans to borrowers operating on the agricultural market for approximately EUR 240 million and unsecured corporate positions for approximately EUR 450 million.

Condensed consolidated interim financial statements

at 30 June 2019

illimity

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Amounts in thousands of euro)

	Assets	30/06/2019	31/12/18*
10	Cash and cash equivalents	42,405	68,088
20	Financial assets measured at fair value through profit or loss	17,421	29,350
	a) financial assets held for trading	*10,243*	*29,251*
	b) financial assets at fair value	-	-
	c) other financial assets mandatorily measured at fair value	*7,178*	*99*
30	Financial assets measured at fair value affecting overall profitability	89,962	107,913
40	Financial assets measured at amortised cost	1,000,219	969,559
	a) due with banks	*122,763*	*372,158*
	b) loans with customers	*877,456*	*597,401*
50	Hedging derivatives	-	-
60	Adjustments in value of generic hedging financial assets (+/-)	-	-
70	Equity investments	-	-
80	Technical reinsurance reserves	-	-
90	Property and equipment	24,238	2,495
100	Intangible assets of which:	30,623	21,913
	Goodwill	*21,643*	*21,643*
110	Tax assets	32,121	19,462
	a) current	*3,914*	*1,972*
	b) advance	*28,207*	*17,490*
120	Non-current assets and groups of assets held for disposal	-	-
130	Other assets	16,104	16,661
	Total assets	**1,253,093**	**1,235,441**

*The comparative figures at 31 December 2018 refer to the group controlled by SPAXS, the company merged into the Bank.

(Amounts in thousands of euro)

Liabilities and equity		30/06/2019	31/12/18*
10	Financial liabilities measured at amortised cost	641,098	643,976
	a) due with banks	*238,779*	*108,842*
	b) loans with customers	*384,276*	*453,721*
	c) securities issued	*18,043*	*81,413*
20	Financial liabilities held for trading	-	-
30	Assets and liabilities measured at fair value	-	-
40	Hedging derivatives	-	-
50	Adjustments in value of generic hedging financial liabilities (+/-)	-	-
60	Tax liabilities	693	280
	a) current	-	-
	b) deferred	*693*	*280*
70	Liabilities linked to assets held for sale	-	-
80	Other liabilities	60,238	30,510
90	Employee termination indemnities	884	575
100	Allowances for risks and charges:	1,364	2,855
	a) commitments and guarantees given	*552*	*119*
	b) pensions and similar obligations	-	-
	c) other allowances for risks and charges	*813*	*2,736*
110	Valuation reserves	1,204	26
120	Redeemable shares	-	-
130	Equities	-	-
140	Reserves	35,502	-
150	Share premium reserves	480,156	517,827
160	Share capital	43,408	62,781
170	Treasury shares	(96)	-
180	Net income (loss) for the period attributable to the Group (+/-)	(11,358)	(23,542)
	Group equity	**548,816**	**557,092**
	Equity of minority interests	**-**	**153**
	Total liabilities and shareholders' equity	**1,253,093**	**1,235,441**

*The comparative figures at 31 December 2018 refer to the group controlled by SPAXS, the company merged into the Bank.

CONSOLIDATED INCOME STATEMENT

(Amounts in thousands of euro)

		1st half of 2019
10	Interest and similar income of which:	18,637
	interest income calculated using the effective interest rate method	*17,175*
20	Interest and similar expense	(2,515)
30	**Interest margin**	**16,122**
40	Fee and commission income	4,110
50	Fee and commission expense	(1,565)
60	**Net fee and commission income**	**2,545**
70	Dividends and similar income	-
80	Profits (losses) on trading	(38)
90	Net hedging result	-
100	Profits (loss) on disposal or repurchase of:	1,304
	a) financial assets measured at amortised cost	*368*
	b) financial assets measured at fair value affecting overall profitability	*936*
	c) financial liabilities	*-*
110	Profits (loss) on other financial assets and liabilities measured at fair value	1
	a) financial assets and liabilities measured at fair value	*-*
	b) other financial assets mandatorily measured at fair value	*1*
120	**Net interest and other banking income**	**19,934**
130	Net losses/recoveries for credit risks associated with:	(2,732)
	a) financial assets measured at amortised cost	*(2,657)*
	b) financial assets measured at fair value affecting overall profitability	*(76)*
140	Gains/losses from contract amendments without cancellations	(1)
150	**Profits (losses) of financial management**	**17,201**
160	Net premiums	-
170	Balance of other income/costs from insurance management	-
180	**Profits (losses) of financial and insurance management**	**17,201**
190	Administrative expenses:	(36,798)
	a) personnel expenses	*(14,637)*
	b) other administrative expenses	*(22,161)*
200	Net allowances for risks and charges	(471)
	a) commitments and guarantees given	*(428)*
	b) other net allowances	*(44)*
210	Net adjustments/recoveries on property and equipment	(898)
220	Net adjustments/recoveries on intangible assets	(250)
230	Other operating expenses/income	677

(Amounts in thousands of euro)

		1st half of 2019
240	**Operating expenses**	**(37,740)**
250	Gains (losses) from equity investments	-
260	Profits (losses) of fair value valuation of Property and Equipment and intangible assets	-
270	Goodwill impairment	-
280	Profits (losses) on disposal of investments	-
290	**Loss before tax from continuing operations**	**(20,539)**
300	Income taxes for the period on continuing operations	9,181
310	**Loss after tax from continuing operations**	**(11,358)**
320	Net income (Loss) (+/-) from disposed operations net of taxes	-
330	**Net income (Loss)**	**(11,358)**
340	Net income (Loss) (+/-) for the period attributable to minority interests	-
350	**Net income (Loss) (+/-) for the period attributable to the Parent Company**	**(11,358)**
	Base loss per share *(in EUR)*	**(0.19)**
	Diluted loss per share *(in EUR)*	**(0.19)**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Amounts in thousands of euro)

		1st half 2019
10.	**Profit (loss) for the period**	**(11,358)**
	Other income components, net of taxes, that may not be reclassified to the income statement	**-**
20.	Equities measured at fair value through other comprehensive income	2
30.	Financial liabilities measured at fair value through profit or loss (changes in own credit rating)	-
40.	Hedging of equities measured at fair value through other comprehensive income	-
50.	Property and Equipment	-
60.	Intangible assets	-
70.	Defined-benefit plans	(100)
80.	Non-current assets classified as held for sale	-
90.	Share of valuation reserves connected with investments carried at equity:	-
	Other income components, net of taxes, that may be reclassified to the income statement	
100.	Hedging of foreign investments	-
110.	Foreign exchange differences	-
120.	Cash flow hedges	-
130.	Hedging instruments (designated elements)	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	1,277
150.	Non-current assets held for sale and discontinued operations	-
160.	Share of valuation reserves connected with investments carried at equity	-
170	**Total other income components, net of taxes**	**1,179**
180	**Other comprehensive income (Item 10+170)**	**(10,179)**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30 JUNE 2019

(Amounts in thousands of euro)

	Balances at 31 December 2018 (SPAXS consolidated financial statements)	Change to opening balances (effects of the merger of SPAXS into Banca Interprovinciale)	Balances at 1 January 2019 (illimity consolidated financial statements)	Allocation of profit/loss for the previous year		Changes in the period									Shareholders' equity attributable to the Group at 30/06/2019	Equity attributable to minority interests at 30/06/2019
							Shareholders' equity transactions									
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	*Stock options*	Changes in equity interests	Other comprehensive income for the period		
Share capital:	**62,781**	**(19,404)**	**43,377**		**-**	**-**	**31**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**43,408**	**-**
a) ordinary shares	61,341	(19,404)	41,937	-	-	-	31	-	-	-	-	-	-	-	41,968	-
b) other shares	1,440	-	1,440	-	-	-	-	-	-	-	-	-	-	-	1,440	-
Share premium reserves	517,827	-	517,827	-	(23,662)	(14,364)	355	-	-	-	-	-	-	-	480,156	-
Reserves:	**285**	**19,404**	**19,689**	**-**	**-**	**15,624**	**-**	**-**	**-**	**-**	**-**	**189**	**-**	**-**	**35,502**	**-**
a) earnings	-	-	-	-	-	12,007	-	-	-	-	-	-	-	-	12,007	-
b) other	285	19,404	19,689	-	-	3,617	-	-	-	-	-	189	-	-	23,495	-
Valuation reserves	13	-	13	-	-	12	-	-	-	-	-	-	-	1,179	1,204	
Equities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	(96)	-	-	-	-	-	-	(96)	
Profit (loss) for the period	**(23,662)**	**-**	**(23,662)**	**-**	**23,662**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,358)**	**(11,358)**	**-**
Shareholders' equity	**557,244**	**-**	**557,244**	**-**	**-**	**1,272**	**386**	**(96)**	**-**	**-**	**-**	**189**	**-**	**(10,179)**	**548,816**	**-**

STATEMENT OF CASH FLOWS

INDIRECT METHOD

(Amounts in thousands of euro)

	1st half of 2019
A. OPERATIONS	
1 Operations	**(13,750)**
- profit/(loss) for the period (+/-)	(11,358)
- gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	-
- gains/losses on hedging operations (-/+)	-
- net adjustments/recoveries for credit risk (+/-)	6,115
- net adjustments/recoveries on Property and Equipment and intangible assets(+/-)	1,148
- net allocations to allowances for risks and charges and other costs/income (+/-)	471
- taxes, duties and unpaid tax credits (+/-)	(9,181)
- net adjustments/recoveries of disposed assets net of fiscal effect (+/-)	-
- other adjustments (+/-)	(945)
2 Cash generated/absorbed by financial assets:	**25,313**
- financial assets held for trading	19,008
- financial assets carried at fair value	-
- other financial assets mandatorily measured at fair value	(7,079)
- financial assets measured at fair value through other comprehensive income	19,876
- financial assets measured at amortised cost	5,610
- Other assets	(12,102)
3 Cash generated/absorbed by financial liabilities	**(27,485)**
- financial liabilities measured at amortised cost	(24,261)
- financial liabilities held for trading	-
- financial liabilities measured at fair value	-
- Other liabilities	(3,224)
Net cash generated/absorbed by operating activities	**(15,922)**
B. INVESTING ACTIVITIES	**-**
1 Liquidity generated by:	**-**
- sales of equity investments	-
- collected dividends on equity investments	-
- sales of property and equipment	-
- sales of intangible assets	-
- disposals of businesses	-

(Amounts in thousands of euro)

	1st half of 2019
2 Liquidity absorbed by:	**(11,323)**
- purchases of equity investments	-
- purchases of property and equipment	(2,363)
- purchases of intangible assets	(8,960)
- purchases of business units	-
Net cash generated/absorbed by investing activities	**(11,323)**
C. FUNDING ACTIVITIES	**-**
- Issue / Purchase of treasury shares	(96)
- issues/purchases of equities	1,658
- Distribution of dividends and other purposes	-
Net cash generated/absorbed by funding activities	**1,562**
NET CASH GENERATED/ABSORBED DURING THE PERIOD	**(25,683)**

Key:
(+) generated (–) absorbed

RECONCILIATION

Balance Sheet Items	
Cash and cash equivalents at the start of the period	68,088
Total net cash generated/absorbed during the period	(25,683)
Cash and cash equivalents: effect of changes in exchange rates	-
Cash and cash equivalents at the end of the period	42,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 - GENERAL CRITERIA

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 conformity with international financial reporting standards

The consolidated interim financial report has been prepared in accordance with paragraph 5 of Article 154-ter of Legislative Decree No. 58 of 24 February 1998, in application of Legislative Decree No. 38 of 28 February 2005. The line items presented in this interim report have been valued and measured on the basis of the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), as well as the guidance in Bank of Italy Circular No. 262 of 22/12/2005 (sixth revision of 30/11/2018), in accordance with the accounting policies adopted in preparing the consolidated financial statements of SPAXS for the year ended 31 December 2018.

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

This consolidated interim financial report for the period ended 30 June 2019 is the first interim report prepared by the Group, since the illimity Group was created on 20 September 2018 following the closing of the Material Transaction. Accordingly, no comparative figures are presented with regard to financial performance and cash flows. The comparative balance sheet figures at 31 December 2018 refer to the group controlled at that same date by SPAXS, the company merged into the Bank.

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

Section 2 – General basis of preparation

The consolidated interim financial report has been prepared assuming that the Group will continue as a going concern, since there are no significant uncertainties regarding events or conditions that may lead to doubts as to the Group's ability to continue to operate as a going concern.

This consolidated interim financial report has been prepared using the EUR as the Group's functional currency and consists of the consolidated balance sheet, consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in consolidated shareholders' equity and the notes.

The amounts presented in the explanatory tables and the notes are stated in thousands of euro, unless otherwise indicated.

Any discrepancies between the figures presented are due solely to rounding.

The consolidated interim financial report at 30 June 2019 has been prepared according to principles and policies consistent with those adopted in the consolidated financial statements of SPAXS for the year ended 31 December 2018, 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 2019, 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 2019"*.

During the first half of 2019, activities were started to invest in non-performing loans secured by collateral, with particular reference to loans of lease agreements. The sections *"Accounting standards for property arising from enforcement procedures adopted in credit collection processes"* and "*Accounting standards for the recognition of NPL lease operations*" present the accounting standards adopted by the Bank in order to recognise transactions arising from these new activities.

The consolidated interim financial report at 30 June 2019, approved by the Board of Directors on 1 August 2019, was audited in a limited form by the independent auditors KPMG S.p.A. The formats provided in the instructions for preparing financial statements issued by the Bank of Italy in its order of 22 December 2005, concurrent Circular No. 262 and subsequent updates have been adopted.

Section 3 – Consolidation scope and methods

The consolidation policies and principles adopted in preparing the condensed consolidated interim report at 30 June 2019 are unchanged with respect to the consolidated financial statements for the year ended 31 December 2018.

The consolidated interim financial report includes the accounting values of illimity and of the companies over which it directly or indirectly exercises control for the half year ended 30 June 2019, encompassing within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments dissimilar to that of the Parent Company.

The scope of consolidation adopted in the consolidated interim financial report at 30 June 2019 has changed with respect to the consolidated financial statements for the year ended 31 December 2018, following the entry of new entities related to NPL leasing management.

Details of the scope of consolidation of subsidiaries, registered with the Banking Group, at 30 June 2019, and consolidated entities, are given below:

Name	Operational headquarters	Registered office	Type of relationship (*)	Ownership relationship	
				Held by	Holding %
A Companies					
A.0 illimity Bank S.p.A..	Milan	Milan			
A.1 Consolidated on a line-by-line basis					
A.1 Aporti S.r.l. (SPV)	Milan	Milan	4	A.0	100.0%
A.2 Soperga RE S.r.l.*	Milan	Milan	1	A.0	100.0%
A.3 Lumen S.r.l.	Conegliano	Conegliano	4	A.0	100.0%
A.4 Friuli LeaseCo. S.r.l.*	Milan	Milan	1	A.0	100.0%
A.5 Friuli SPV S.r.l. (SPV)	Milan	Milan	4	A.0	100.0%
A.6 Doria Leasco S.r.l.*	Milan	Milan	1	A.0	100.0%
A.7 Doria SPV S.r.l. (SPV)	Milan	Milan	4	A.0	100.0%
A.8 River Leasco S.r.l.*	Milan	Milan	1	A.0	100.0%
A.9 River SPV S.r.l. (SPV)	Milan	Milan	4	A.0	100.0%

(*) Type of relationship:

1 = majority of voting rights at the ordinary meeting of shareholders (pursuant to Article 2359 paragraph 1(1))

2 = dominant influence at the ordinary meeting of shareholders

3 = arrangements with other shareholders

4 = other forms of control

* Members of the Banking Group

Section 4 - Events after the reporting date

No events occurred after the reporting date of the consolidated interim 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, in addition to the information presented in the specific section of the Report on operations.

Section 5 – Other aspects

Accounting policies applied to the accounting treatment of the reverse merger of SPAXS into Banca Interprovinciale

IFRS financial reporting standards do not prescribe a specific method of accounting for mergers between parent companies and subsidiaries. As a common control transaction, this type of transaction does not fall within the scope of application of the financial reporting standard IFRS 3. Accordingly, an accounting policy must be developed based on the hierarchy of sources laid down in the accounting standard IAS 8, paragraph 10(b)(ii) which states that the selected accounting policy must reflect the economic substance of the transaction rather than the mere legal form.

In a reverse merger such as that described herein, nothing changes from the group's perspective, except the destination of the parent company's assets and liabilities, which are assumed by the subsidiary as the entity that survives the reverse merger. Accordingly, the "pooling of interest method" may be identified as the method most appropriate to account for a reverse merger between a parent company and its subsidiary. Based on this method, all intra-Group transactions must be eliminated, as also required by paragraph 21 of the accounting standard IAS 27.

Under the above method, the carrying amounts of the assets and liabilities in the consolidated financial statements (of the parent company) remain unchanged following the reverse merger and are reflected in the stand-alone financial statements of the entity that survives the merger. Accordingly, in keeping with accounting theory and practice, the stand-alone financial statements reflect BIP's post-merger assets retrospectively from 1 January 2019 in accordance with the principle of continuity of values with the consolidated financial statements of SPAXS for the year ended 31 December 2018. In any event, in view of future acquisitions, the post-merger consolidated financial statements of illimity (former BIP) for 2019 will also be prepared in full continuity with the 2018 consolidated financial statements.

In short, the reverse merger of SPAXS into illimity gave rise to the application in the merger situation at 1 January 2019 of values consistent with the pre-merger consolidated financial statements of SPAXS, which for SPAXS are represented by figures presented in accordance with IFRSs, which differ from the Italian GAAP according to which SPAXS prepared its stand-alone financial statements at 31 December 2018, valid for legal and tax purposes. The main differences relate to the accounting treatment of the costs associated with the capital increase and the acquisition of BIP. In addition, the accounting treatment of the acquisition of BIP at 30 September 2018 entailed, at the level of BIP's financial statements, the adjustments described above with regard to the measurement date of securities measured at fair value through other comprehensive income (hold-to-collect-and-sell business model) and measured at amortised cost (hold-to-collect business model) of 20 September 2018. These adjustments result in differences between the merger values and those recognised in BIP's stand-alone financial statements, valid for legal and tax purposes.

The assumption of the accounting values presented in the consolidated financial statements is not relevant to the determination of the tax values of the assets and liabilities carried in illimity's post-merger financial statements. Regardless of the accounting treatment adopted, the provisions of Art. 172 of the Consolidated Income Tax Act apply, requiring that the merger not constitute realisation of the greater/lesser values of the assets of the merged/merging company or assumption of the rights and obligations of the merged companies relating to income taxes. Accordingly, the tax values remain unchanged and the temporary differences arising are managed according to the two-track principle and recognition of deferred tax liabilities according to the accounting standard IAS 12.

However, in consideration of the foregoing, a discrepancy was also identified between the measurement at fair value of the item "40 - Financial assets at amortised cost, b) Loans to customers" recognised in the consolidated financial statements, and the tax and accounting values recognised in BIP's stand-alone financial statements. The provisions of the tax code concerning loans to customers, laid down in Article 106, paragraph 3, of the Consolidated Income Tax Act and Article 6, paragraph 1, letter c-bis), of Legislative Decree No. 446 of 1997, require that their value for the purposes of IRES (corporate income tax) and IRAP (regional production tax) correspond to their carrying amounts in the financial statements. This entails the need for credit institutions to have consistent tax and accounting values of loans to customers. Accordingly, in the case in question, the neutrality principle is not sufficient to justify the ongoing misalignment, in the presence of specific provisions of the system aimed at governing the alignment in question. In the final analysis, given the need to align the tax and accounting values of loans, and considering that this alignment cannot occur during the merger process, this misalignment must be realigned at the end of the year in progress on 31 December 2019, applying the tax deductibility rules governing impairment losses and losses on loans, for the purposes of IRES (corporate income tax), set out in Article 106, paragraph 3, of the Consolidated Income Tax Act, and, for the purposes of IRAP, in Article 6, paragraph 1, letter c-bis) of Legislative Decree No. 446 of 1997.

Accounting standards for property arising from enforcement procedures adopted in credit collection processes

Illimity is assisted by a *Real Estate Owned Company* (REOCO, Soperga Re) that manages property, also valuing and selling it on the market, arising from enforcement procedures taken in the process to recover non-performing loans acquired by the NPL Division.

The property is recognised at the moment when the Bank reaches an agreement that releases the borrower from its obligations, with concurrent derecognition pursuant to IFRS 9 "Financial instruments" of the NPL the guaranteed property referred to and the non-recognition of interest expense relative to the transaction.

This property is classified under "property and equipment", indicated as "assets held through the enforcement of guarantees received" and recognised:

- at the lower of the fair value, assumed from an appraisal of an independent expert, and the carrying amount of the guaranteed loan, in the event of obtaining the amount following an agreement "datio in solutum" with the borrower. If the value of the receivable is higher than the fair value, impairment is recognised in the income statement under the item "Write-downs/write-backs for credit risk: Financial assets measured at amortised cost"; or
- at the price the property was sold at auction. In this case, the Bank aligns the value of the NPL with the property auction price, recognising the negative difference in the item "Write-downs/write-backs for credit risk: Financial assets measured at amortized cost".

After their recognition in the financial statements, property purchased through REOCO is measured, in compliance with requirements in IAS 2 "Inventories", at the lesser of cost and the net realisable value.

If the sale of the property is expected in the medium/long term or if the property is held for the purpose of receiving rent payments or to capitalise on invested capital, accounting treatment is in accordance with IAS 40 "Investment property", measuring the investment property at fair value, with changes in value recognised in profit or loss.

Accounting policies applied to the accounting treatment of NPL leasing operations

NPL leasing portfolios, which come under the POCI (Purchased or Originated Credit Impaired) category, as provided for by IFRS 9, refer to contracts that have been terminated and consequently no further lease payments are expected to be invoiced.

After contracts have been acquired, the Bank starts procedures for the return of the leased asset, or takes over in enforcement proceedings started by the assignor (original lessor). This enforcement stage does not have any effect on the debt position of the lessee, who is not relieved of obligations with the lessor and consequently the amount receivable is not derecognised. The asset returned by the lessee is therefore equivalent to "collateral" regarding the receivable arising from the lease agreement, while the operation is still classified as a finance lease receivable due from the lessee.

If the asset is sold at a value greater than the gross book value of the receivable (equal to its original value in the financial statements of the assignor), the higher value is recognised as the amount payable in insolvency proceedings. If instead the asset is sold at a value below the *gross book value*, the difference between the two values will still be recognised as a receivable for the lessee, and will be subsequently tested for impairment according to criteria in IFRS 9.

If instead an agreement is reached with the debtor releasing its obligations (for example full and final settlement, *datio in solutum*, etc.) the NPL leasing receivable is derecognised and the asset is recognised under Property and equipment, as "Assets obtained from the enforcement of guarantees received". Following the derecognition of the receivable, interest income arising from the operation is no longer recognised.

These assets are recognised at the lesser of the fair value, assumed from an appraisal of an independent expert, and the (net) carrying amount of the leasing receivable it refers to. If instead the value of the receivable is higher than the fair value, impairment is recognised in the income statement under the item "Write-downs/write-backs for credit risk: Financial assets measured at amortised cost".

After their recognition in the financial statements, property is measured, in compliance with requirements in IAS 2 "Inventories", at the lesser of cost and the net realisable value.

If the sale of the property is expected in the medium/long term or if the property is held for the purpose of receiving rent payments or to capitalise on invested capital, accounting treatment is in accordance with IAS 40 "Investment property", measuring the investment property at fair value, with changes in value recognised in profit or loss.

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 2019.

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
IFRS 16 - *Leases*	January 2016	1 January 2019	31 October 2017	(EU) No 2017/1986 9 November 2017
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	October 2017	1 January 2019	22 March 2018	(EU) No 2018/498 26 March 2018
Interpretation IFRIC 23 – Uncertainty over Income Tax Treatments	June 2017	1 January 2019	23 October 2018	(EU) No 2018/1595 24 October 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle, with changes to: – IFRS 3 Business combinations – Investment held previously in a joint operation; – IFRS 11 Investment held previously in a joint arrangement; – IAS 12 Income taxes - Tax effects of payments on financial instruments classified as equity; – IAS 23 Borrowing costs - Borrowing costs that may be capitalised.	December 2017	1 January 2019	14 March 2019	(EU) No 2019/412 15 March 2019
Plan amendment, curtailment or settlement (Amendments to IAS 19)	February 2018	1 January 2019	13 March 2019	(EU) No 2019/402 14 March 2019
Long-term interests in associates and joint ventures (Amendments to IAS 28)	October 2017	1 January 2019	08 February 2019	(EU) No 2019/402 11 February 2019

Amendments to IFRS 9, IFRIC 23, Annual Improvements to IFRS Standards 2015–2017 Cycle, amendments to IAS 19 and IAS 28 did not generate any impact at the date of first-time adoption, 1 January 2019.

IFRS 16 was adopted for the consolidated interim financial report. Contracts may be classified in the three following categories:

1. Business and personal use properties;
2. Motor vehicles;
3. Other business assets (PCs, printers and hardware).

A lease is defined as a contract the fulfilment of which depends on the use of an identified asset and that conveys the right to control the use of the asset for a period of time in exchange for consideration.

The international accounting standard IFRS 16 applies to all transactions that provide for a right to use an asset, regardless of the contractual form, i.e. finance or operating leases and rentals. The scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

IFRS 16 requires the initial recognition of an asset representing the right of use ("ROU") of the leased asset, together with a liability represented by the present value of the future lease payments under the lease contract (the "lease liability").

In accordance with paragraph C3 of the Standard's transitional provisions, upon first-time adoption the Group decided to apply the Modified B approach, which allows the cumulative effect of the initial application of the Standard to be recognised on the date of initial application and the comparative figures not to be restated in the financial statements of first-time adoption of IFRS 16.

The Group has decided to avail itself of independent experts well versed in the practical expedients required by IFRS 16 in adopting the modified approach, i.e. not to apply the provisions of the Standard to leases with a term that ends within 12 months of the date of first-time adoption, and therefore to account for such leases as short-term leases. This category primarily includes real properties the contract for which is expected to be terminated in 2019.

Finally, in accordance with paragraph 5 of IFRS 16, the Group has decided not to recognise ROU assets and lease liabilities for leases of low-value assets.

With regard to measurements following the initial recognition of lease contracts:

a) the right of use was amortised over the term of the contract or the useful life of the asset (on the basis of IAS 16);

b) the liability was progressively reduced due to the effect of the lease payments and the relevant interest expenses have been recognised and taken separately to the income statement.

In the light of these considerations, no significant impacts on shareholders' equity were recognised. First-time adoption of the standard according to the selected approach resulted in an increase:

1. in financial liabilities, following the recognition of the amount payable to the lessor, of approximately EUR 14 million; and
2. in assets, following the recognition of the right to use the assets, of approximately EUR 14 million.

The impact of the application of IFRS 16 did not have an appreciable impact on the Group's regulatory capital adequacy.

The table below presents the financial statement line items affected by the change in opening balances.

(Amounts in thousands of euro)

Assets		31/12/2018 (a)	Impact of IFRS 16 (b)	01/01/2019 C=(a)+(b)
90	Property and Equipment	2,495	13,849	16,344
	Total assets	**2,495**	**13,849**	**16,344**

(Amounts in thousands of euro)

Liabilities and shareholders' equity		31/12/2018 (a)	Impact of IFRS 16 (b)	01/01/2019 C=(a)+(b)
10	Financial liabilities measured at amortised cost	643,976	13,849	657,825
	Total liabilities and shareholders' equity	**643,976**	**13,849**	**657,825**

With regard to commitments relative to operating leases, already represented in the financial statements at 31 December 2018 pursuant to IAS 17, liabilities recognised at the date of first-time adoption according to IFRS 16 mainly exclude future payments relative to "low value" or "short term" assets, as well as other payments that do not come under the scope of the new standard, as shown in the following reconciliation table.

(Amounts in thousands of euro)

Reconciliation of lease liabilities	Total
IAS 17 operating lease commitments not discounted at 31/12/2018	**23,073**
IFRS 16 exceptions to recognition	(143)
For *short-term leases*	(131)
For *low value leases*	(12)
***Lease liabilities* to recognise in the balance sheet at 01/01/2019 not discounted**	**22,930**
FTA RATE discounting effect (*)	(9,082)
IFRS 16 *lease liabilities* at 01/01/2019	**13,849**
Average rate	**6%**

Use of estimates and assumptions in preparing the consolidated interim financial report

The preparation of the report requires the use of estimates and assumptions that may influence the values stated in the balance sheet and income statement and on the disclosures regarding contingent assets and liabilities presented in this document.

The estimates and related assumptions are based on the use of available management information and subjective assessments, also founded on historical experience.

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

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

It should also be noted that an estimate may also be adjusted due to changes in the circumstances on which it was based, new information or greater experience. By their nature, the estimates and assumptions used may change from one period to the next. Accordingly, the values presented in the consolidated interim financial report may differ, also 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.4 INFORMATION ON FAIR VALUE

Qualitative information

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

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal operation between market operators (in other words, not a forced liquidation or sale below cost) on the valuation date. The fair value is a market valuation criterion, not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

For financial instruments, the fair value is determined by using the market prices, in the case of instruments listed on active markets, or by using valuation models for the other financial instruments. A market is considered active if the listed prices, representing actual, regular market operations carried out during an appropriate reference period, are readily and regularly available on stock exchanges, through intermediaries, companies in the sector, pricing services or authorised entities.

The valuation method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market conditions.

Mutual open-end investment funds are considered to be listed on an active market, together with the equivalent investment instruments, spot and forward exchange transactions, futures, options and securities listed on a regulated market. Bonds for which at least two “executable” prices are continuously available on a pricing service are also considered to be listed on an active market, if the difference between the demand and supply price is below a range considered to be fair.

Instruments that do not fall into the above categories are not considered to be listed on an active market.

For financial instruments listed on active markets, the reference prices are used, namely the official closing prices or the prices of liquidation of the contract (always recorded at the end of the trading on the last market trading day in the reference period).

Units in mutual investment funds and similar instruments are valued on the basis of the prices given by the management companies, on dates consistent with the prices of the underlying financial instruments.

If there is no active, liquid market, the fair value of the financial instruments is mainly determined by using valuation techniques aimed at establishing the price of a hypothetical independent transaction motivated by normal market considerations, on the valuation date. In incorporating all the factors considered by the operators when setting the price, the valuation models take into account the financial value of time at the risk free rate, the risks of insolvency, early payment and redemption, volatility of the financial instrument and, applicable, the exchange rates, prices of raw materials and share prices.

For bonds and derivatives, valuation models have been defined that refer to current market values of substantially identical instruments, to the financial value of time and to options pricing models, by making reference to specific elements of the entity being valued and considering the market-observable criteria. These criteria are identified and applied in view of the liquidity, depth and observability of the reference markets, and the changes in the credit ratings of counterparties and issuers.

A.4.2 - Processes and sensitivity of valuations

The non-observable criteria that can influence the valuation of instruments classified in level 3 are normally represented by the estimates and assumptions underlying the models used to measure investments in equity securities and units in UCIs.

In the portfolios held on the reporting date, there was only minor recourse to financial estimation methods, and their valuation is not found to be significantly influenced by the changes in the input data.

A.4.3 - Fair value hierarchy

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

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

For securities held at fair value level 2:

- no transfers have been made between different fair value levels:
- the method used was the market price (Bloomberg BGN bid on the last available day), without making any modifications or adjustments;
- as the financial instruments are only debt securities (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:

<u>Level 1:</u>

The valuation 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 valuation 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 valuation of these financial instruments (the Mark to Market Approach). To determine the fair value of financial instruments listed on an active market, the market prices on the last day of the financial year are used.

Level 2

The valuation takes place using methods adopted if the instrument is not listed on an active market, and is based on inputs other than those for Level 1. The valuation of the instrument is based on prices taken from the market prices for similar assets, or using valuation 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 valuation of listed instruments with similar characteristics, on the amounts recorded in recent comparable transactions, or by using valuation models that discount future cash flows, also taking into account all the risk factors connected to the instruments, and which are based on market-observable data.

Level 3

The valuation 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*").

A.4.4 - Other information

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

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

Quantitative information

A.4.5 - Fair value hierarchy

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

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

(Amounts in thousands of euro)

Financial assets / liabilities measured at fair value	30/06/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	10,281	-	7,140	-	29,350	-
a) financial assets held for trading	10,181	-	62	-	29,251	-
b) financial assets at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	100	-	7,078	-	99	-
2. Financial assets measured at fair value affecting overall profitability	89,948	-	15	86,383	21,517	13
3. Hedging derivatives	-	-	-	-	-	-
4. Property and Equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**100,229**	**-**	**7,155**	**86,383**	**50,867**	**13**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Instruments that are valued to a significant extent on the basis of non-observable parameters (Level 3) constitute a marginal proportion (6.7%) of the total financial assets measured at fair value, and on the reporting date are only represented by investments classified in the portfolio of "Financial assets measured at fair value through other comprehensive income". The same portfolio includes equity investments valued on the basis of the historic cost method.

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

There were no changes in the reference period.

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

(Amounts in thousands of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/06/2019				31/12/2018			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets measured at amortized cost	1,000,219	105,690	-	912,306	969,559	103,078	-	891,349
2. Property and equipment held for investment	-	-	-	-	-	-	-	-
3. Non-current assets and groups of assets held for disposal	-	-	-	-	-	-	-	-
Total	**1,000,219**	**105,690**	**-**	**912,306**	**969,559**	**103,078**	**-**	**891,349**
1. Financial liabilities measured at amortized cost	641,098	-	18,043	613,591	643,976	-	22,459	624,256
2. Liabilities linked to assets held for sale	-	-	-	-	-	-	-	-
Total	**641,098**	**-**	**18,043**	**613,591**	**643,976**	**-**	**22,459**	**624,256**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Column 3 also includes the fair value, as required by IFRS 7, of other financial instruments recognised at amortised cost in the financial statements, and mainly classified among due from banks or customers, securities issued or financial assets held to maturity.

PART B - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 2 - Financial assets measured at fair value affecting profit or loss - Item 20

2.1 Financial assets held for trading: composition

(Amounts in thousands of euro)

Items/values	30/06/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
A On-balance-sheet assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt instruments	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	10,181	-	62	-	29,251	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements - receivable	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total A	**10,181**	**-**	**62**	**-**	**29,251**	**-**
B Derivatives	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial derivatives	-	-	-	-	-	-
1.1 held for trading	-	-	-	-	-	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**10,181**	**-**	**62**	**-**	**29,251**	**-**

2.5 Other financial assets subject to mandatory fair value measurement: breakdown by commodity type

(Amounts in thousands of euro)

Items/values	30/06/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**388**	**-**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt instruments	-	-	388	-	-	-
2. Equity securities	**-**	**-**	**6,691**	**-**	**-**	**-**
3. Units of UCIs	**100**	**-**	**-**	**-**	**99**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total	**100**	**-**	**7,078**	**-**	**99**	**-**

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

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

(Amounts in thousands of euro)

Items/values	30/06/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**89,948**	**-**	**-**	**86,383**	**21,517**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt instruments	89,948	-	-	86,383	21,517	-
2. Equity securities	**-**	**-**	**14**	**-**	**-**	**14**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**89,948**	**-**	**14**	**86,383**	**21,517**	**14**

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

4.1 Financial liabilities measured at amortised cost: commodity breakdown of bank receivables

(Amounts in thousands of euro)

Type of operations/ Values	30/06/2019						31/12/2018					
	Book value			*Fair value*			Book value			*Fair value*		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
A. Due with Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserve	-	-	-	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 with banks	**122,763**	**-**	**-**	**-**	**-**	**122,763**	**372,158**	**-**	**-**	**-**	**-**	**372,158**
1. Loans	**122,763**	**-**	**-**	**-**	**-**	**122,763**	**372,158**	**-**	**-**	**-**	**-**	**372,158**
1.1 Current accounts and sight deposits	65,686	-	-	X	X	X	358,131	-	-	X	X	X
1.2. Time deposits	3,495	-	-	X	X	X	14,027	-	-	X	X	X
1.3. Other loans:	53,582	-	-	X	X	X	-	-	-	X	X	X
- Repurchase agreements - receivable	53,582	-	-	X	X	X	-	-	-	X	X	X
- Financial *leasing*	-	-	-	X	X	X	-	-	-	X	X	X
- Others	-	-	-	X	X	X	-	-	-	X	X	X
2. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Total	**122,763**	**-**	**-**	**-**	**-**	**122,763**	**372,158**	**-**	**-**	**-**	**-**	**372,158**

4.2 Financial liabilities measured at amortized cost: commodity breakdown of customer receivables

(Amounts in thousands of euro)

Type of operations/ Values	30/06/2019						31/12/2018					
	Book value			*Fair value*			Book value			*Fair value*		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
Loans	**370,347**	**209,398**	**188,964**	**-**	**-**	**-**	**379,986**	**103,727**	**86,452**			**519,191**
1.1. Current accounts	49,318	6,682	-	X	X	X	102,286	10,110	3	X	X	X
1.2. Repurchase agreements - receivable	-	-	-	X	X	X				X	X	X
1.3. Mortgages	266,516	127,725	121,737	X	X	X	267,547	43,642	38,277	X	X	X
1.4. Credit cards, personal loans and salary assignments	997	639	591	X	X	X	1,355	601	566	X	X	X
1.5. Financial *leasing*	-	10,698	10,698	X	X	X				X	X	X
1.6. Factoring	19,629	-	-	X	X	X	188			X	X	X
1.7. Other loans	33,887	63,654	55,938	X	X	X	8,610	49,374	47,606	X	X	X
Debt securities	**297,711**	**-**	**-**	**105,690**	**-**	**192,624**	**113,688**	**-**	**-**	**103,078**	**-**	**-**
1.1. Structured securities	-	-	-	-	-	-		-	-	-	-	-
1.2. Other debt instruments	297,711	-	-	105,690	-	192,624	113,688	-	-	103,078	-	-
Total	**668,058**	**209,398**	**188,964**	**105,690**	**-**	**789,543**	**493,674**	**103,727**	**86,452**	**103,078**	**-**	**519,191**

Section 9 – Property and equipment – Item 90

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

(Amounts in thousands of euro)

Assets/Values	30/06/2019	31/12/2018
1 Proprietary assets	**2,680**	**2,495**
a) land	-	-
b) buildings	1,020	1,045
c) furniture and fittings	683	522
d) electronic installations	184	181
e) others	793	747
2 Assets held under financial leasing	**20,279**	**-**
a) land	-	-
b) buildings	19,383	-
c) furniture and fittings	-	-
d) electronic installations	-	-
e) others	896	-
Total	**22,958**	**2,495**
of which: obtained by enforcement of guarantees received	-	-

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

(Amounts in thousands of euro)

Assets/Values	30/06/2019	31/12/2018
1 Inventories of assets obtained by enforcement of guarantees received	**1,280**	**-**
a) land	-	-
b) buildings	1,280	-
c) furniture and fittings	-	-
d) electronic installations	-	-
e) others	-	-
2 Other inventories of property and equipment	**-**	**-**
Total	**1,280**	**-**
of which: measured at fair value net of costs to sell	-	-

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

(Amounts in thousands of euro)

Assets/Values	30/06/2019		31/12/2018	
	Duration limited	Duration unlimited	Duration limited	Duration unlimited
A.1 Goodwill	**X**	**21,643**	**X**	**21,643**
A.1.1 attributable to the group	X	21,643	X	21,643
A.1.2 attributable to non-controlling interest	X	-	X	-
A.2 Other intangible assets	**8,980**	**-**	**270**	**-**
A.2.1 Assets measured at cost:	8,980	-	270	-
a) Intangible assets created internally	787	-	-	-
b) Other assets	8,193	-	270	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets created internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**8,980**	**21,643**	**270**	**21,643**

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

11.1 Advance tax assets: breakdown

(Amounts in thousands of euro)

Main deductible temporary differences: IRES	30/06/2019	31/12/2018
Depreciation of due with customers	1,599	1,829
Allocations to allowances	408	769
Tax losses	21,425	8,556
ACE	1,478	156
Adjustments of HTCS securities	13	442
Others	2,621	4,753
Total	**27,545**	**16,505**

(Amounts in thousands of euro)

Main deductible temporary differences: IRAP	30/06/2019	31/12/2018
Depreciation of due with customers	197	225
Allocations to allowances	15	18
Adjustments of HTCS securities	3	89
Others	447	653
Total	**662**	**985**

Advance tax assets other than those convertible into tax credits (Article 2 paragraphs 55 and following of Decree Law 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences.

A probability test was performed in support of the future recovery of deferred tax assets justifying their recognition in accordance with IAS 12. The test consists of simulating the ability to recover the deductible temporary differences and tax losses accrued at the reporting date using future taxable income. The probability test conducted on the basis of the Bank's industrial plan yielded positive results, indicating that advance tax assets would be reabsorbed by 2020.

During the half year, the Bank also recognised deferred tax assets on the tax loss and ACE surplus accrued for SPAX in the period prior to the merger, following the positive reply from the Revenue Agency concerning the request for the non-application of the limitations contemplated in Article 172, paragraph 7 of Presidential Decree 917/1986.

11.2 Deferred tax liabilities: breakdown

(Amounts in thousands of euro)

Main taxable temporary differences: IRES	30/06/2019	31/12/2018
Gains by instalments	-	-
Revaluation of FVOCI securities	573	18
Others	3	215
Total	**576**	**233**

(Amounts in thousands of euro)

Main taxable temporary differences: IRAP	30/06/2019	31/12/2018
Revaluation of FVOCI securities	116	4
Others	1	43
Total	**117**	**47**

Deferred taxes 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 period and for prior periods are determined at the value expected to be paid/recovered from the tax authorities, applying the current tax rates and regulations. Current fiscal assets and liabilities are cancelled in the year in which the assets are realised or the liabilities are discharged. The tables below show the amounts of the current fiscal assets and liabilities.

(Amounts in thousands of euro)

Type of operations/Values	30/06/2019	31/12/2018
Advances paid to tax authority	1,601	1,601
Withholding taxes	376	183
Other receivables from the Treasury	1,937	187
Total	**3,914**	**1,971**

LIABILITIES

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

1.1 Financial liabilities measured at amortised cost: commodity breakdown of bank payables

(Amounts in thousands of euro)

Type of operations/Values	30/06/2019				31/12/2018			
	Book value	*Fair value*			Book value	*Fair value*		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**72,518**	**X**	**X**	**X**	**52,622**	**X**	**X**	**X**
2. Amounts due with banks	**166,261**	**X**	**X**	**X**	**56,220**	**X**	**X**	**X**
2.1 Current accounts and sight deposits	-	X	X	X	4,010	X	X	X
2.2 Time deposits	15,000	X	X	X	1,370	X	X	X
2.3 Loans	136,695	X	X	X	35,061	X	X	X
2.3.1 Repurchase agreements - payable	136,695	X	X	X	35,061	X	X	X
2.3.2 Others	-	X	X	X	-	X	X	X
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X	-	X	X	X
2.5 Liabilities for leasing	-	X	X	X	-	X	X	X
2.6 Other Payables	14,566	X	X	X	15,779	X	X	X
Total	**238,779**	**-**	**-**	**238,028**	**108,842**	**-**	**-**	**108,842**

1.2 Financial liabilities measured at amortised cost: breakdown of amounts due to customers

(Amounts in thousands of euro)

Type of operations/Values	30/06/2019				31/12/2018			
	Book value	*Fair value*			Book value	*Fair value*		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	275,033	X	X	X	398,695	X	X	X
2. Time deposits	76,880	X	X	X	41,692	X	X	X
3. Loans	9,359	X	X	X	9,802	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	9,359	X	X	X	9,802	X	X	X
4. Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X	-	X	X	X
5. Liabilities for leasing	21,010	X	X	X	-	X	X	X
6. Other payables	1,994	X	X	X	3,532	X	X	X
Total	**384,276**	**-**	**-**	**374,823**	**453,721**	**-**	**-**	**455,044**

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

(Amounts in thousands of euro)

Type of operations/Values	30/06/2019				31/12/2018			
	Book value	*Fair value*			Book value	*Fair value*		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	**18,043**	**-**	**18,043**	**-**	**22,498**	**-**	**22,459**	**-**
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	18,043	-	18,043	-	22,498	-	22,459	-
2. Other securities	**-**	**-**	**-**	**-**	**58,915**	**-**	**-**	**60,368**
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-		-	-	58,915	-	-	60,368
Total	**18,043**	**-**	**18,043**	**-**	**81,413**	**-**	**22,459**	**60,368**

Section 10 - Provisions for risks and charges - Item 100

10.1 Allowances for risks and charges: breakdown

(Amounts in thousands of euro)

Items/values	30/06/2019	31/12/2018
1. Allowances for credit risk relating to commitments and financial guarantees given	432	63
2. Allowances for other commitments and guarantees issued	120	56
3. Company pension schemes	-	-
4. Other allowances for risks and charges	812	2,736
Total	**1,364**	**2,855**

The impact on the income statement generated in the period is mainly due to allocations made for the reorganisation of the new type of Bank.

illimity

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

(Amounts in thousands of euro)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 30/06/2019
1. Financial assets measured at fair value through profit or loss:	**-**	**-**	**-**	**-**
1.1 Financial assets held for trading	-	-	-	-
1.2 Financial assets at fair value	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-
2. Financial assets measured at fair value affecting overall profitability	**749**	**-**	**-**	**749**
3. Financial assets measured at amortised cost:	**1,731**	**15,861**	**-**	**17,592**
3.1 Due with banks	-	161	-	161
3.2 Loans with customers	1,731	15,700	-	17,431
4. Hedging derivatives	**-**	**-**	**-**	**-**
5. Other assets	**-**	**-**	**170**	**170**
6. Financial liabilities	**-**	**-**	**-**	**126**
Total	**2,480**	**15,861**	**170**	**18,637**
of which: interest income on impaired assets	-	*9,785*	-	*9,785*
of which: interest income on finance leasing	-	*170*	-	*170*

1.3 Interest expense and similar charges: breakdown

(Amounts in thousands of euro)

Items/Technical forms	Payables	Securities	Other transactions	Total 30/06/2019
1. Financial liabilities measured at amortised cost	**(2,107)**	**(209)**	**(165)**	**(2,481)**
1.1 Amounts due to central banks	-	X	X	(17)
1.2 Amounts due with banks	(549)	X	X	(549)
1.3 Amounts due to customers	(1,558)	X	X	(1,558)
1.4. Securities issued	X	(209)	(148)	(357)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**
3. Assets and liabilities measured at fair value	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	X	X	**(1)**	**(1)**
5. Hedging derivatives	X	X	**-**	**-**
6. Financial assets	X	X	X	**(33)**
Total	**(2,107)**	**(209)**	**(166)**	**(2,515)**
of which: interest expense relative to leasing liabilities	*(527)*	-	-	*(527)*

Section 2 - Commission - Items 40 and 50

2.1 Fee and commission income: breakdown

(Amounts in thousands of euro)

Type of service/Values	30/06/2019
a) guarantees given	154
b) credit derivatives	-
c) management, brokerage and advisory services:	124
1. securities trading	-
2. currency trading	3
3. portfolio management	-
4. custody and administration of securities	3
5. custodian bank	-
6. placement of securities	107
7. reception and transmission of orders	12
8. advisory services	-
8.1. related to investments	-
8.2. related to financial structure	-
9. distribution of third party services	-
9.1. portfolio management	-
9.1.1. individual	-
9.1.2. collective	-
9.2. insurance products	-
9.3. other products	-
d) collection and payment services	279
e) securitisation servicing	-
f) factoring services	3
g) tax collection services	-
h) management of multilateral trading facilities	-
i) current account keeping and management	832
j) other services	2,719
Total	**4,110**

2.2 Fee and commission expense: breakdown

(Amounts in thousands of euro)

Service/Amount	30/06/2019
a) guarantees received	(7)
b) credit derivatives	-
c) management and brokerage services:	(29)
1. securities trading	(2)
2. currency trading	-
3. portfolio management	-
3.1. own portfolio	-
3.2. third party portfolio	-
4. custody and administration of securities	(27)
5. placement of financial instruments	-
6. off-site distribution of financial instruments, products and services	-
d) collection and payment services	(1,321)
e) other services	(208)
Total	**(1,565)**

Section 4 - Net trading result - Item 80

4.1 Net trading result: breakdown

(Amounts in thousands of euro)

Transaction / Income item	Gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net profit/ loss [(A+B) - (C+D)]
1. Financial assets held for trading	**33**	**-**	**31**	**10**	**(8)**
1.1 Debt securities	-	-	-	-	-
1.2 Equities	-	-	-	-	-
1.3 UCITS units	33	-	31	10	(8)
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**(30)**
4. Derivatives	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
- On debt securities and interest rates	-	-	-	-	-
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other bonds	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	*X*	*X*	*X*	*X*	-
Total	**33**	**-**	**31**	**10**	**(38)**

Section 6 - Gains (losses) on disposals/repurchases – Item 100

6.1 Gains (Losses) on disposals/repurchases: breakdown

(Amounts in thousands of euro)

Item/Income item	30/06/2019		
	Profit	Loss	Net profit/ loss
A. Financial assets			
1. Financial assets measured at amortised cost:	369	(1)	368
1.1 Due with banks	-	-	-
1.2 Loans with customers	369	(1)	368
2. Financial assets measured at fair value affecting overall profitability	1,020	(84)	936
2.1 Debt securities	1,020	(84)	936
2.4 Loans	-	-	-
Total assets	**1,389**	**(85)**	**1,304**
B. Financial liabilities measured at amortised cost			
1. Amounts due with banks	-	-	-
2. Amounts due to customers	-	-	-
3. Securities issued	-	-	-
Total liabilities	**-**	**-**	**-**

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

(Amounts in thousands of euro)

Transaction/Income item	Adjustments (1)			Recoveries (2)		Total 30/06/2019
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three	
		Write-offs	Others			
A. Due with banks	**(129)**	**-**	**-**	**87**	**-**	**(42)**
- loans	(129)	-	-	87	-	(42)
- debt securities	-	-	-	-	-	-
of which: purchased or originated due, impaired	-	-	-	-	-	-
B. Loans with customers:	**(2,853)**	**(17)**	**(6,809)**	**1,685**	**5,379**	**(2,615)**
- loans	(2,610)	(17)	(6,809)	1,685	5,379	(2,372)
- debt securities	(243)	-	-	-	-	(243)
of which: purchased or originated due, impaired	-	(17)	(1,951)	-	3,382	1,414
Total	**(2,982)**	**(17)**	**(6,809)**	**1,772**	**5,379**	**(2,657)**

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

(Amounts in thousands of euro)

Transaction/Income item	Adjustments (1)			Recoveries (2)		Total 30/06/2019
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three	
		Write-offs	Others			
A. Debt securities	**(276)**	**-**	**-**	**200**	**-**	**(76)**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**
- With customers	-	-	-	-	-	-
- With banks	-	-	-	-	-	-
of which: purchased or originated impaired financial assets	-	-	-	-	-	-
Total	**(276)**	**-**	**-**	**200**	**-**	**(76)**

Section 12 - Administrative expenses- Item 190

12.1 Personnel expenses: breakdown

(Amounts in thousands of euro)

Type of expense/Amount	Total 30/06/2019
1) Employees	(13,768)
a) wages and salaries	(7,999)
b) social security contributions	(2,461)
c) provision for employee severance pay	-
d) pension costs	-
e) allocation for employee severance pay provision	(154)
f) provision for retirements and similar provisions:	(269)
- defined contribution	(269)
- defined benefits	-
g) payments to external pension funds:	-
- defined contribution	-
- defined benefits	-
h) costs related to share-based payments	-
i) other employee benefits	(2,885)
2) Other personnel in service	(203)
3) Directors and statutory auditors	(666)
4) Early retirement costs	-
Total	**(14,637)**

12.5 Other administrative expenses: breakdown

(Amounts in thousands of euro)

Items/Technical forms	30/06/2019
Rental of premises	(218)
Insurance	(103)
Various payments	(1,597)
Various consulting services	(11,113)
Membership fees	(193)
DGS, SRF contribution and voluntary scheme	(463)
Financial information	(786)
Adverts and advertising	(352)
Maintenance and repair costs	(330)
Business expenses	(200)
IT and software expenses	(2,014)
Legal and notary's fees	(1,228)
Personnel recruitment expenses and consulting fees	(413)
Postal and stationery expenses	(153)
Utilities and services	(1,368)
Other indirect taxes and duties	(577)
Others	(1,053)
Total other administrative expenses	**(22,161)**

Section 14 - Impairment/recoveries on property and equipment - Item 210

14.1. Net impairment on property and equipment: breakdown

(Amounts in thousands of euro)

Asset/Income item	Amortization (a)	Value adjustments for impairment (b)	Recoveries (c)	Net profit/ loss (a + b - c)
A. Property and equipment	-	-	-	-
1. Used in the business	(898)	-	-	(898)
- Owned	(192)	-	-	(192)
- Lease rights of use	(706)	-	-	(706)
2. Held for investment	-	-	-	-
- Owned	-	-	-	-
- Lease rights of use	-	-	-	-
3. Inventories	-	-	-	-
Total	**(898)**	**-**	**-**	**(898)**

Section 15 - Impairments/recoveries on intangible assets – Item 220

15.1 Net impairment on intangible assets: breakdown

(Amounts in thousands of euro)

Asset/Income item	30/06/2019			
	Amortization (a)	Value adjustments for impairment (b)	Recoveries (c)	Net profit/ loss (a + b - c)
A.Intangible assets				
A.1 Owned	(250)	-	-	(250)
- Generated internally by the company	-	-	-	-
- Other	(250)	-	-	(250)
A.2 Held under finance lease	-	-	-	-
Total	**(250)**	**-**	**-**	**(250)**

Section 21 - Income taxes on continuing operations - Item 300

21.1 Income taxes for the period on continuing operations: breakdown

(Amounts in thousands of euro)

Income item/Amount		30/06/2019
1.	Current tax (-)	-
2.	Adjustment to current tax of prior years (+/-)	-
3.	Reduction of current tax for the period (+)	-
3.bis	Reduction of current tax for the period due to tax receivables (Law 214/11) (+)	-
4.	Change in deferred tax assets (+/-)	8,437
5.	Change in deferred taxes (+/-)	744
6.	Tax expense for the period (-) (-1+/-2+3+ 3 bis +/-4+/-5)	9,181

21.2 Reconciliation of theoretical tax charge to actual tax charge

The reconciliation of theoretical taxes with actual taxes is not given, as both amounted to zero because there was a loss during the period.

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

	Profit/(Loss) for the period (Amounts in thousands of euro)	Average number of shares	Basic and diluted loss per share (EUR)
Diluted EPS	(11,358)	59,404,414	(0.19)

25.2 Other information

There is no other information as of the reporting date.

PART E - INFORMATION ON RISKS AND HEDGING POLICIES

System for the management of business risks

The Group has a Risk Management Process (PGR), used as a reference model in the organisational and process-related development and systematic execution of all operational and business activities carried out - which may be standard, or non-systematic or contingent - that involve the undertaking and ongoing management of risks, in line with the assigned mission, strategies and objectives pursued. This process 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 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 Bank 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 to carry out the preparatory and advisory work relating to internal control and the monitoring of business risks. The Board of Statutory Auditors oversees the efficiency and adequacy of the risk management and control system and of internal auditing, as well as the functioning and adequacy of the overall system of internal controls.

Moreover, the CRO Division, assisted by technical functions concerned, constantly controls the risks undertaken by the Group in terms of monitoring and governance, thus contributing to the value creation process, and ensuring regulatory compliance.

To ensure that the Risk Management Process functions efficiently and effectively, and can fully cover all existing or potential risks, in accordance with regulatory requirements the Group has implemented a system of risk limits and objectives (*Risk Appetite Framework "RAF"*), a process for the self-assessment of capital adequacy (ICAAP), a process for the self-assessment of the liquidity profile (ILAAP) and a process for the assessment of material transactions (OMR), with a prior opinion on their coherence with the RAF.

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

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

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

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

Main risks and uncertainties

The Group has defined and proceduralised an operational Risk Mapping process based on quali-quantitative metrics and rules shared within the organisation, which identify the individual types of risk that the Bank 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", 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 to identify material risks for the Group is overseen (at least annually) by the CRO Division together with the CFO Division.

The results of this process represent the assessment/inputs used to develop processes related to the ICAAP and ILAAP, i.e. the Strategic Plan, Budget and RAS, and are therefore validated by top management, discussed and analysed by the Risks Committee, and approved by the Board of Directors.

The following main risks were significant on the reporting date:

1. **Credit risk**: this is the risk of incurring losses due to the breach of contractual obligations by a counterparty unable to repay interest and/or capital (risk of default), or losses associated with impairment of the counterparty's credit rating (risk of migration).

   The financial loss is measured by the difference between the value of the loan and the amount that can be effectively recovered.

   The credit risk also includes the following two types of risk (counterparty and concentration), shown below:

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

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

1.2 Credit concentration risk: the risk deriving 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:

- single name, deriving from the fact that significant parts of the portfolio are allocated to a single counterparty (or groups of counterparties that share specific characteristics);
- geo-sectorial, deriving 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.

2. **Market risk**: 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 criteria such as interest rates, exchange rates, prices and volatility) and in the Group's credit rating.
3. **Sovereign risk**: the risk of a reduction in the value of Italian government bonds, almost all of which are included in the Held To Collect (HTC) and Held To Collect and Sell (HTC&S) portfolios, in relation to a decrease in the credit rating, or in an extreme scenario, the insolvency of the Italian State. Exposure is regularly monitored and reported to the executive bodies.
4. **Banking book interest rate risk**:the risk that changes in market interest rates will cause a reduction in profitability and the economic value of assets other than those allocated to the trading book, as regards the non-timing between the re-pricing of assets and liabilities and the short and long term off-balance sheet positions re-pricing risk); the risk deriving 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 deriving from options (for example consumers redeeming fixed-rate products when the market rates change).

   Interest rate risk management is intended to limit the impact of adverse changes to the rates curve, both in financial terms and in terms of the cash flow generated by the balance sheet 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.
5. **Operational risk**: the risk of losses deriving from the inadequacy or malfunctioning of processes, human resources and internal systems, or from external events. This category includes among other things losses from fraud, human error, business interruptions, and unavailability of systems, contractual breaches and natural disasters. This definition does not include strategic, business and reputation risk, while it does include legal risk. This is the risk of violating laws or other regulations, or of failing to fulfil contractual or extracontractual responsibilities, or deriving from other disputes that may arise with contractual counterparties in the course of operations. The main sources of operational risk are: unreliable or inefficient operational processes, internal and external fraud, operational error, the quantitative level of physical and logical security, inadequacy of the information technology system compared to the volume of operations, the growing reliance on automation, outsourcing of business functions, the use of a small number of suppliers, strategy changes, the presence of inappropriate management or staff training policies.

6. **Liquidity risk:** 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 liquidity risk, which is connected to the need to maintain a balance between the inflows and outflows, is constantly monitored in order to allow the bank to meet its payment obligations.

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

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

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

   By defining, approving and monitoring the annual planning and progress of the Strategic Plan, top management carries out strategic checks on the evolution of the various areas of business and the risks connected to its activities.

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

   The risk relates primarily to the area of stakeholder relations. It can originate from factors outside 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 of the system of values, standards and rules of conduct.

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

9. **Risk of over-leverage**: the risk that a particularly high level of indebtedness compared to the amount of own funds will make the Group vulnerable and require the adoption of corrective measures to the industrial plan, including the sale of assets and the recognition of losses that may lead to write-downs on the remaining assets. Risk exposure is measured by the leverage ratio (the leverage indicator, measured as the ratio between own assets and total on- and off-balance sheet assets) 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 bank's stability.

   The over-leverage risk relates to the whole balance sheet, to the exposures deriving 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.

10. **Settlement risk**: 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).

11. **Compliance risk**: this is the risk of incurring legal or administrative penalties, major financial losses or damage to reputation as a result of breaches of mandatory 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 standards of conformity to laws and regulations is a way of maintaining its reputation over time.

12. **Money laundering risk**: this 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 its own organisational structure in accordance with the current regulatory requirements. This is a specialised unit responsible for overseeing management of AML risk, and for providing the necessary support and advice to business Divisions.

Information on main company risks

Information is given below on the following risk profiles, and related management and hedging policies employed by the Bank:

a) Credit risk;

b) Market risks;

c) Interest rate risk;

d) Liquidity risk;

e) Operational risk.

illimity

SECTION 2 - PRUDENTIAL CONSOLIDATION RISKS

1.1 Credit risk

Qualitative information

The Group pays great attention to the control of credit risk and to 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 financial solidity and image;
- allow a proper, transparent representation of the risk level inherent in its lending portfolio.

The main operational factors that contribute to the credit risk relate to:

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

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

- checking creditworthiness, with particular attention to the customer's current and forward-looking capacity to produce income and to generate sufficient cash flow 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 of Economic Groups.

Currently, surveillance and monitoring 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 based on lending history.

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, utilisation, overrun/availability of credit and expiry date), details of the guarantees backing the loans, plus information about any other significant factors. This method interacts with the credit control and management procedures, making the credit monitoring process more efficient by allowing information to be stored, 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 of, and assessment of, any collateral guarantees.

Credit risk measurement and control

SME Division

For all counterparties, after an initial application process carried out by the business areas, in-depth analysis is conducted, with the outcome submitted to the decision-making body (which may be individual or collective, depending on current internal rules).

The application is completed online, both at the granting stage and for any revisions. This optimises and automates the acquisition of all data that can be extracted from internal and external databases and archives.

An update of the current realizable value of mortgage guarantees is periodically carried out.

The responsibility for managing credit risk, to ensure the regular progress of the loan, is initially entrusted and within the limits of their authority, to managers of various business areas of the Division (*Crossover, Turnaround, Factoring and Customer Operation Management*), that have direct contact with the market and adequate knowledge of the customer. The control of the loan account, which is overseen by individual Areas and centrally by the NPE & Credit Monitoring Area of the Division, is intended to control the management of positions that show irregularities, even if of minor importance. In the control of specific IT procedures that can identify the definition of specific parameters and indicators, the Division uses accounts that have various irregularities (by identifying overruns and past-due situations, adverse entries, CPC - Credit Position Control, reports from the central risks register, a deterioration in the internal rating, concessions, any reported financial difficulties, etc.).

The NPE & Credit Monitoring Area is responsible for managing litigation on non-performing positions and analyses the position and evaluates the strategy to be adopted to recover the debt.

Non-performing loans are evaluated in detail, for each position, at the time of inclusion among impaired loans, to ensure adequate levels of coverage of expected losses. The impaired exposures are regularly checked by the relevant areas of the SME Division, which controls risks.

NPL Division

The purchased NPL portfolios consist of multiple loans, some of which may not be of the same type (for example differences in formats, lending periods, date of transition to non-performing, quality of evidentiary documents provided by the transferor etc.).

The model used to determine the portfolio price is mainly based on an estimate of the following components: (i) the amount expected to be collected on each position ("gross cash flows"), (ii) the costs incurred in managing the positions such as servicing, legal and onboarding costs, (iii) the time expected to collect the cash flows referred to in (i) and to incur the costs referred to in point (ii).

The determination of these components is based on:

- Specific estimates which are made for each position by the asset managers during their due diligence, thanks to their expertise and knowledge of NPL debt recovery;
- The analysis of data published in relation to timing and statuses of legal procedures;
- The assessment of the guarantees underlying the loans, either in the form of enrichment requested from external providers, or through on-site visits.

The Group's internalisation of the portfolio management process creates a large database which contains, by way of example, a track record of the recovery performance for each position, details of the time taken to complete the various procedures, and information about Italian courts. This information can be used during the assessment phase to provide support for the specific analysis carried out during the due diligence. It enables a more accurate valuation of the cash flows and therefore the purchase price for the portfolio. The loan valuations are also supported by advanced technologies such as big data, artificial intelligence and machine learning, which enables the mass extraction and assembly of data from various public sources (such as data on the status of insolvency proceedings or property repossessions), which enriches the private database and allows an even more accurate assessment.

To manage the purchased portfolios, the NPL division relies on Neprix S.p.A, recently acquired and incorporated in the Group, and through this company, specialised providers of master servicing and special servicing. Through a structure based on the exchange of information between the master servicer, the servicing unit and other special servicers, the NPL Division monitors the recovery work done by the special servicers and the acquisition of information from the master servicer for the accounting activities. The information needed for the initial recognition of the loans and for the resulting income recognition is sent to the master servicer who manages the securitisation vehicles.

The business plans for each portfolio, estimated during the evaluation phase, are periodically reviewed (and communicated to the master servicer) to reflect the adjustments in value deduced from the trend in receipts and from the ordinary portfolio management activities. The updating of the business plan covers both the estimated receipt times and the estimated cash flows based on the type of collateral available, and the recovery measures currently in progress.

<u>CRO and CFO Division</u>

The pricing structure of all credit transactions proposed, prepared by specific areas of the business, is first submitted to the CRO Division for an independent assessment of the main underlying risks and connected impact on RAF indicators (Risk Opinion), with the formalisation of sustainability and coherence analyses, also in stress conditions, in particular for Material Transactions. The CFO Division is also involved in considerations on the control of and compliance with the capital and liquidity limits allocated to each Division, the associated funding structure of the operation and accounting treatment of the operation, 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 Division 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 of exposures).

For management purposes and in order to support the assessment of own client reliability, internal rating models are used, developed taking into consideration the requirements for generating advanced IRB models.

Quantitative information

A. Credit quality

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

Type of exposures/Values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure
	Impaired	Unimpaired		
A. ON-BALANCE-SHEET EXPOSURES				
a) bad loans	-	X	-	-
b) Unlikely-to-pay positions	-	X	-	-
c) Past-due impaired loans	-	X	-	-
d) Past due non-impaired exposures	X	-	-	-
e) Other unimpaired exposures	X	176,060	429	175,631
TOTAL (A)	**-**	**176,060**	**429**	**175,631**
B. OFF BALANCE SHEET EXPOSURES				
a) Impaired	-	X	-	-
a) Unimpaired	X	388	-	388
TOTAL (B)	**-**	**388**	**-**	**388**
TOTAL (A+B)	**-**	**176,448**	**429**	**176,019**

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

Type of exposures/Values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure
	Impaired	Unimpaired		
A. ON-BALANCE-SHEET EXPOSURES				
a) bad loans	172,346	X	10,099	162,247
b) Unlikely-to-pay positions	50,503	X	5,458	45,046
c) Past-due impaired loans	2,436	X	331	2,105
d) Past due non-impaired exposures	X	6,856	238	6,618
e) Other unimpaired exposures	X	702,098	3,562	698,535
TOTAL (A)	**225,285**	**708,954**	**19,688**	**914,551**
B. OFF BALANCE SHEET EXPOSURES				
a) Impaired	13,400	X	71	13,328
a) Unimpaired	X	214,011	480	213,531
TOTAL (B)	**13,400**	**214,011**	**552**	**226,860**
TOTAL (A+B)	**238,685**	**922,965**	**20,240**	**1,141,410**

1.2 Market risk

Qualitative information

Market risk is measured and controlled in particular using the value at Risk methodology (VAR); VAR is a probability indicator that measures the mass loss of value (fair value) which the Group might be affected by with reference to a given time horizon and a specific confidence level.

The VaR results are periodically tested using stress tests, which simulate the behaviour of the securities portfolio in the event of an unexpected shock. Shocks can consist of scenarios based on extreme market events that actually happened (historical scenarios), or scenarios created ad hoc.

VaR measures are compared with the risk limits and objectives formalised in the RAF, 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.

1.3 – Interest rate risk (banking book)

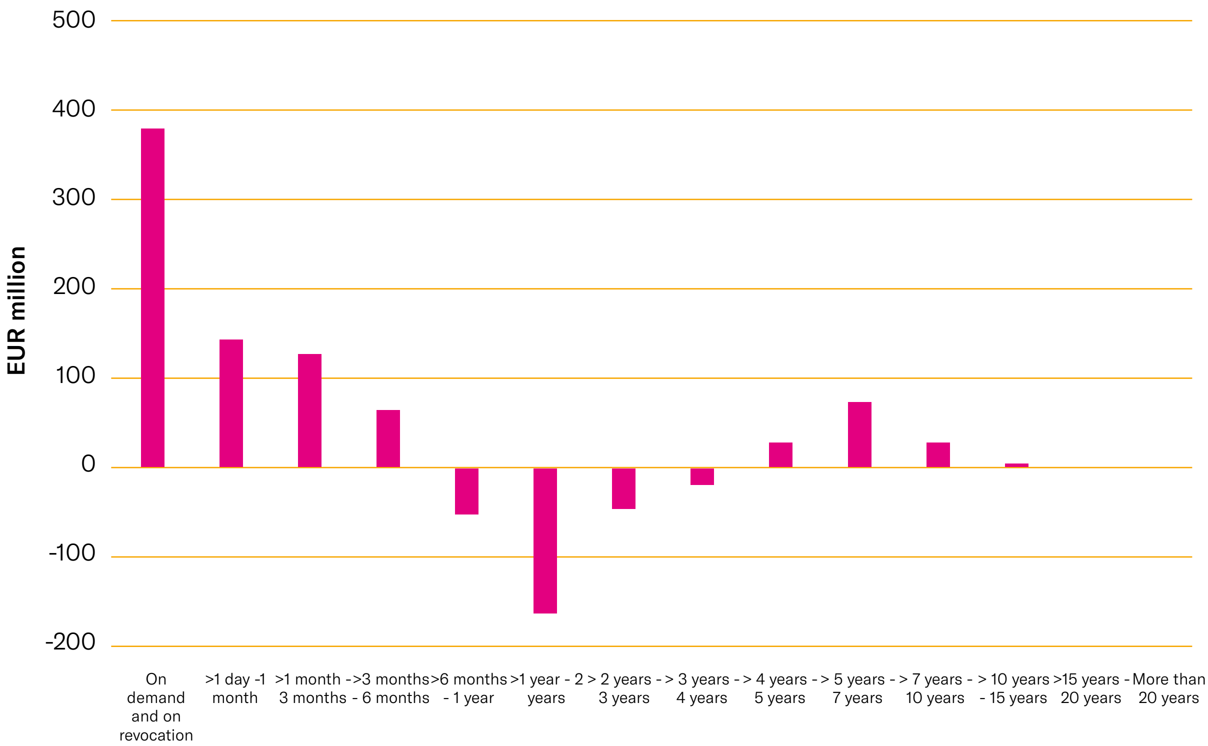
The banking book consists of all the financial instruments receivable and payable not included in the trading book referred to in the section “Market risk”.

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 interest margin. For a long term view of the effects of changes in interest rates, the “economic value 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).

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 value and own funds, a value test is periodically carried out on the banking book, both for a stress scenario with a parallel rates shock of +/- 200 bps, and in ordinary conditions, using as a benchmark the 99th percentile (in the case of a rates rise) or the 1st percentile (in the case of a rates reduction) in terms of the empirical change observed over 12 months for a total observation period of 6 years, in both cases guaranteeing the restriction of non-negativity of rates. 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 graph shows the distribution by maturity bands of net imbalances of assets and liabilities in the banking book at 30 June 2019, based on which the exposure to the interest rate risk was estimated.

Net exposure



At the reporting date, the measurements indicated a decrease in the value of equity equal to approximately EUR 7.5 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 1.3%.

1.4 Liquidity risk

Qualitative information

The policy to monitor liquidity risk 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 ALM & Treasury Area of the CFO Division, 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 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 of the CRO Division, 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 liquidity 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.

During the first half of 2019, the Group's liquidity profile was adequate in both the short and medium/long term, reflecting the coherence between the process to construct assets and the adoption of relative funding policies, while complying with internal and regulatory risk limits.

1.5 Operational risk

Qualitative information

Operational risk management is a component of the integrated risk management strategy that aims to limit the overall risk level, by preventing such risks from spreading or transforming. Operational risk management is based on the following guidelines:

- improving overall operational efficiency;
- preventing the occurrence of or reducing the likelihood of events that could potentially generate operational losses by means of the appropriate regulatory and organisational measures;
- mitigating the likely effects of such events;
- using insurance-type contracts to transfer any risks that are not to be maintained;
- protecting the reputation and the brand.

Activities to identify, assess and monitor operational risks tend towards mitigation actions, also by means of insurance policies that offer broad coverage against various types of adverse event.

The management of critical information technology risks include the disaster recovery plan. This sets out the technical and organisational measures necessary to deal with events that would cause the unavailability of the data processing centres. The aim of the plan is to enable the functioning of major IT procedures at alternative sites to the production sites, and forms an integral part of the business continuity plan. A disaster recovery system, which ensures business continuity and the return of normal operations within a reasonable time, in accordance with the regulatory instructions issued by the Bank of Italy, is outsourced to STS.

To control the economic risks resulting from legal proceedings against the Group, a provision is made on the balance sheet, in line with the IAS. The amount of the provision is estimated on the basis of multiple factors, which mainly concern the predicted outcome of the dispute, and in particular the likelihood of losing the proceedings and an order being made against the Group, as well as the amount that the Group may be required to pay to the adverse party.

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.

The objectives pursued in managing the Bank's assets are based on prudential supervision regulations, and aim to maintain adequate capitalisation levels for the undertaking of risks.

B. Quantitative information

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

Items/values	30/06/2019	31/12/2018
1. Share capital	43,408	62,781
2. Share premium reserves	480,156	517,827
3. Reserves	35,502	-
- earnings	12,007	-
- other	23,495	-
4. Equities	-	-
5. (Treasury shares)	(96)	-
6. Valuation reserves	1,204	26
- Equities measured at fair value through other comprehensive income:	6	-
- 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	1,361	26
- Property 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 measured at fair value through profit or loss (changes in creditworthiness)	-	-
- Actuarial gains (losses) relating to defined benefit plans	(163)	-
- Share of valuation reserves for equity investments measured at equity	-	-
- Special revaluation laws	-	-
7. Profit (loss) for the period	(11,358)	(23,662)
Total shareholders' equity attributable to the Group	**548,816**	**557,092**
Shareholders' equity attributable to non-controlling interest	**-**	**153**
Total shareholders' equity	**548,816**	**557,245**

Section 2 – Own funds and regulatory ratios

On 1 January 2014 the new prudential requirements for banks and investment firms came into force, contained in Regulation (EU) 575/2013 (Capital Requirements Regulation, CRR) and Directive 2013/36/EU (Capital Requirements Directive, 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 European rules within the areas within its purview, together with Circular 286, "Instructions for completing prudential reports for banks and securities brokerage firms" and the update to Circular 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).

The introduction of the Basel 3 rules is subject to a transitional scheme in which the new rules will be applied – in most cases – in increasing proportions until 2019, when they will be fully applied. Non-compliant equity instruments will gradually be excluded from regulatory capital over a period ending in 2021.

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

(Amounts in thousands of euro)

Capital ratios of illimity Bank	30/06/2019	31/12/2018
Common Equity Tier 1 (CET1) capital	**480,305**	**526,538**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**480,305**	**526,538**
Credit risk	*76,840*	*43,293*
Credit valuation adjustment risk	*-*	*7*
Settlement risks	*-*	*-*
Market risks	*395*	*1,322*
Operational risk	*2,370*	*2,370*
Other calculation factors	*-*	*-*
Total minimum requirements	**79,604**	**46,992**
Risk-weighted assets	**995,048**	**587,398**
Common Equity Tier 1 ratio	**48.27%**	**89.64%**
(Common Equity Tier 1 capital after filters and deductions/ Risk-weighted assets)	-	-
Tier 1 ratio	**48.27%**	**89.64%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)	-	-
Total capital ratio	**48.27%**	**89.64%**
(Total own funds/Risk-weighted assets)	-	-

Upon the conclusion of the periodic prudential review process (SREP), the Bank of Italy announced the new additional capital requirements based on the findings of the SREP. Following the change in the capital conservation buffer, the target thresholds (the most recent currently available) in effect are a CET1 ratio of 6.78% and a TCR of 10.63%.

The regulations call for full application of the capital conservation buffer (of 2.5%) in 2020. Accordingly, the other additional requirements being equal, the overall capital requirement ("OCR") ratios are expected to increase by 0.625% in 2019, resulting in a target CET1 ratio of 7.4% and a total capital ratio (TCR) of 11.25%.

PART H - TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are mainly governed by Article 2391bis 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 2019 there were no minor or material related party transactions, which significantly affected the bank's capital or profit and loss.

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

According to IAS 24, related parties are the following:

- parties that directly or indirectly control the entity, control it jointly as part of a joint venture or exercise a significant influence over it;
- that are controlled directly or indirectly by the entity, according to the concept of control as defined by IAS 27 and SIC 12; that are connected to the entity and therefore subject to significant influence as defined by IAS 28;
- that are party to the joint venture: in which the entity has invested, according to the concept of joint control, as defined in IAS 31;
- who are directors with strategic responsibilities of the entity or of its parent companies, where director with strategic responsibilities means the persons with the power and responsibility for planning, direction and control of the Bank's activities, including the directors of the Bank;

- the other related parties include:
  - the close family members of the persons indicated in paragraphs a), b) and e), where close family members are those who are potentially able to influence the individual related to the Bank or be influenced by them, in their relations with the Bank (or relatives up to the second degree and their spouse or cohabiting partner or their children);
  - the entities controlled by, controlled jointly or subject to significant influence by one of the persons mentioned in points e) and f), or those persons have a direct or indirect significant influence;
  - pension funds for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the IX update to Circular 263 of 27 December 2006 which introduced new 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. This regulation therefore supplements the provisions of the Consob Regulation.

The Bank's Board of Directors has approved the "Regulation on operations of personal interest and operations with related parties" which defines the 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 "Connected Parties", in accordance with current regulations.

With regard to operations performed by the Bank 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 directors with strategic responsibilities

   The total remuneration and other benefits paid during the year to directors, statutory auditors and other directors with strategic responsibilities is EUR 2,698 thousand.

   As required by the new IAS 24, further information has been provided about the following categories of remuneration for directors with strategic responsibilities and employees, in thousands of euro:

a)	short-term employee benefits	2.639
b)	post-employment benefits	59
c)	other long-term benefits	-
d)	benefits due to employees for termination of contract	-
e)	share-based payments	-

2. Information on related party transactions

With regard to the financial relations, and remembering that key management staff also includes the directors and statutory auditors of the Bank, the situation at the reporting date is shown in the following table, expressed in thousands of euro.

During the period under review, 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 financial statements, stated in thousands of Euro, of transactions with related parties as referred to in the above table, are highlighted in the relevant column.

INCOME STATEMENT

Assets		Book value	of which with related parties	Impact of related parties
40. b)	Loans with customers	877,456	225	0.03%
	To subsidiaries		-	
	To parties subject to significant influence		-	
	To directors with strategic responsibilities		225	
	To other related parties		-	

Liabilities and equity		Book value	of which with related parties	Impact of related parties
10. b)	Amounts due to customers	384,276	802	0.21%
	To subsidiaries			
	To parties subject to significant influence			
	To directors with strategic responsibilities		549	
	To other related parties		253	

Consolidated interim financial report
at 30 June 2019

PART I – PAYMENT AGREEMENTS BASED ON OWN SHARES

Transactions concerning stock option plans and similar rights (including stock grant plans) for employees and similar (for example directors) in a capacity as providing work services (and therefore not based on a capacity as shareholder of the Bank) are recognised and measured according to IFRS 2.

These plans are measured at fair value and the cost is recognised in profit or loss. The fair value of stock option plans is calculated using an options assessment model. The assessment model also considers any constraints or restrictions ("*lock-up period*"). The fair value measurement also considers specific aspects arising from the absence of the listing of instruments on active markets, or in the case of recently listed instruments.

In particular, the following accounting treatment is adopted for illimity's plans:

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

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

   a) the *attainment of "gate" objectives linked to the maintenance of certain capital and liquidity ratios, earnings, and the absence of any individual violations of laws or regulations;*

   b) the attainment of performance targets linked to the profitability of the Bank and the maintenance of certain financial ratios (Cost/Income Ratio, ROE – ratio between net profits for the period and average shareholders' equity for the year, Gross Organic NPE ratio and the CET1 Capital ratio); and

   c) the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiaries on the vesting date.

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

   The Exercise Price is set at: (i) the arithmetical average of the official prices recorded for the SPAXS Ordinary Shares on AIM Italia on the trading days between the day preceding the Date of Allocation and the date of the preceding calendar month that has the same date as the date of allocation of the Option Rights (or, failing that, the day immediately prior to that) for the recipients at the time of the SOP launch (ii) the arithmetical average of the official prices recorded by the Ordinary Shares on the MTA on the trading days during the period between the day prior to the Date of Allocation and the day of the preceding calendar month that has the same date as the day of allocation of the Option Rights (or, failing that, the day immediately preceding that) for the remaining beneficiaries who will be named by 31 December 2020.

   A trinomial tree model is used by the Risk Management Department to value the stock options; this choice was made considering the possibility of the early exercise of the options at a date between the first useful moment of the plan and its maturity. The pricing also considers the dilutive effect due to the issue of new shares determined by the option being exercised. Model input parameters were based on a list of comparables, from which the historic volatility and dividend yield values were taken.

2. **The SOP plan** was classified, in accordance with IFRS 2, as equity-settled, because the benefits are not cash settled. The beneficiaries have no obligation to provide a future service; therefore the ESOP 2019 plan is considered as granted and vested on the same date, with the recognition of the overall cost of the plan through profit and loss, in a single solution

   The remuneration policy approved by the Bank provides for five annual free assignments to service the ESOP plan. Each assignment is related to performance conditions relative to the financial statements of the previous year being attained at the assignment date. Therefore, each annual assignment will be independently recognised at the specific grant date.

   The ESOP provides for five free annual allocations of Ordinary Shares. The first corresponded to the listing of the Bank's Ordinary Shares and Conditional Share Rights on the MTA, while the remaining four will be during the first quarter of each year from 2020 until 2023, in line with the Industrial Plan objectives.

3. Based on the above characteristics, the **MBO plan**, as regards the cash component, meets the recognition and measurement criteria contemplated in IAS 19; the component of the MBO plan allocated as shares could come under the scope of IFRS 2.

   IAS 19 establishes that the cost relative to profit sharing and incentive-based payments must be recognised as a cost in profit or loss, in the case of an actual, legal or implied obligation, to carry out these payments as a consequence of past events and if the obligation can be reliably estimated. There is a current obligation when, and only when, the entity has no realistic alternatives to making payments. The information notified by the HR Area suggested the recognition of the estimate of the entire MBO plan on a cash basis, considering the potential equity component as not significant.

Certification and other reports

at 30 June 2019

CERTIFICATION AND OTHER REPORTS

STATEMENT OF THE FINANCIAL REPORTING OFFICER

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 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 interim financial report, during the first half of 2019.

2. The adequacy of the administrative and accounting procedures used in the formation of the consolidated interim financial report at 30 June 2019 is checked according to an internal model which 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 interim financial report:

   a) was prepared in compliance with applicable international accounting standards (IAS 34) endorsed by the European Community under the terms of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002;

   b) correspond to the accounting records;

   c) provide a truthful and correct representation of the economic, financial and equity position of the issuer and of companies included in consolidation.

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

Milan, 1 August 2019

Corrado Passera	Sergio Fagioli
Chief Executive Officer	Financial Reporting Officer

REPORT ON THE LIMITED AUDITING OF THE CONSOLIDATED INTERIM FINANCIAL REPORT

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

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

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the illimity Bank Group, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and notes thereto, as at and for the six months ended 30 June 2019. 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.

Conclusions

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 2019 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, 7 August 2019

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit