Financial Statements and Report 2019

illimity
BANK BEYOND FORM

illimity at a glance ›

2019 Balance Sheet and Report with multimedia insights available on Apple and Android systems using the ARIA App.

“This is an English translation of the original Italian document “illimity Bilancio e Relazione 2019”. In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on https://www.illimity.com/it/investor-relations/bilanci-e-relazioni”

2019 Financial Statements and Report

3
billion euros
in assets as a result of growth in net loans to customers and investments

731
million euros
deposits made with illimitybank.com – the new digital direct bank

1.6
billion euros
total direct deposits

>21%
CET1 ratio
confirming the solidity of the bank with liquidity to invest in future growth

Breakeven
by the income statement in the fourth quarter 2019, net non-recurring items

We are a new paradigm bank specialising in corporate credit, the purchase and servicing of distressed loans and direct banking services.

Our Focus is on markets with high potential

A completely digital approach combines innovation and technology with experience and the human touch

Fully in-cloud banking that integrates advanced fintech solutions

Competitive advantages sustainable over time

No legacy – not now nor in the future

Highlights

All data as of 31.12.2019

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Message from the Chairman and Chief Executive Officer

Dear friends of illimity,

We present this first financial statement at a very difficult time both for our country and the entire international community. In addition to the healthcare emergency, there is an economic one and everyone's priority must be to embark upon a new phase of sustainable development.
We feel more committed than ever to our three core activities: working closely with entrepreneurs who are engaged in development projects or company turnarounds; investing and servicing in distressed credits; and providing families and businesses with the most advanced direct banking services.
illimity was created by a group of passionate people, convinced that there is a wide market space in these three sectors for the development of a bank built on completely innovative paradigms. A bank that brings benefits to our community.
Our technological architecture has enabled us to guarantee the best operational continuity to our customers and our partners at all times, while guaranteeing the utmost safety of all of our employees.
In this first year, we have grown considerably: today, there are nearly 500 illimiters from roughly 150 different companies, with different professional skills and backgrounds, but all sharing the strong values that we seek to apply every day in the construction of our bank: entrepreneurship, independence, innovation and responsibility.

We are very proud of our initial results: we have around 3 billion euros in assets and more than 30,000 customers; we reached breakeven by the final quarter of the year. But especially, we were able to identify and leverage hidden potential that, partly down to our contribution, can bring more dynamism to our economy and our society.
We have ambitious goals, but have our feet firmly on the ground. We strive to fully satisfy investors all over the world, who have believed in us and given us considerable capital to launch our project, while always maintaining a strong focus on sustainability, including in the medium term.
We expect very difficult months ahead and we need to prepare ourselves, like everyone, to deal with scenarios that are in part still unpredictable. We have sufficient resources and the spirit to handle the most difficult challenges.
We are fully committed to presenting our next financial statements with just as much satisfaction, at a better and clearer time for Italy, and we fully expect that, as in other emergencies, our country will show the best of itself in these important few months.

Rosalba Casiraghi
Illimity Chairman

Corrado Passera
Illimity CEO

The Glance

"We chose to tell our story through a metaphor. The Glance represents the power to look beyond, to turn obstacles into opportunities, to give shape to our potential.

Each of us remembers a significant look that at some turning point in our life helped us overcome a particular difficulty or accept a challenge that at first seemed impossible.

illimity was born from that experience."

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Composition of Corporate Bodies

"Our first commitment is to guide and monitor illimity to best effect, making responsible and inclusive strategic choices whose implementation is based on a culture of corporate values shared at all levels of the organisation."

Rosalba Casiraghi
illimity Chairman

BOARD OF DIRECTORS

Chairman
Rosalba Casiraghi

Chief Executive Officer
Corrado Passera

Directors
Massimo Brambilla
Giancarlo Bruno
Elena Cialliè
Sigieri Diaz della Vittoria Pallavicini*
Alessandro Gennari
Martin Ngombwa**
Maurizia Squinzi

BOARD OF STATUTORY AUDITORS

Chairman
Ernesto Riva

Standing Auditors
Stefano Caringi
Nadia Fontana

Substitute Auditors
Riccardo Foglia Taverna
Michela Zeme

EXECUTIVE IN CHARGE OF FINANCIAL REPORTING

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

* On 2 March 2020, Director Sigieri Diaz della Vittoria Pallavicini resigned at the Shareholders' Meeting convened to approve the 2019 financial statements.
** Director appointed by the Shareholders' Meeting of 10 September 2019 replacing Robert Edward Diamond.

Management Team

Management Team References on page 476

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Our identity and values

We are a bank and we say it proudly
First of all, we grant credit with the desire to discover and enhance the hidden potential within our economy and society to:
• companies that, if supported, could make the big leap forward
• companies that, with guidance, could return to the right track
• companies that have not made it, but in which it is still possible to find value.
There are individuals and families within and behind these enterprises and a community that surrounds them: our intervention can increase their well-being.

We live for innovation
We are an organisation built to a new paradigm – born of listening to the real needs of businesses and people. That was the starting point from which to draw our guiding philosophy and build banking from the ground up, integrating the most advanced technologies with the best skills and experiences.

We believe in freedom
We have an entrepreneurial spirit and we feel free to explore beyond the preconceptions and conformity embedded in the traditional system. We stand independent and able to act differently from expected behaviour.

We act responsibly
• towards our shareholders, committing ourselves to optimise the return on the capital entrusted to us, including in the medium-term
• towards our customers, by communicating clearly, responding quickly and accompanying them in their challenges
• towards our employees, by releasing their potential and celebrating diversity, promoting a better work/life balance
• towards our partners, positioning ourselves as a platform for ever-increasing partnerships and opportunities
• towards society and the environment by generating positive outcomes.

We wish to demonstrate our ability to produce profits through our actions, but also to be useful to the community, contributing to its well-being and building trust.

We're illimity. Banca oltre la forma

illimity timeline

January 2018
SPAXS set up as the first Italian entrepreneurial special purpose acquisition company – and a new operator in the banking sector

April 2018
The Business Combination of SPAXS with Banca Interprovinciale is announced

August 2018
SPAXS Shareholders' Meeting approves the Business Combination and **announces the name of the new bank: illimity**

December 2018
State-of-the-art headquarters with illimity smart spaces opens in Palazzo Aporti in Milan

March 2019
illimity Bank S.p.A. founded on 5 March and listed on the MTA of the Italian stock exchange

April 2019
illimity presents **neprix**, a specialist platform for the management of distressed corporate loans

June 2019
illimity signs a contract for the **acquisition of IT Auction** that, together with neprix, gives rise to the first end-to-end service specialising in distressed corporate credit

September 2019
Launch of **illimitybank.com**, the third pillar of **illimity**, offering direct digital banking services to retail and corporate customers

February 2020
illimity SGR is created to establish and manage Alternative Investment Funds, complementing and bolstering illimity's core strategy

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5 March 2019: a special day

In front of a crowded room, we rang the bell at the Italian Stock Exchange and, with enormous pride, illimity was listed on the MTA.

SME Division

"We look for potential, even where it seems that complexities and discontinuities can limit the development of a business. We are building an "Italian lender" specialising in SMEs, focusing on crossover, acquisition finance, turnaround and supply chain factoring. Our business model combines banking and industrial expertise using a network of Tutors – experts in specific sectors – and the most advanced technologies, as well as extensive use of data.
During the first year of operation, we created an extraordinary team. This team is our strength and we are pleased with what we have accomplished so far. In fact, we have demonstrated our ability to generate and implement business in all the areas of activity on which we have decided to focus."

Enrico Fagioli – Head of SME

On 31 December 2019

653 million euros gross portfolio exposures: +79% YoY.

The portfolio consists of:

206 million euros former Banca Interprovinciale	132 million euros Turnaround
180 million euros Crossover and Acquisition Finance	135 million euros Factoring

Establishment of the illimity SGR asset management company began during the year.

Distressed Credit Investment & Servicing Division

"We are focused on the distressed corporate credit segment. During the year, we were among the most active operators on the Italian market and we launched our servicing company neprix. We are a fully integrated player covering the entire value chain, from investment to financing to servicing and remarketing, and our business model has recently been strengthened by the acquisition of IT Auction, Italy's leading online auctioneer of capital goods and real estate."

Andrea Clamer - Head of Distressed Credit Investment & Servicing

On 31 December 2019

24
investment transactions
for a total of 720 million euros, of which 630 million applied to 2019

5.3
billion euros
nominal GBV stock

10
senior financing transactions
fo r a total of 390 million euros, of which 51 million applied to 2018

8
billion euros
assets under management, between assets and receivables

In June 2019, the acquisition of **IT Auction** was agreed. Combined with **neprix**, it resulted in the creation of the first end-to-end servicer specialising in corporate distressed credits.

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Direct Banking & Digital Operations Division

"The launch of the digital bank in September was a huge success. We have achieved something unparalleled in the marketplace, offering a cutting-edge, fully digital customer experience via an open architecture that makes us the first ecosystem bank and "account aggregator" within PSD2. We have also maintained the human touch with a contact centre open 7 days a week. illimitybank.com conveys an image of positivity, energy and comprehensiveness. These have all been reflected in our results, which exceeded our best expectations."

Carlo Panella - Head of Direct Banking & Digital Operations

On 31 December 2019

1.6
billion euros
direct deposits

24,000
retail customers
of which 81% active

11,000
Raisin accounts
deposits activated abroad

The open banking platform has been strengthened by numerous collaborations: from technology partners such as **Microsoft** and **Google**, to fintech partners such as **Expert System**, to distribution partners such as **Azimut** and **Raisin**, to product partners such as **Nexi**, **Aon**, **Helvetia** and **Santander**.

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"In little over a year of existence, we have built the foundations for future development. In an extraordinary emergency situation like the one we face now, illimity has not only been fully operative, but is proceeding with the implementation of all its strategic plans. There will be an increasing need for a bank like illimity, capable of supporting business development and restructuring projects, enhancing the creditworthiness of companies even in a time of difficulty and providing families and businesses with advanced direct banking services. Today more than ever, we are ready and adequately structured to make a contribution to supporting the economy, certain that the country will find a way to overcome the difficult challenges it is facing."

Corrado Passera
illimity CEO

Report and Consolidated Financial Statements of the illimity group

Report on Consolidated Operations

as of 31 December 2019

The illimity group

This Management Report illustrates the performance and the related 2019 financial results of illimity Bank S.p.A. ("illimity" or the "Bank") and of the entities included in the scope of consolidation (together with the Bank, the "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 2019. Illimity acts as the management and coordination of the Group and has its registered office in Milan, in Via Soperga 9[1].

The Group includes the following entities:

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

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

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

iv. Soperga RE S.r.l. (REOCO) ("Soperga RE") a wholly-owned subsidiary of the Bank, initially held through the vehicle Aporti, established to manage the real estate assets associated with the portfolios of acquired NPLs pursuant to art. 7.1 of Law no. 130/1999 on securitisations;

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

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

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

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

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

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

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

xii. Neprix S.r.l. ("Neprix"), a wholly-owned subsidiary of the Bank, acquired on 29 July 2019, and mainly operating in the *non-performing* loan sector, relying on the services of professionals with specific experience and *know how* in assessing and managing *non-performing* loans;

xiii. illimity SGR S.p.A. ("illimity SGR"), wholly-owned by the Bank, that will start operations in 2020 after obtaining authorisation from the competent authorities on 25 February 2020, and will deal will deal the with asset management of closed-end alternative investment funds (FIA), established with own funds and the funds of third-party institutional investors.

1 The Bank operates through a secondary office located in Modena, Via Emilia Est, 107.

COMPOSITION AND ORGANISATIONAL STRUCTURE

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

illimity is currently organised into operating divisions comprising the *Small Medium Entreprises* ("SME"), *Distressed Credit Investment & Servicing* ("DCIS") and *Direct Banking & Digital Operations ("DDO")* divisions.

Small Medium Enterprises Division

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

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

The SME Division is active in the following segments:

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

Up until 30 June 2019, *factoring* took place through a partnership with an operator active in the digital factoring sector, while from 1 July factoring is carried out directly by the Bank, which developed a specific platform in collaboration with a *leader* supplier in the sector of the Italian market.

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

These areas, specialised by *Business* segment, are flanked by dedicated units, supporting *Business* activities: the *Credit Machine* area is responsible for screening the credit operations proposed by *Business* areas and for analysing the data used in credit allocation processes; the *Organic NPE & Credit Monitoring* area is responsible for credit monitoring processes and managing positions classified as *non-performing* (NPLs); the *Legal SME* which supports the business areas regarding legal and contractual aspects; the *Business Operations & Credit Support* area manages the annual reporting of the Division, monitors relations with *Tutors*, manages the Modena branch and the *Back Office* structure of the Division, also overseeing the loan portfolio of the former Banca Interprovinciale regarding a progressive divestment.

Distressed Credit Investment & Servicing Division

The *Distressed Credit Investment & Servicing* Division ("DCIS"), formerly called *NPL Investment & Servicing*, is the *Business* area operating in the following segments:

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

To optimise and streamline activities in the Distressed Credit Investment & Servicing Division, some organisational changes were adopted in the third quarter of 2019. The Division is now structured as follows:

1. *Portfolios, Senior Financing, Special Situations – Real Estate and Special Situations – Energy* Areas, responsible for the origination of the investment opportunities in NPL portfolios and Senior Financing, as well as the coordination of the entire negotiation and bidding process, until the final *closing* phase;
2. The *Servicing*Area, responsible for performing *due diligence procedures* and for adapting, implementing and monitoring recovery strategies through the coordination of internal and external *servicers*. The *Servicing Unit* Neprix, tasked with debt recovery, reports to the structure;
3. The *Pricing* Area, responsible, under the supervision of the *Risk Management* Function, for the development, implementation and maintenance the *pricing* models of portfolios/*single name (special situations)*/*senior financing* and the *capital structure* of all investments;
4. The *Business Operations* Area, tasked with coordinating and monitoring the Division's activities, overseeing relations with other Bank units and decision-making bodies, providing legal advice related to individual investment opportunities and initiatives, monitoring the Division's *performance*, the development of Research and Development initiatives together with other Bank units.

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

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

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

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

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

Moreover line with illimity's Business model, which provides for the internalisation of the entire value chain, the Bank mainly works with the support of companies Neprix (wholly-owned by the Bank) and IT Auction S.r.l. (whose acquisition of a 70% stake was completed on 9 January 2020) to manage distresseddistressed loans, and performs business agreements with servicers selected based on the specific aspects of the acquired assets.

Neprix, the company where *servicing* activities for NPL acquired by illimity, are centralised, relies on the services of professionals with specific experience and *know how* in *due diligence* and in managing *non-performing loans*. Neprix was granted a licence, pursuant to Article 115 of the Consolidated Public Security Act, on 16 January 2019. On 21 March 2019, following the approval by the Board of Directors of the Bank on 30 October 2018, the contract for the purchase of a 100% interest in Neprix was signed. On 29 July 2019, following notification of the approval from the Bank of Italy, dated 17 July 2019, of the acquisition of Neprix, illimity completed the acquisition of Neprix, which is therefore a part of the 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. Please refer to the dedicated paragraph within the Subsequent Events for further information regarding the acquisition of IT Auction.

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

Direct Banking & Digital Operations Division

The *Digital Banking & Digital Operations* Division ("DBDO") offers *digital banking* services to *retail* and corporate clients. 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 the *payment services directive* 2 (PSD2). A range of digital CFO services will also be developed for businesses.

More specifically, the offer extends to the following categories of products:

1. deposits: with competitive rates and a simple, customisable product structure;
2. current accounts: proposals for an innovative and digital *experience*;
3. 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;
4. digital CFO dedicated to SME customers: reporting services, cash flow analysis and forecasting tools;
5. 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;
6. *Account aggregator*: which enables illimity to aggregate, as a first for Italian banks, all active accounts held with other banks, in the customer's personal area (*home banking*), enabling an overview of the customer's financial situation in a single screen.

The Division comprises *Digital Operations*, tasked with managing the Bank's ICT (*Information and Communication Technologies*) services and responsible for managing organisational oversight and coordination activities for the Bank, and *Direct Banking*, which manages planned product offerings and relative commercial characteristics, as well as the communication plan and development strategy for the Bank brand, in order to maximise customer acquisition and optimal customer management.

BANK BRANCHES AND OFFICES

The Bank's branches and offices are as follows:
Milan – Via Soperga, 9 (head office);
Modena – Via Emilia Est, 107 (branch).

HUMAN RESOURCES

On 31 December 2019, the Bank's registered employees numbered 348 (138 on 31 December 2018). A breakdown of the workforce is given below, divided by job level:

Employees by job level			
Job level	No. of employees		Average
	Absolute values	in %	age
Other employees	113	32%	32
Middle managers	191	55%	37
Managers	44	13%	46
Total	**348**	**100%**	**38**

MACROECONOMIC SCENARIO

As highlighted by the European Central Bank ("ECB") in the Euro Area Macroeconomic Projections, published in December 2019, the latest available macroeconomic data confirm the net decline in real world GDP growth (excluding the euro area) during 2019. In fact, the global economy remained rather weak during 2019, after the strong slowdown in the second half of 2018, registering the period of least expansion since the global financial crisis. Weak manufacturing and investment activity, in the face of increased uncertainty about trade policies, continues to be the main disadvantage for the world economy, only partly offset by stimulus measures implemented in several countries to counter the deteriorating outlook. In the medium term, global growth is expected to increase only slightly, reflecting the moderate recovery in emerging economies offsetting the slowdown in advanced countries and China. After falling to 2.9% in 2019 (from 3.8% in 2018), world growth (excluding the euro area) is expected to gradually recover to 3.4% in 2022.

According to the Bank of Italy's Economic Bulletin (No. 1/2020 January), risks to the global economy are still declining; although world trade has resumed expansion and there have been signs of easing of the tariff disputes between the United States and China, the prospects remain uncertain and geopolitical tensions are increasing. Less pessimistic expectations about growth, favoured by the accommodative stance of central banks, have, however, pushed share prices and facilitated a moderate recovery in long-term yields.

After already showing weak developments in the second and third quarters of 2019 – the ECB's Macroeconomic Projections continue – real gross domestic product (GDP) growth in the euro area is expected to remain modest in the short term. In particular, economic climate indicators are deteriorating, reflecting mainly the current weakness of world trade in a context of continuing international uncertainty. Nevertheless, the most recent ratios for the manufacturing sector show some stabilisation, while confidence in the construction and consumer sectors has shown increased resilience and the situation in labour markets remains favourable.

Beyond the short term, the projections suggest that the adverse global circumstances are somewhat diminishing, allowing the underlying factors in support of euro area expansion to strengthen again: very positive financing conditions (favoured by the very accommodative stance of the ECB's monetary policy), the assumption of orderly Brexit and a slight easing of other global uncertainties, the associated gradual recovery in external demand and the considerable easing of fiscal policies should, overall, support a sustainable recovery in growth over the medium term. On the basis of these considerations, the December 2019 Macroeconomic Projections for the Euro Area show a pace of real GDP growth in the Eurozone, which overall would see a slight decrease in 2020 (1.1% compared to 1.2% in 2019), before rising to 1.4% in 2021 and 2022.

Similar observations are shared by the Bank of Italy in the January Economic Bulletin: with reference to the euro area, economic activity is slowed by the weakness of manufacturing, particularly marked in Germany despite a trend higher than expected in November; at present, however, the risk remains that even the growth of services, which has remained more robust so far, may suffer in the medium term. The performance of the economy affects inflation, which in the Eurosystem's projections is supported by the monetary stimulus, but – as already highlighted – is projected to still be below 2% over the next three years.

In the light of these considerations, the ECB's Governing Council has reconfirmed the need to maintain the current accommodative stance.

In Italy, the latest available information suggests that economic activity, which grew slightly in the third quarter of 2019, remained almost steady in the fourth quarter, continuing to suffer mainly from the weakness of the manufacturing sector. In the Istat and Bank of Italy surveys, companies express slightly more favourable assessments of orders and foreign demand, but continue to consider uncertainty and commercial tensions as factors that hinder their activities. Companies plan to expand investment by 2020, albeit more slowly than the previous year. Moreover, inflows of capital from abroad have continued: in recent months, purchases of Italian public securities by foreign investors have been huge (90 billion between January and November of last year). As a result, the Bank of Italy's debt balance on the European TARGET2 payment system improved significantly, partly as a result of the increase in net foreign funding on the repo market by Italian banks, facilitated by the launch of the new Eurosystem banking reserve remuneration system.

Italian government bond yields and equity prices have risen since mid-October, reflecting a trend common to other euro area countries, as well as the publication of some economic data that is more favourable than expected for the euro area. The yields of bonds issued by Italian banks and non-financial companies did not increase, more than 70 basis points lower than the average in the first half of 2019.

In 2019, the current account surplus remained large; Italy's net foreign position is close to equilibrium.

Looking at employment trends, the Bank of Italy points out that in the third quarter the number of employees increased slightly, especially in the services sector. Wage growth is also positive (0.7% over the previous year), albeit declining, reflecting the fact that important sectors of the economy are still awaiting contract renewal. Inflation has proved to be low (0.5% in December), to which services mainly contribute, while the growth in the prices of industrial goods is still modest. The report notes, however, that, in the most recent surveys, firms' expectations of inflation have fallen slightly. During the observation period, the cost of credit fell significantly for households: for households, the growth of loans remains solid, while it is negative for companies, reflecting - based on surveys – mainly the weak demand for financing.

Preliminary information available for 2019 indicates a slight decline in general government net debt relative to GDP and an increase in the debt-to-product ratio. The budgetary manoeuvre for the 2020-22 three-year period, approved last December by Parliament, increases the deficit by 0.7 percentage points of GDP on average per year compared to trend values. In government programmes, the impact on net debt and debt output, after stabilisation in 2020, would be reduced in the following two years.

The Bank of Italy's macroeconomic projections for the Italian economy for the 2020-22 three-year period, which assume (i) modest, albeit gradually recovering, growth in world trade; (ii) accommodative monetary conditions, consistent with the stance confirmed by the Governing Council of the ECB; (iii) orderly developments on the Italian financial markets, which translate into a modest cost of credit for businesses, indicating an increase in GDP of 0.5% in 2020, 0.9% in 2021 and 1.1% in 2022. According to these forecasts, activity would be supported, on the one hand, by the gradual recovery in international trade and, on the other, by the moderate expansion of domestic demand. Investments, while suffering from persistent uncertainty, would be driven by the gradual recovery in prospects of global demand and expansionary financing conditions; the decline in sovereign spreads observed since the beginning of last June would contribute to raising capital accumulation by about 3.5 percentage points over the entire 2020-22 three-year period. Inflation is expected to rise gradually, from 0.7% in the current year to 1.3% in 2022, mainly as a result of a recovery in wages and profit margins that would benefit from the better cyclical phase.

Compared to last July, the Bank of Italy points out, the anticipated growth is lower for the current year and nearly in line for 2021. The effects of the stronger weakness of the global economy are largely offset by those of the stronger monetary stimulus and lower risk premiums on Italian sovereign debt. The Central Bank also highlights that growth is still exposed to significant risks, linked to increasing geopolitical uncertainty, only partially resolved trade conflicts and weak economic activity in our major European partners; it could also be lower than expected if the realisation of the planned substantial public investments, included in the forecast framework, were delayed or if tensions in the financial markets were to re-ignite. In addition to the risk factors outlined above, the possible effects due to the spread of the coronavirus, whose impact is still difficult to quantify at the present date.

SIGNIFICANT EVENTS IN 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.

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 conditional share 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 Stock Exchange (CONSOB) granted authorisation for the publication of the Prospectus on 1 March 2019.

In the process of completing the merger, all shares of Banca Interprovinciale S.p.A. 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 allocated in exchange for every SPAXS ordinary share and one illimity special share allocated in exchange for every SPAXS special share. The holders of SPAXS allocation rights, which were also cancelled upon completion of the merger, were granted one illimity allocation right in exchange for one SPAXS allocation right. In addition, the shareholders of Banca Interprovinciale other than SPAXS were allocated illimity ordinary shares at the allocation 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 *UTP*, including *factoring, crossover – acquisition finance e turnaround*;
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.

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:

1. the *Stock Option Plan* (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 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 (inverse merger of SPAXS into Banca Interprovinciale) and supporting the Group's long-term growth.
   The SOP Regulation provides that the Option Rights will be allocated to each recipient after a period of so-called *vesting* between the MTA Trading Start Date 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 plan designated the "*Employee Stock Option Plan*" (also referred to as the "ESOP"), reserved for all employees of the Group and/or its subsidiaries who have an indefinite-term contract or a definite-term contract that has been in effect for at least six months and has 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 allocation, in each cycle, of a number of shares equal to the value of 2,000 euros for each non-executive employee, and of 100 euros for executive staff. To service this plan, the General Assembly of Banca Interprovinciale (currently illimity) approved a free, divisible share capital increase up to a nominal maximum amount of 498,890.45 euros through the issue of up to 700,000 new ordinary shares of illimity, pursuant to article 2349 of the Italian Civil Code, to be allocated free of charge, in annual allocations, 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 General Assembly of Banca Interprovinciale on 18 January 2019 to serve the Employee Stock Option Plan (ESOP)– with an increase in share capital of 30,661.81 euros 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 (hereinafter also "MBO") designated the*"2019 MBO Plan"*, intended for all employees, with the exception of *top management*, which 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 allocation 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 pursuant to Article 2349 of the Italian civil code, to be assigned free of charge to the employees of illimity and of its direct and/or indirect subsidiaries, as beneficiaries (i) of the annual incentive system for 2019, (ii) of any compensations paid upon early termination of business relationship and (iii) of the remuneration policies approved from time to time by illimity during the period of maximum duration of the authorisation, in accordance with the relevant regulations in effect from time to time.

In May 2019, the IT migration process from the *outsourcer* Consorzio Servizi Bancari (hereinafter "CSE") to the new *provider*, Sella Technology Solutions S.p.A. ("STS"), recently renamed Centrico, was completed. Consequently, the agreement with CSE 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. Following the agreements reached during 2019, the acquisition by illimity of 70% of the share capital of IT Auction, for 10.5 million euros, by Neprix, an illimity Group company in which all *the bank's distressed* credit management activities are concentrated, was finalised on 9 January 2020. For further information see the dedicated paragraph in the section on Events subsequent to the reporting date.

On 17 July 2019, illimity received a notice from the Bank of Italy concerning its "Registration in the Register of Banking Groups and amendments to by-laws". The Bank of Italy notified that it had registered the illimity Bank Group in the Register of Banking Groups, with effect from 24 June 2019.

On 30 August 2019, illimity announced it had started the process to request authorisation to establish and start up an asset management company– illimity SGR, wholly-owned by the Bank, that will deal with asset management for closed-end alternative investment funds ("FIA"), established with own funds and the funds of third-party institutional investors.

On 20 September 2019, holders of Allocation Rights were allocated 5,698,551 new-issue illimity converted shares, having the same characteristics as the Ordinary Shares, according to the proportion of 1 for every five Allocation Rights held; at the same time, 28,492,827 Allocation Rights were cancelled.

On 27 September 2019, illimity completed a "*Euro Medium Term Note*" (EMTN) issue programme for a maximum of 3 billion euros, exclusively for qualified investors and listed on the Dublin Stock Exchange (Ireland). illimity may issue debt instruments reserved for institutional customers, with this programme.

On 16 October 2019, illimity was recognised by the *European Financial Management Association* ("EFMA") as the best new bank and specialised *player* on a global scale. At one year from its foundation and a month from the launch of the digital direct bank, *illimitybank.com*, illimity has gained a reputation on the market as a new kind of bank, conceived to be a fully comprehensive bank for a latest-generation *user experience*, in line with the habitual ease of use that *tech players* in various sectors have given users.

SME Division

On 31 December 2018, the loans within the SME Division's portfolio amounted to approximately 363 million euros, attributable to the following *Business* areas:

- the former Banca Interprovinciale (BIP) portfolio, for approximately 329 million euros (91% of the total);
- *Turnaround* , in the amount of approximately 34 million euros (9% of the total), relating to two transactions disbursed in December.

Over 2019, a change in the composition of the credit portfolio was registered, with a decrease in exposures in the former BIP *run-off* portfolio of approximately 123 million euros, an increase in the Turnaround area of 98 million euros and the start of transactions in *the Crossover, Acquisition Finance* and *Factoring* areas for 180 million euros and 135 million euros respectively. The last quarter of 2019 saw a strong growth in volumes, thanks to the disbursement of several transactions, mostly deliberated during the summer; in particular, for *the Turnaround* Area and *the Crossover & Acquisition Finance* Area, transactions for significant amounts were finalised, leading to a substantial increase in volumes.

In the first ten days of July, direct *factoring* transactions began, through the dedicated application integrated in the company's *core banking* systems, and transactions undertaken through Credimi were placed in *run-off*. *Factoring* transaction accelerated considerably, reaching a *turnover* of almost 300 million euros, of which approximately 100 million euros was realised in December alone, also as a result of year-end transactions, typical of the sector.

As a result of the changes briefly described above, at the end of 2019, the SME portfolio gross exposures totalled 653 million euros, up by more than 290 million euros (+79%) compared to the previous year. Hence, the SME portfolio can be broken down as follows:

- former BIP portfolio, amounting to nearly 206 million euros (32%);
- *Turnaround* amounting to 132 million euros (20%);
- *Crossover* and *Acquisition Finance* amounting to 180 million euros (28%);
- *Factoring* for approximately 135 million euros (21%).

Distressed Credit Investment & Servicing Division

As of 31 December 2018, the DCIS Division had purchased NPLs of 1.15 billion euros, in terms of gross book value, for the price of approximately 90 million euros.

During 2019, the *Investments* area finalised 21 transactions for an invested amount of approximately 630 million euros. These opportunities, mainly related to acquisitions in the primary market, were finalised through two different structural types:

- acquisitions completed through SPVs pursuant to Law 130/99: these transactions are concluded by subscribing 100% of the *notes* issued by SPVs, which in turn receive from illimity the *funding* necessary for the acquisition of the credits. In this case, the purchase always concerns NPL positions;
- acquisitions executed directly by illimity: credits are purchased directly by illimity and accounted for in the Bank's balance sheet; this case is necessary, for example, for the purchase of still-active positions, usually classified as UTPs, for which the transfer of both the credit right and the associated banking relationship is required.

Taking also into account investments made by the *Investments* area during 2018, as of 31 December 2019 the Bank finalised 30 investment transactions in *distressed* loans, both on its own and through controlled SPVs, for a total amount of approximately 720 million euros, as shown below.

(Amounts in millions of euros)

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

Throughout 2019, the *Senior Financing* area finalised 8 transactions for a total of 321 million euros. These opportunities, concluded mainly in support of primary investment funds and companies specialised in the purchase of impaired loans, were finalised through two different structural types:

- the subscription of *senior* notes issued by SPVs pursuant to Law 130/99 that have purchased impaired loans. In some limited cases, illimity also acts as *sponsor* of the securitisation, and has also subscribed to part of the*junior* notes issued by SPVs pursuant to Law 130/99 (5% of the total *junior* notes issued);
- the provision of *an asset-backed* loan to a corporate entity.

In addition to the above, the DCIS Division has finalised, in this specific case with the support of the *Special Situations Real Estate* area, a further financing transaction for the purchase of impaired loans granted to a corporate entity ("*borrower*"), which saw the intervention of the Bank in support of an entity attributable to *the borrower* itself, through the subscription, by illimity, of 100% of the *senior* notes and 5% of the total *junior* notes issued by a SPV pursuant to Law 130/99 which purchased impaired loans. The remaining *junior* notes were subscribed by the subject attributable to the *borrower*.

Also taking into account investments made by the *Senior Financing* area during 2018, as well as the transaction finalised by *the Special Situations* area, as of 31 December 2019 the Bank had entered into 10 *asset-backed* loan transactions on *distressed* loans for a total amount of approximately 390 million euros, as shown below.

(Amounts in millions of euro)

Asset-backed financing on Distressed Loans	Amount paid
Until 31/12/2018	51
Q1 2019	3
Total as of 31/03/2019	**54**
Q2 2019	192
Total as of 30/06/2019	**246**
Q3 2019	112
Total as of 30/09/2019	**358**
Q4 2019[1]	32
Total as at 31/12/2019[2]	**390**

1 The amount disbursed also includes the transaction finalised by *the Special Situations RE* area of the DCIS Division.

2 As of 31 December 2019, the *outstanding*value of the accounting balance (paid) amounted to approximately 341.0 million euros, of which 299.4 million euros of securities and 41.6 million euros of credits.

Direct Banking & Digital Operations Division

Over the course of 2019, the *Direct Banking & Digital Operations* Division operated within the path outlined in the business plan.

In the first half of the year, the IT migration to the target IT system took place: the Core Banking System with open architecture delivered on Centrico's H_2O solution, and illimity systems (mainly *Front End*, micro-services and *Data Analytics*) on *Microsoft*Cloud infrastructure.

In this respect, the close *partnership* with *Microsoft* is extremely important; through this agreement, illimity has effectively become the first national credit institution to fully adopt the *cloud* as a platform enabling its own *core business* processes, allowing illimity to access latest-generation solutions with agility and speed consistent with the rapid expansion of the *business*. The *partnership* also allows illimity to belong to Microsoft's "*preview* groups", being able to exploit and preview Microsoft products of potential interest to the bank and close to the *go-to-market*, thus returning *feedback* for the evolution and improvement of the product.

An important investment was also made in the *set-up* of the digital platform, with the task of guaranteeing (i) an optimal integration with third parties, (ii) the quality and availability of data through a *Big Data* architecture, (iii) 360° security for illimity through Artificial Intelligence and *Machine Learning* systems and (iv) an optimal *time-to-market* through a quick and efficient development platform. The construction of the Platform also benefited from the *partnership* with *Google*, a key component in enabling the *Open Banking* concept.

In support of the design and implementation of the technological architecture, *state-of-the-art* systems were adopted and the best *partnerships* in the field of *ICT Security* were launched. The illimity security measures, gradually released into production during 2019, and based on solutions that use Artificial Intelligence, guarantee full protection from threats through the most modern techniques of behavioural analysis and monitoring of external agents. An articulated ecosystem that defends the Bank's information system through the integration of the products of approximately 15 market *leaders*.

With regard to the development of the *Retail* business, with a view to achieving the objectives of diversifying funding, a *partnership* has been operative since 13 May 2019 with *Raisin* – a *fintech* platform of *open banking* for the distribution of deposits to German *retail* customers. More than 11,000 customers acquired during 2019 contribute a total of approximately 380 million euros to the Bank funding.

On 12 June 2019, a commercial collaboration was signed in the field of *Direct Banking* with *Azimut* which opens important strategic perspectives for both Parties. Under the agreement, illimity provides 1,800 *Azimut* Consultants with a range of innovative banking products and services dedicated to their customers. The new services complement *Azimut*'s investment solutions, and are offered through illimity's Direct Bank digital platform. Azimut consultants' customers have access to exclusive products, being able to view the complete situation of the products and services provided by Azimut and illimity in a single App. As of 31 December 2019, the partnership allows the *funding* illimity with approximately 12 million euros.

As a culmination of the work done during the year, digital bank *illimitybank.com* was presented and launched on 12 September 2019, which completed investments in support of *go-live* in the last quarter of the year. Both *online* and *offline* advertising campaigns, coupled with targeted interventions on the IT platform, have led to the consolidation and evolution of the same, helping to reach 24,000 *Retail* customers as of 31 December 2019. Compared to the end of the previous quarter, the *customer base* of *illimitybank.com* increased by approximately 19,000 customers. At the end of the quarter, it contributed to illimity funding with approximately Euro 730 million.

Total direct deposits from customers, including former customers of Banca Interprovinciale, amounted to approximately 1.6 billion euros at the end of the year.

During September, for the first time among Italian banks, the Bank launched *"illimity connect*", the *Account Aggregator* service that makes it possible to gather the accounts of other institutions in each customer*'s home banking* and to have an overview of their financial situation in a single screen. To date, it is possible to aggregate more than 20 financial institutions; in the coming months, the possibility of aggregating an additional 15 institutions will be activated.

The *Value Proposition* offered by *Direct Bank*, in the last quarter of the year, was enriched by the activation of two new products, accessible with a completely digital experience:

- personal loans, through the *partnership* with *Santander Consumer Bank*, or the possibility for holders of an illimity current account to access financing directly *online* from their *home banking*, to simulate the configuration of the product, to choose the one that best suits their needs and to receive the sum directly into their illimity account;
- *the OneNET* offer, a contract service to access healthcare services at a *network* of approximately 11,000 affiliated facilities through which Bank customers benefit from discounts for *online* bookings.

In support of the various commercial launches and the enrichment of the offering, "The Glance", a short film, was produced. The Glance, which tells the story of illimity's mission aired on 25 November 2019 on both television (for 3 weeks) and on digital channels.

All of the achievements of 2019 have allowed illimity to be awarded by EFMA the title of best bank globally for the *Neobanks* and *Specialised Players* category, among operators with specialised or innovative *business* models, able to redefine the borders of traditional *banking* thanks to highly technological and digitized systems, agile development plans and innovative strategies.

For 2020, the defined plan includes broad areas of evolution and support of illimity's reference *businesses*:

- the Direct Bank will be enriched with new services and products with a totally digital experience, to support both *Retail* and SME customers (mortgages and insurance, evolution of the current and deposit account offering, instruments to support the operations of companies,...). All this will also be accompanied by adequate training of the *Smart Care team*, in terms of digitisation of processes, work teams and tools to support operations (e.g. *instant messaging* channels);
- concerning the SME segment, customer activation activities continue on the new *Front End* , developed in line with steps taken for *the Retail* segment;
- the investments dedicated to the SME Division will continue with what was achieved during 2019, evolving the *Factoring* platform and expanding the operations of the Credit *business* to companies (e.g. *set-up* of *Loan Agency* activities);
- finally, with regard to the business of the DCIS Division, the realisation of mutually integrated technological applications is envisaged that will allow the streamlining of the acquisition and management processes of the purchased portfolios, as well as the management, analysis and processing of structured and unstructured data from the ceding companies (*big-data approach*).

ALTERNATIVE PERFORMANCE RATIOS AS OF 31 DECEMBER 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 2018, set out below, are based on the data of Banca Interprovinciale. The comparative balance sheet figures used in preparing the measures as of 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 ratios.

(Amounts in thousands of euro)

PERFORMANCE MEASURES	2019	2018	Chg.	Chg. (%)
Total net operating income	66,844	715	66,129	>100%
Total net write-downs/write-backs	(7,148)	(7,589)	441	(6%)
Net result of banking operations	59,696	(6,874)	66,570	n.s.
Operating expenses	(88,141)	(30,640)	(57,501)	>100%
Profit (loss) from operations before taxes	(28,507)	(40,106)	11,599	(29%)
Profit (Loss) for the financial year	(16,140)	(29,124)	12,984	(45%)

(Amounts in thousands of euro)

BALANCE SHEET RATIOS	31/12/2019	31/12/2018	Chg.	Chg. (%)
Net non-performing loans[1]	**19,457**	**17,279**	**2,178**	**13%**
of which: bad loans	5,232	7,621	(2,389)	(31%)
of which: Unlikely-to-pay positions	13,016	9,453	3,563	38%
of which: past-due positions	1,209	205	1,004	>100%
Net non-performing loans - inorganic (POCI)[2]	**705,422**	**86,449**	**618,973**	**>100%**
of which: bad loans	544,765	86,449	458,316	>100%
of which: Unlikely-to-pay positions	160,657	–	160,657	N.A.
Net impaired securities - inorganic (POCI)	**50,363**	**–**	**50,363**	**N.A.**
of which: Unlikely-to-pay positions	50,363	–	50,363	N.A.
Securities at amortised cost (HTC)	**299,390**	**113,688**	**185,702**	**>100%**
of which: Government bonds	–	113,688	(113,688)	<100%
of which: *Senior Financing* instruments	299,390	–	299,390	N.A.
Net loans with customers (performing Loans)	**563,232**	**379,985**	**183,247**	**48%**
Securities at Fair Value	**134,453**	**137,263**	**(2,810)**	**(2%)**
Direct funding from customers	**1,978,589**	**535,134**	**1,443,455**	**>100%**
Total Assets	**3,025,222**	**1,235,441**	**1,789,781**	**>100%**
Shareholders' equity	**544,455**	**557,245**	**(12,790)**	**(2%)**

1 The definition of Organic Loans includes Loans to customers in the segments: crossover and acquisition finance, factoring, and disbursement of NPL senior financing and turnaround, and includes the stock of Loans to customers of the former Banca Interprovinciale.

2 POCI = Purchased or Originated Credit Impaired – Acquired or originated impaired loans.

RISK RATIOS	31/12/2019	31/12/2018
Gross Organic NPE Ratio[1]	4.2%	7.4%
Net Organic NPE Ratio[2]	2.2%	4.3%
Coverage ratio for organic non-performing loans[3]	48.4%	44.0%
Coverage ratio for organic bad-debt positions[4]	70.0%	54.1%
Coverage ratio for performing loans[5]	0.96%	0.97%
Cost of organic credit risk (BPS)[6]	86	190

STRUCTURAL RATIOS	31/12/2019	31/12/2018
Shareholders' equity/Total Liability	18.0%	45.1%
Interbank Funding/Total Funding	15.8%	16.9%
Liquidity coverage ratio	>3000%	491.0%
Net Stable Funding Ratio	144%	142%
Net loans with customers Total assets	54.1%	48.4%
Customer funding Total Liability	65.4%	43.3%

CAPITAL RATIOS	31/12/2019	31/12/2018[7]
Tier I capital ratio (Tier I capital / Total weighted assets)	21.35%	89.64%
Total capital ratio [(Regulatory capital + Tier II)/Total weighted assets]	21.35%	89.64%
Own Funds	461,699	526,538
of which: Tier I capital	461,699	526,538
Risk-weighted assets	2,162,485	587,398

1 Ratio between organic non-performing and total organic loans plus gross performing client loans and senior financing instruments.

2 Ratio between organic non-performing and total organic loans plus net performing client loans and senior financing instruments.

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

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

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

6 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.

7 SPAXS pro-forma.

RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP ON 31 DECEMBER 2019

This Management Report has been prepared on the basis of tables in the Bank of Italy Circular No. 262 of 22 December 2005 as amended.

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

Reconciliation with the items of the mandatory financial statements aids in reclassification of the items in question, but above all facilitates the understanding of the criteria adopted in constructing the Management 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 material 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.

It is worth mentioning that 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 data used to prepare the reclassified income statement of 2018, for the purposes of this management analysis, are based on the figures for Banca Interprovinciale. The comparative figures used in preparing the reclassified balance sheet relative to 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	31/12/2019	31/12/2018	Chg.	Chg. (%)
20 a) + 30	Treasury portfolio - Securities at FV	125,851	137,164	(11,313)	(8%)
40 b)	Treasury portfolio - Securities at amortised cost	–	113,688	(113,688)	<100%
20 c)	Financial assets mandatorily measured at fair value	8,602	99	8,503	>100%
40 a)	Due from Banks	344,858	372,158	(27,300)	(7%)
40 b)	Loans to customers	1,288,111	483,713	804,398	>100%
40 b)	Securities at amortised cost – SME	50,363	–	50,363	N.A.
40 b)	*Senior Financing* securities at amortised cost – *Senior Financing*	299,390	–	299,390	N.A.
90 + 100	Property and equipment and intangible assets	66,199	24,408	41,791	>100%
110	Tax assets	37,061	19,462	17,599	90%
10 + 130	Other Assets	804,787	84,749	720,038	>100%
	of which: Cash and cash equivalents	*772,125*	*68,088*	*704,037*	*>100%*
	Total assets	**3,025,222**	**1,235,441**	**1,789,781**	**>100%**

(Amounts in thousands of euro)

Components of official items of the Balance Sheet	Liabilities	31/12/2019	31/12/2018	Chg.	Chg. (%)
10 a)	Amounts due to banks	376,747	108,842	267,905	>100%
10 b)	Amounts due to customers	1,985,145	453,721	1,531,424	>100%
10 c)	Securities issued	15,358	81,413	(66,055)	(81%)
60	Tax liabilities	770	280	490	>100%
80 + 90 + 100	Other liabilities	102,747	33,940	68,807	>100%
120 + 150 + 160 + 170 + 180 + 190 + 200	**Shareholders' equity**	**544,455**	**557,245**	**(12,790)**	**(2%)**
	Total liabilities and shareholders' equity	**3,025,222**	**1,235,441**	**1,789,781**	**>100%**

Summary of consolidated financial statements data

The Group's total assets as of 31 December 2019 amounted to 3,025.2 million euros, compared to 1,235.4 million euros as of 31 December 2018, and primarily include financial assets arising from loans to customers for 1,288.1 million euros, up from 483.7 million euros as of 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 occurring in 2019").

Financial assets arising from credits measured at amortised cost– due from banks were 27.3 million euros lower compared to 31 December 2018.

Financial assets in the treasury portfolio also decreased, as securities classified as measured at *fair value* through other comprehensive income (held within a *Held to Collect & Sell Business Model*) were sold during the period, in addition to securities measured at amortised cost (held within a *Held to Collect Business Model*), confirming the securities *de-risking* process initiated by *Management* in the period following the *business combination* and the closure of the HTC strategy, as better specified within the Explanatory Note.

Intangible assets include goodwill of 21.6 million euros arising from the purchase price allocation process for the net assets acquired through the Material Transaction, completed during the preparation of the consolidated financial statements as of 31 December 2018[2].

The increase in property and equipment was due to the recognition of *Right of Use Assets* acquired under *leases* amounting to approximately 20.5 million euros, net of the amortisation provision, at 31 December 2019, in accordance with IFRS 16, which came into effect on 1 January 2019.

Total consolidated shareholders' equity and liabilities amounted to 3,025.2 million euros, consisting primarily of total shareholders' equity of 544.4 million euros, financial liabilities measured at amortised cost due to customers of 1,985.1 million euros and amounts due to banks of 376.7 million euros. These latter items increased due to repurchase agreements being entered into during the fiscal year.

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

Reclassified consolidated income statement

(Amounts in thousands of euro)

Components of official items of the Income Statement	Income Statement items	2019	2018	Chg.	Chg. %
10 + 20	interest margin	48,034	12,279	35,755	>100%
40 + 50	Net fee and commission income	6,621	4,208	2,413	57%
80 + 100 + 110	Gains/losses on financial assets and liabilities	10,272	(15,601)	25,873	<100%
140 + 230 + 280	Other operating expenses and income	1,917	(171)	2,088	>100%
	Total net operating income	**66,844**	**715**	**66,129**	**>100%**
130 a)	Net write-downs/write-backs for credit risk - HTC Banks	(189)	28	(217)	<100%
130 a)	Net write-downs/write-backs for credit risk - HTC Clients	(6,483)	(7,452)	969	(13%)
130 b)	Net write-downs/write-backs for credit risk - HTCS	4	(109)	113	<100%
200 a)	Net write-downs/write-backs for commitments and guarantees	(480)	(56)	(424)	>100%
	Total net write-downs/write-backs	**(7,148)**	**(7,589)**	**441**	**(6%)**
	Net result of banking operations	**59,696**	**(6,874)**	**66,570**	**<100%**
190 a)	Personnel costs	(31,066)	(10,145)	(20,921)	>100%
190 b)	Other administrative costs	(53,928)	(20,239)	(33,689)	>100%
210 + 220	Net write-downs/write-backs on property and equipment and intangible assets	(3,147)	(256)	(2,891)	>100%
	Operating expenses	**(88,141)**	**(30,640)**	**(57,501)**	**>100%**
200 b)	Other net provisions	(62)	(2,592)	2,530	(98%)
	Profit (Loss) from operations before taxes	**(28,507)**	**(40,106)**	**11,599**	**(29%)**
300	Income taxes on current operations	12,367	10,982	1,385	13%
	Profit (Loss) for the financial year	**(16,140)**	**(29,124)**	**12,984**	**(45%)**

Summary of consolidated financial statements data

Total net operating income amounted to approximately 66.8 million euros, compared to 1.0 million euros as of 31 December 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 20.9 million euros compared to 31 December 2018 as a result of new hiring; other administrative costs increased by approximately 33.7 million euros compared to the same period of the previous year and include one-off charges totalling 11.8 million euros, mainly attributable to listing on the stock exchange, migration costs of the accounting system and marketing and advertising costs relating to the launch of the direct bank.

Net write-downs/write backs for credit risk concerning financial assets measured at amortised cost and at *Fair Value* through OCI of approximately 7 million euros mainly include analytical and collective assessments on loans to clients and the effects of the review of expected *cash flow* referable to new NPL portfolios acquired.

The loss for the fiscal year ended 31 December 2019, before taxes, amounted to 28.5 million euros.

Deferred tax assets equal to 12.4 million euros, 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 economic growth aid (so called ACE) and were recognised in the financial statement as of 31 December 2019 for an amount equal to 3.8 million euros following the positive outcome of the request for non-application.

The consolidated net loss reported in 2019 was equal to 16.1 million euros.

The basic and diluted loss per share of 2019, calculated by dividing the result for the fiscal year by the weighted average number of ordinary shares issued, is 0.25 euros. See the section *"Basic and diluted loss per share"* for details of the methodology to calculate the loss per share.

KEY BALANCE SHEET FIGURES

Invested assets

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

(Amounts in thousands of euro)

DETAILS OF INVESTED ASSETS	31/12/2019		31/12/2018		Change	
	Book Value	Inc. %	Book Value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**772,125**	**26.72%**	**68,088**	**5.79%**	**704,037**	**>100%**
Financial assets held for trading	**63**	**0.00%**	**29,251**	**2.49%**	**(29,188)**	**<100%**
Financial assets mandatorily measured at fair value	**8,602**	**0.30%**	**99**	**0.01%**	**8,503**	**>100%**
– *DCIS Business*	2,342	0.08%	–	–	2,342	N.A.
– *SME Business*	6,161	0.21%	–	–	6,161	N.A.
– *Treasury Portfolio*	100	0.00%	99	0.01%	1	1%
HTCS Financial assets	**125,788**	**4.35%**	**107,913**	**9.18%**	**17,875**	**17%**
– *Treasury Portfolio*	*125,788*	*4.35%*	*107,913*	*9.18%*	*17,875*	*17%*
Due from Banks	**344,858**	**11.94%**	**372,158**	**31.68%**	**(27,300)**	**(7%)**
– *of which: Repurchase agreements*	*276,025*	*9.55%*	–	–	*276,025*	N.A.
Loans to customers	**1,288,111**	**44.58%**	**483,712**	**41.17%**	**804,399**	**>100%**
– *Organic non-performing loans*	*19,457*	*0.67%*	*17,279*	*1.47%*	*2,179*	*13%*
– *Inorganic non-performing loans*	*705,421*	*24.41%*	*86,449*	*7.36%*	*618,972*	*>100%*
– *Performing loans*	*563,232*	*19.49%*	*379,985*	*32.34%*	*183,247*	*48%*
Loans to customers - Securities	**349,753**	**12.11%**	**113,688**	**9.68%**	**236,065**	**>100%**
– *DCIS Business (Senior Financing)*	*299,390*	*10.36%*	–	–	*299,390*	N.A.
– *SME Business*	*50,363*	*1.74%*	–	–	*50,363*	N.A.
– *Treasury Portfolio*	–	–	*113,688*	*9.68%*	*(113,688)*	*<100%*
Total invested assets	**2,889,300**	**100%**	**1,174,909**	**100%**	**1,714,391**	**>100%**

Loans to customers amounted to approximately 1,288.1 million euros, up from 483.7 million euros at the end of the previous year, due to transactions relating to the new *Businesses*. The item also includes NPLs for approximately 705 million euros classified as POCI (*Purchased or Originated Credit Impaired*), up from 86 million euros as of 31 December 2018, following the activities of the SME Division and purchase transactions concluded by the NPL Division. Considering Securities, financing to customers amounted to 1,638 million euros.

Financial assets measured at fair value through OCI managed with a *Held to Collect & Sell* business model, amounted to approximately 125.8 million euros, and were represented mainly by government bonds and bank securities.

Financial assets mandatorily measured at fair value at *fair value through profit or loss* amounted to 8.6 million euros and mainly include an investment in an equity instrument of 6.1 million euros attributable to a transaction concluded by the SME division.

The remaining securities of 349.7 million euros are measured at amortised cost (*Held to Collect* business model) and are mainly composed of 299.4 million euros of *Senior Financing* securities and 50.4 million euros of a POCI security attributable to a transaction concluded by the SME Division.

(Amounts in thousands of euro)

INVESTED ASSETS BY TECHNICAL FORM	31/12/2019		31/12/2018		Change	
		Incidence		Incidence	Absolute	Chg. (%)
Cash	**772,125**	**26.72%**	**68,088**	**5.80%**	**704,037**	**>100%**
Current accounts and deposits	68,833	2.38%	372,158	31.68%	(303,325)	(82%)
Repurchase agreements - receivable	276,025	9.55%	–	–	276,025	n.a
Due from banks	**344,858**	**11.94%**	**372,158**	**31.68%**	**(27,300)**	**(7%)**
Current accounts held by customers	57,120	1.98%	112,395	9.57%	55,275	(49%)
Loans	1,230,991	42.61%	371,317	31.60%	859,674	>100%
Loans to customers	**1,288,111**	**44.58%**	**483,712**	**41.17%**	**804,399**	**>100%**
Debt securities	477,868	16.54%	221,587	18.86%	256,280	>100%
– Government bonds	10,736	0.37%	194,381	16.54%	(183,645)	(94%)
– Banking	73,624	2.55%	27,084	2.31%	46,540	>100%
– Others	393,508	13.62%	122	0.01%	393,385	>100%
Equity instrument	6,161	0.21%	–	–	6,161	n.a
Equity securities	15	0.00%	12	0.00%	2	16%
Units of UCIs	163	0.01%	29,350	2.50%	(29,187)	(99%)
Securities	**484,206**	**16.76%**	**250,951**	**21.36%**	**233,256**	**93%**
Total	**2,889,300**	**100%**	**1,174,909**	**100%**	**1,714,392**	**>100%**

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

Due from banks totalled 344.9 million euros, decreased compared to 31 December 2018, mainly due to the reduction of the current accounts and deposits managed, partially compensated by the repurchase agreements being entered into during the period. Loans to customers were also up considerably, due to the new *businesses* described in this report.

Lastly, Debt securities were up by 256.3 million euros, mainly as a result of the new transactions undertaken by the DCIS Division (*Senior Financing)* for 299.4 million euros and following the sale of bank securities, only partially compensated by the reduction of the exposure in government bonds.

In fact, during the fourth quarter, the Bank redefined its investment strategy in the securities portfolio by selling all securities managed through a Held to Collect business model in order to meet the Bank's liquidity management flexibility requirements for financing disbursements and investments, which – particularly in the area of investments in distressed credit portfolios – show high volatility with seasonal peaks. The sale of this portfolio (approximately 103 million euros in September 2019) in the fourth quarter led to the accounting of approximately 7.7 million euros in trading profits.

The following is a summary of financing to customers measured at amortised cost broken down by *Business* division.

(amounts in millions of euros)

FINANCING BY BUSINESS DIVISION	31/12/2019	Amount %	31/12/2018	Incidence %
DCIS Division	1,008	61.54%	138	23.12%
SME Division	444	27.11%	34	5.70%
Loans to ordinary former BIP customers	186	11.35%	312	52.26%
Portfolio of securities measured at amortised cost	–	–	113	18.93%
Total financing to customers measured at amortised cost	**1,638**	**100%**	**597**	**100%**

Financial assets measured at amortised cost

The following table, rather, provides an overview of the Group's main financing at amortised cost, compared with the relevant values as of 31 December 2018.

(Amounts in thousands of euro)

FINANCIAL ASSETS AT AMORTISED COST[1]	31/12/2019						31/12/2018					
	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Hedging ratio	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio
Due from Banks	**345,143**	**17.1%**	**(285)**	**344,858**	**17.4%**	**0.08%**	**372,254**	**37.8%**	**(96)**	**372,158**	**38.4%**	**0.03%**
– Loans	345,143	17.1%	(285)	344,858	17.4%	0.08%	372,254	37.8%	(96)	372,158	38.4%	0.03%
– Stage 1/2	345,143	17.1%	(285)	344,858	17.4%	0.08%	372,254	37.8%	(96)	372,158	38.4%	0.03%
Loans to customers	**1,670,092**	**82.9%**	**(32,229)**	**1,637,863**	**82.6%**	**1.93%**	**613,617**	**62.2%**	**(16,217)**	**597,400**	**61.6%**	**2.64%**
– Securities	350,115	17.4%	(363)	349,752	17.6%	0.10%	113,920	11.6%	(232)	113,688	11.7%	0.20%
– Stage 1/2	299,753	14.9%	(363)	299,390	15.1%	0.12%	113,920	11.6%	(232)	113,688	11.7%	0.20%
– Stage 3	50,363	2.5%	–	50,363	2.5%	–	–	–	–	–	–	–
– Loans	1,319,976	65.5%	(31,866)	1,288,111	65.0%	2.41%	499,697	50.7%	(15,985)	483,712	49.9%	3.20%
– Stage 1/2	568,673	28.2%	(5,441)	563,232	28.4%	0.96%	383,707	38.9%	(3,722)	379,985	39.2%	0.97%
– Stage 3	751,303	37.3%	(26,425)	724,878	36.6%	3.52%	115,990	11.8%	(12,263)	103,727	10.7%	10.57%
Total	**2,015,235**	**100.0%**	**(32,514)**	**1,982,721**	**100.0%**	**1.61%**	**985,871**	**100.0%**	**(16,312)**	**969,559**	**100.0%**	**1.65%**

1. The term "credit risk stage" means the classification of impaired exposures based on changes in their credit risk in accordance with Section 5.5 of IFRS 9.

As at 31 December 2019 due from banks amounted to EUR 344.9 million, compared to EUR 372.1 million as at 31 December 2018, and consisted primarily of current accounts, on demand deposits and asset repurchase agreements.

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

(Amounts in thousands of euro)

LOANS TO CUSTOMERS	31/12/2019						31/12/2018					
	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage Ratio*	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio
Non-performing loans - Organic	**37,718**	**2.3%**	**(18,261)**	**19,457**	**1.2%**	**48.42%**	**30,854**	**5.0%**	**(13,575)**	**17,279**	**2.9%**	**44.00%**
– bad loans	17,429	1.0%	(12,197)	5,232	0.3%	69.98%	16,587	2.7%	(8,966)	7,621	1.3%	54.05%
– Unlikely-to-pay positions	18,880	1.1%	(5,864)	13,016	0.8%	31.06%	13,948	2.3%	(4,495)	9,453	1.6%	32.23%
– Past-due positions	1,410	0.1%	(200)	1,209	0.1%	14.18%	319	0.1%	(114)	205	0.0%	35.74%
Non-performin loans - Inorganic	**713,585**	**42.7%**	**(8,163)**	**705,421**	**43.1%**	**n.a**	**85,136**	**13.9%**	**1,313**	**86,449**	**14.5%**	**n.a**
– bad loans	552,698	33.1%	(7,933)	544,765	33.3%	n.a	85,136	13.9%	1,313	86,449	14.5%	n.a
– Unlikely-to-pay positions	160,887	9.6%	(230)	160,657	9.8%	n.a	–	–	–	–	–	–
Impaired Securities - Inorganic	**50,363**	**3.0%**	**–**	**50,363**	**3.1%**	**n.a**	**–**	**–**	**–**	**–**	**–**	**–**
– Unlikely-to-pay positions	50,363	3.0%	–	50,363	3.1%	n.a	–	–	–	–	–	–
Performing loans	**868,426**	**52.0%**	**(5,804)**	**862,622**	**52.7%**	**0.67%**	**497,627**	**81.1%**	**(3,954)**	**493,673**	**82.6%**	**0.79%**
– Securities	299,753	17.9%	(363)	299,390	18.3%	0.12%	113,920	18.6%	(232)	113,688	19.0%	0.20%
– Loans	568,673	34.1%	(5,441)	563,232	34.4%	0.96%	383,707	62.5%	(3,722)	379,985	63.6%	0.97%
Total	**1,670,092**	**100.0%**	**(32,229)**	**1,637,863**	**100.0%**	**1.93%**	**613,617**	**100.0%**	**(16,216)**	**597,401**	**100.0%**	**2.64%**

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

Organic non-performing loans amounted to approximately 19.5 million euros, up compared to 17.3 million euros as of 31 December 2018, due to new positions in the UTP (unlikely-to-pay positions) category. Organic bad loans decreased from EUR 7.6 million to EUR 5.2 million due to the combined effect of significant inflows for some positions and an additional general consolidation of the coverage ratio.

Inorganic non-performing loans amounted to EUR 705.4 million, of which:

- 544.8 million euros relating to transactions concluded by the SME and DCIS Divisions classified as bad loans, up from 86.4 million euros as of 31 December 2018;
- 160.7 million euros relating to transactions completed by the SME and DCIS Divisions, classified as UTP positions.

Performing loans amounted to 563.2 million euros, up compared to 380.0 million euros as of 31 December 2018 due to new transactions in the period.

Performing securities amount to 299.4 million euros as of 31 December 2019 up compared to December 2018 due to new transactions in *senior financing* instruments.

Deposits

(Amounts in thousands of euro)

DEPOSITS BY TECHNICAL FORM	31/12/2019		31/12/2018		Change	
	Book values	Inc. %	Book values	Inc. %	Absolute	Chg. (%)
Amounts due to customers (A)	1,985,145	83.51%	453,721	70.46%	1,531,424	>100%
– of which: Liabilities for leasing (B)	21,908	0.92%	N.A.	N.A.	21,914	N.A.
Securities issued (C)	15,358	0.65%	81,413	12.64%	(66,055)	(81%)
Amounts due to banks (D)	376,747	15.85%	108,842	16.9%	267,905	>100%
Total direct deposits from customers (A) - (B) + (C)	**1,978,595**	**83.23%**	**535,134**	**N.A.**	**1,443,455**	**>100%**
Total Debt (A) + (C) + (D)	**2,377,250**	**100%**	**643,976**	**100%**	**1,733,274**	**>100%**

At the end of the reporting period, total debt amounted to approximately 2,377.3 million euros, up considerably compared to 31 December 2018, due to the undersigning of Repo agreements to Banks and the increase in direct funding through the opening of deposit accounts following the launch of the Digital Bank.

Property and equipment and intangible asset

Property and equipment amounted to approximately EUR 25.4 million at 31 December 2019, up from EUR 2.5 million at 31 December 2018. The increase was mainly due to the subscription of *Right of Use Asset* purchased under *leases*in accordance with IFRS 16, equal to approximately 21.9 million euros at 31 December 2019, Euro 20.5 million net of amortisation.

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

Intangible assets amounted to approximately EUR 40.8 million at 31 December 2019, up from EUR 21.9 million at 31 December 2018. The item consists primarily of the goodwill arising from the *business combination* transaction of 21.6 million euros and IT investments during the period.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 37 million as at 31 December 2019, up from EUR 19.5 million carried as at 31 December 2018. Details of the breakdown of tax assets are shown below.

(Amounts in thousands of euro)

TAX ASSETS	31/12/2019	31/12/2018	Chg.	Chg. (%)
Current	5,127	1,972	3,155	>100%
Deferred	31,934	17,490	14,444	83%
Total	**37,061**	**19,462**	**17,599**	**90%**

Deferred 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.

The balance as of 31 December 2019 includes 3.8 million euros for prepaid taxes 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.

A further positive effect on prepaid taxes is determined by the reintroduction of the ACE legislation, provided for by the Budget Law 2020 from the 2019 financial year, for an amount of 1.9 million euros.

As regards tax liabilities, relating to deferred taxes, at 31 December 2019 they amounted to Euro 0.7 million, compared to Euro 0.3 million at 31 December 2018.

CAPITAL ADEQUACY

On 1 January 2014, the new prudential requirements for banks and investment firms came into force, in the form of Regulation (EU) 575/2013 (*Capital Requirements Regulation*, so-called CRR) and Directive 2013/36/EU (*Capital Requirements Directive*, so-called CRD IV), which have transposed into the EU the standards set by the Basel Committee on Banking Supervision (so-called Basilea 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).

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

(Amounts in thousands of euro)

Capital ratios	31/12/2019	31/12/2018
Common Equity Tier 1 (CET1) capital	**461,699**	**526,538**
Additional Tier 1 (AT1) capital	**–**	**–**
Tier 2 (T2) capital	**–**	**–**
Total own funds	**461,699**	**526,538**
Credit risk	*168,492*	*43,293*
Credit valuation adjustment risk	*–*	*7*
Settlement risks	*–*	*–*
Market risks	*65*	*1,322*
Operational risk	*4,442*	*2,370*
Other calculation factors	*–*	*–*
Total minimum requirements	**172,999**	**46,992**
Risk-weighted assets	**2,162,485**	**587,398**
Common Equity Tier 1 ratio	**21.35%**	**89.64%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**21.35%**	**89.64%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**21.35%**	**89.64%**
(Total own funds/Risk-weighted assets)		

CHANGES IN SHAREHOLDERS' EQUITY

As of 31 December 2019, shareholders' equity, inclusive of the result for the period, amounted to approximately 544.4 million euros, down from 557.2 million euros at the end of 2018, primarily due to the total result for the period.

(Amounts in thousands of euro)

Items/Technical forms	31/12/2019	31/12/2018
1. Share capital	43,408	62,781
2. Share premium reserve	480,156	517,827
3. Reserves	36,188	–
4. Equity instruments	–	–
5. (Treasury shares)	(96)	–
6. Valuation reserves	939	26
7. Profit (Loss) for the period	(16,140)	(23,542)
Total shareholders' equity attributable to the Group	**544,455**	**557,092**
Shareholders' equity attributable to non-controlling interest	–	153
Total shareholders' equity	544,455	557,245

Share capital and ownership structure

As of 31 December 2019, the Bank's share capital amounted to 44,904,333.15 euros, of which 43,407,661.81 euros subscribed and fully paid, divided into 65,164,434 ordinary shares and 1,440,000 special shares, without indication of the par value.

On 20 September 2019, in accordance with the provisions of the Regulation on "Rights of Allocation illimity S.p.A." (the "Rights of Allocation") then in force, holders of 28,492,827 Rights of Allocation outstanding on that date were assigned 5,698,551 new-issue illimity converted shares (the "Converted shares"), divided among all holders of Rights of Allocation according to the ratio of 1 Converted Share for every 5 Rights of Allocation held, resulting in the cancellation of all Rights of Allocation outstanding on that date.

In accordance with the aforementioned Regulation on Allocation Rights, the allocation of the Converted Shares took place without any expression of will on the part of the holders of the Allocation Rights and without any change in the size of the nominal capital.

The Ordinary Shares were admitted to trading on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. on 5 March 2019. Trading of the Allocation Rights, admitted to trading on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. on 5 March 2019, ended on 17 September 2019, with allocation of the above shares.

The Bank's Special Shares are not traded.

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

TREASURY SHARES

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

PARENT COMPANY RECONCILIATION - CONSOLIDATED

The table below gives a reconciliation of the shareholder's equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 31 December 2019:

	Shareholders' equity	Result
illimity Bank S.p.A.	**544,568**	**(16,840)**
Effect of consolidation of subsidiaries	(1,048)	47
Results of the consolidated companies	(782)	(782)
Consolidation adjustments	1,717	1,435
Dividends	–	–
Effect of valuation at equity method of associates and joint ventures	–	–
Group	**544,455**	**(16,140)**

FINANCIAL PERFORMANCE

Interest margin

(Amounts in thousands of euro)

Items/Technical forms	Loans/ Payables	Debt securities	Other transactions	2019	2018	Chg.	Chg. (%)
Interest and similar income							
1. Financial assets measured at fair value through profit or loss	–	–	–	–	–	–	n.a
Held for trading	–	–	–	–	–	–	n.a
Designed at FV	–	–	–	–	–	–	n.a
Mandatorily measured at fair value	–	–	–	–	–	–	n.a
2. Financial assets at FV through other comprehensive income	–	1,723		1,723	2,861	(1,138)	(40%)
3. Financial assets at amortised cost	52,233	8,398	–	60,631	13,118	47,513	>100%
Due from Banks	*1,571*	–		*1,571*	*326*	*1,245*	*>100%*
Loans to customers	*50,662*	*8,398*		*59,060*	*12,792*	*46,268*	*>100%*
4. Hedging derivatives			–	–	–	–	n.a
5. Other assets			70	70	–	70	n.a
6. Financial liabilities				249	550	(301)	(55%)
Total interest income	**52,233**	**10,121**	**70**	**62,673**	**16,529**	**46,144**	**>100%**
Interest expenses							
1. Financial liabilities at amortised cost	(12,245)	(1,297)		(13,542)	(3,979)	(9,563)	>100%
Amounts due to central banks	*(123)*			*(123)*	*(43)*	*(80)*	*>100%*
Amounts due to banks	*(2,551)*			*(2,551)*	*(136)*	*(2,415)*	*>100%*
Amounts due to customers	*(9,571)*			*(9,571)*	*(1,755)*	*(7,816)*	*>100%*
Securities issued		*(1,297)*		*(1,297)*	*(2,045)*	*748*	*(37%)*
of which: Leasing transactions	*(1,261)*			*(1,261)*		*(1,261)*	*n.a*
2. Financial liabilities held for trading						–	n.a
3. Financial liabilities designed at FV						–	n.a
4. Other liabilities and provisions			(10)	(10)		(10)	n.a
5. Hedging derivatives						–	n.a
6. Financial assets				(1,087)	(271)	(816)	>100%
Total interest expenses	**(12,245)**	**(1,297)**	**(10)**	**(14,639)**	**(4,250)**	**(10,389)**	**>100%**
Interest margin	**39,988**	**8,824**	**60**	**48,034**	**12,279**	**35,755**	**>100%**

As at 31 December 2019, the interest margin amounted to approximately EUR 48.0 million, up considerably on the same period of the previous year when it amounted to EU 12.3 million. This change is mainly due to the increase in interest income from loans to customers, due to new transactions taking place in the financial year. This increase is partially offset by a reduction in interest income from financial assets at *fair value through other comprehensive income* of approximately 1.1 million euros due to the *de-risking*previously described.

The item interest expense increased by approximately 10.4 million euros compared to 31 December 2018, mainly due to an increase in interest expenses to banks for approximately 2.4 million euros, mainly due to the undersigning of Repo agreements, and to customers for approximately 7.8 million euros for the increase on the direct deposits through the opening of deposit account during the launch of the Digital Bank; this increase is partially offset by a reduction in interest on issued securities for 0.7 million euros.

Net fee and commission income

(Amounts in thousands of euro)

Items/Technical forms	2019	2018	Chg.	Chg. (%)
Fee and commission income				
a. guarantees issued	209	262	(53)	(20%)
c. management, brokerage and advisory services	390	398	(8)	(2%)
d. collection and payment services	411	925	(514)	(56%)
f. factoring services	420		420	n.a
i. maintenance and management of current accounts	546	3,125	(2,579)	(83%)
j. other services	9,602	141	9,461	>100%
Total	**11,578**	**4,851**	**6,727**	**>100%**
Fee and commission expense				
a. guarantees received	(15)	(41)	26	(63%)
c. management and brokerage services	(279)	(48)	(231)	>100%
d. collection and payment services	(3,800)	(205)	(3,595)	>100%
e. other services	(863)	(349)	(514)	>100%
Total	**(4,957)**	**(643)**	**(4,314)**	**>100%**
Net fee and commission income	**6,621**	**4,208**	**2,413**	**57%**

Net fee and commission income amounted to EUR 6.6 million, up by 57% on the amount recognised by Banca Interprovinciale as at 31 December 2018.

The sub-item "other services among commission income" mainly refers to structuring commission relative to new *DCIS* and SME Division transactions. Commission expenses under collection and payment services includes *servicing* commission.

Other operating expenses and income

(Amounts in thousands of euro)

Items/Technical forms	2019	2018	Chg.	Chg. %
Other operating expenses				
Amortisation of expenses for improvements on third party assets	(50)	(294)	244	(83%)
Other operating charges	(311)	(111)	(201)	>100%
Total	**(361)**	**(405)**	**44**	**(11%)**
Other operating income				
Recoveries of expenses from other customers	954	121	833	>100%
Other non-recurrent income	16		16	N.A.
Other income	1,308	113	1,195	>100%
Total	**2,278**	**234**	**2,044**	**>100%**
Other operating income/expenses	**1,917**	**(171)**	**2,088**	**>100%**

Other operating expenses and income of 1.9 million euros mainly refers to the recovery of other expenses from customers.

Other operating income includes, under the item "Other non-recurrent income" 16 thousand euros of *badwill*, arising from an acquisition of the Company Neprix determined from the comparison between the acquisition cost equal to 23 thousand euros and net equity (at IFRS 3 present values) equal to 39 thousand euros.
The item also includes income related to an compensation claim with reference to guarantees issued by the sellers in the context of the acquisition of BIP by SPAXS. In particular, in relation to the provisions of the Contract, in view of the amicable resolution of the dispute and the waivers of illimity, on 10 October 2019, the Common Representative of the Sellers, in the name and on behalf of the Sellers, agreed to pay, in full and final settlement, a lump sum determined by the Parties of 1.3 million euros.

Net write-downs/write-backs for credit risk relating to financial assets measured at Amortised Cost

(Amounts in thousands of euro)

Transaction/Income items	Write-downs (1)			Value write-backs (2)		Total 2019
	Stage one/ two	Stage three		Stage one/ two	Stage three	(1)+(2)
		Write-offs	Others			
A. Due from banks	**(283)**			**94**		**(189)**
– loans	(283)			94		(189)
– debt securities						–
of which: purchased or originated impaired loans						–
B. Loans to customers	**(5,469)**	**(345)**	**(23,499)**	**2,272**	**20,558**	**(6,483)**
– loans	(5,086)	(345)	(23,499)	2,020	20,558	(6,352)
– debt securities	(383)			252		(131)
of which: purchased or originated *impaired* loans		(345)	(16,443)		17,699	911
Total	**(5,752)**	**(345)**	**(23,499)**	**2,366**	**20,558**	**(6,672)**

Net write-downs/write-backs for credit risk relating to financial assets measured at amortised cost amounted to EUR 6.7 million, with a significant increase compared to 31 December 2018. Value write-backs on POCI credits amounted to 0.9 million euros, as shown in the table.

The sub-item "purchased or originated *impaired* loans" recognises the amount of write-downs/write-backs of purchased or originated *impaired* loans as a result of receipts or revisions of business plans.

Personnel costs

(Amounts in thousands of euro)

Items/Technical forms	2019	2018	Chg.	Chg. (%)
1. Employees	(28,751)	(8,527)	(20,224)	>100%
2. Other personnel in service	(970)	(299)	(671)	>100%
3. Directors and statutory auditors	(1,345)	(1,319)	(26)	2%
Personnel costs	**(31,066)**	**(10,145)**	**(20,921)**	**>100%**

Personnel costs amounted to approximately EUR 31.1 million and consist mainly of employee wages and salaries and the related social security contributions.

The Group had a total of 348 employees as of 31 December 2019, an increase from 138 on 31 December 2018. The following table shows the number of employees at 31 December 2019, broken down by classification, together with changes compared to 31 December 2018.

Level	31/12/2019			31/12/2018			Changes	
	Average age	No. employees	No. employees %	Average age	No. employees	No. employees %	Absolute.	%
Executives	46	44	13%	46	34	25%	10	29%
Middle managers	37	191	55%	42	60	43%	131	218%
White-collar	32	113	32%	34	44	32%	69	157%
Employees		348	100%		138	100%	210	152%

Other Administrative Costs

(Amounts in thousands of euro)

Items/Technical forms	2019	2018	Chg.	Chg. (%)
Rental of premises	(506)	(357)	(149)	42%
Insurance	(575)	(90)	(485)	>100%
Various payments	(4,582)	(767)	(3,815)	>100%
Various consulting services	(8,502)	(9,394)	892	(9%)
Membership fees	(263)	(182)	(81)	45%
DGS, SRF contribution and voluntary scheme	(873)	(596)	(277)	46%
Cost of services	(2,429)	(655)	(1,774)	>100%
Financial information	(933)	(291)	(642)	>100%
Adverts and advertising	(4,714)	(406)	(4,308)	>100%
Recoveries of expenses	1,022	700	322	46%
Financial statement audit	(373)	(233)	(140)	60%
Maintenance and repair costs	(449)	(175)	(274)	>100%
Business expenses	(341)	(232)	(109)	47%
IT and software expenses	(9,320)	(110)	(9,210)	>100%
Legal and notary's fees	(10,892)	(5,687)	(5,205)	92%
Postal and stationery expenses	(230)	(72)	(158)	>100%
Utilities and services	(1,237)	(521)	(716)	>100%
Other indirect taxes and duties	(1,619)	(845)	(774)	92%
Others	(7,112)	(326)	(6,786)	>100%
Total other administrative expenses	**(53,928)**	**(20,239)**	**(33,689)**	**>100%**

Other administrative costs amounted to 53.9 million euros, increasing by 33.7 million euros compared to figures reported by the Bank as of 31 December 2018, and consisted primarily of costs for professional and advisory services, legal and notary's fees, IT and *software* expenses and costs for advertising and media.

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

(Amounts in thousands of euro)

Items/Technical forms	2019	2018	Chg.	Chg. (%)
Net write-downs/write-backs on property and equipment				
Property and equipment with functional use	(2,018)	(251)	(1,767)	>100%
of which: own property and equipment	*(411)*	*(251)*	*(160)*	*64%*
of which: Lease rights of use	*(1,606)*	*N.A.*	*(1,606)*	*N.A.*
Total	**(2,018)**	**(251)**	**(1,767)**	**>100%**
Net write-downs/write-backs on intangible assets				
finite useful life	(1,129)	(5)	(1,124)	>100%
indefinite useful life				–
Total	**(1,129)**	**(5)**	**(1,124)**	**>100%**
Net value adjustments/write-backs on material and intangible assets	**(3,147)**	**(256)**	**(2,891)**	**>100%**

Net write-downs/write-backs on property and equipment and intangible assets amounted to approximately 3.1 million euros, compared to 0.3 thousand euros as of 31 September of the previous year. The increase is 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.

Income taxes for the financial year on current operations

(Amounts in thousands of euro)

Income items/Sectors	Total 2019	Total 2018
Current taxes	(29)	369
Adjustment to current tax of prior financial years	(4,022)	–
Reduction of current taxes for the financial year due to tax credits pursuant to Law no. 214/2011	–	–
Changes in deferred taxes	16,418	10,613
Income taxes for the financial year	**12,367**	**10,982**

Income taxes amounted to 12.4 million euros, due to the change in pre-paid taxes that include loss for the financial year and non-recurring income related to the positive outcome of the request for non-application, as referred to in paragraph "Tax assets and tax liabilities".

Basic and diluted loss per share

The basic loss per share is calculated by dividing the Group's net loss for the financial year by the weighted average number of ordinary shares in issue during the year. The diluted loss per share on 31 December 2019 coincides with the basic loss per share.

As described previously, on 20 September 2019, holders of Allocation Rights were assigned 5,698,551 new-issue illimity converted shares, having the same characteristics as the Ordinary Shares, and at the same time, 28,492,827 Allocation Rights were cancelled. This increase in the number of shares, in keeping with IAS 33 requirements, was considered retroactively, as if it had occurred at the start of 2018 (comparison period). Comparative data for the period ended 31 December 2018 were therefore restated.

(Amounts in thousands of euro)

Basic and diluted loss per share	Result for the financial year	Average number of shares	Basic and diluted loss per share
Period ended 31 December 2019	(16,140)	65,128,632	(0.25)
Period ended 31 December 2018	(23,542)	57,342,876	(0.41)

QUARTERLY TREND

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

(Amounts in thousands of euro)

Assets	Consolidated Financial Statements illimity 31/12/2019	Consolidated Financial Statements illimity 30/09/2019	Consolidated Financial Statements illimity 30/06/2019	Consolidated Financial Statements illimity 31/03/2019
Treasury portfolio - Securities at FV	125,851	91,806	100,205	88,170
Treasury portfolio - Securities at amortised cost	–	103,259	102,760	117,095
Financial assets mandatorily measured at fair value	8,602	9,680	7,178	6,782
Due from Banks	344,858	271,289	122,763	137,373
Loans to customers	1,637,864	1,255,037	774,696	512,916
Property and equipment and intangible assets	66,199	62,208	54,861	44,878
Tax assets	37,061	35,039	32,121	23,407
Other assets	804,787	128,151	58,509	189,333
Total assets	**3,025,222**	**1,956,470**	**1,253,093**	**1,119,953**

(Amounts in thousands of euro)

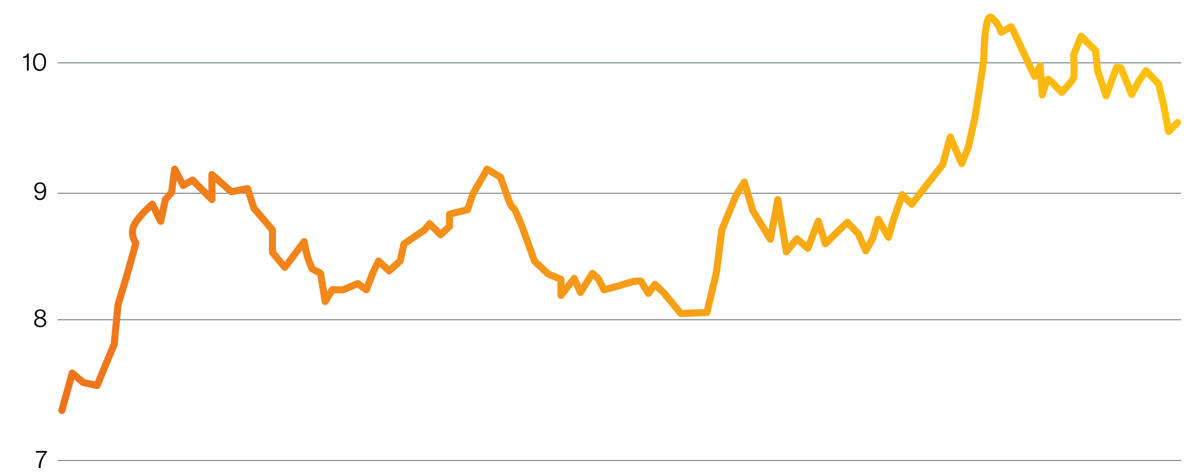
Liabilities	Consolidated Financial Statements illimity 31/12/2019	Consolidated Financial Statements illimity 30/09/2019	Consolidated Financial Statements illimity 30/06/2019	Consolidated Financial Statements illimity 31/03/2019
Amounts due with banks	376,747	397,005	238,779	71,361
Amounts due to customers	1,985,145	912,900	384,276	382,701
Debt securities issued	15,358	15,393	18,043	63,682
Tax liabilities	770	1,461	693	946
Other liabilities	102,747	86,368	62,486	49,013
Shareholders' equity	**544,455**	**543,343**	**548,816**	**552,250**
Total liabilities and shareholders' equity	**3,025,222**	**1,956,470**	**1,253,093**	**1,119,953**

(Amounts in thousands of euro)

Income Statement items	4Q2019	3Q2019	2Q2019	1Q2019
Interest margin	18,127	13,785	8,939	7,183
Net fee and commission income	1,513	2,562	1,933	612
Net trading and purchase/sale result of financial assets	8,890	115	343	924
Other operating expenses and income	1,632	(75)	85	277
Total net operating income	**30,162**	**16,387**	**11,300**	**8,996**
Net write-downs/write-backs for credit risk - HTC Banks	8	(155)	42	(84)
Net write-downs/write-backs for credit risk - HTC Clients	(100)	(3,768)	(2,725)	110
Net write-downs/write-backs for credit risk - HTCS	55	25	161	(237)
Net write-downs/write-backs for commitments and guarantees	63	(116)	(398)	(29)
Total net write-downs/write-backs	**26**	**(4,014)**	**(2,920)**	**(240)**
Net result of banking operations	**30,188**	**12,373**	**8,380**	**8,756**
Personnel costs	(9,071)	(6,915)	(8,717)	(6,364)
Other administrative costs	(18,651)	(13,876)	(11,379)	(10,022)
Net write-downs/write-backs on property and equipment and intangible assets	(1,117)	(882)	(670)	(478)
Operating expenses	**(28,839)**	**(21,673)**	**(20,766)**	**(16,864)**
Other net provisions	61	(77)	168	(214)
Profit (Loss) from operations before taxes	**1,409**	**(9,376)**	**(12,218)**	**(8,322)**
Income taxes for the financial year on current operations	645	2,541	6,798	2,383
Profit (Loss) for the financial year	**2,054**	**(6,836)**	**(5,420)**	**(5,939)**

SHARE PERFORMANCE OF ILLIMITY BANK

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



Based on available information, published by CONSOB, updated on 01 March 2020, the main shareholders of the Bank are as follows:

Declarant or subject at the top of the control chain	Direct shareholder	Share held	Share % of the ordinary capital	Share % of the voting capital
SDP CAPITAL MANAGEMENT LTD	SDP CAPITAL MANAGEMENT LTD	Discretionary asset management	9.875%	9.875%
Atlas Merchant Capital LLC	AMC METIS SARL	Owned	7.741%	7.741%
TENSILE CAPITAL MANAGEMENT LLC	TENSILE-METIS HOLDINGS SARL.	Owned	7.010%	7.010%

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

MANAGEMENT OF BUSINESS RISKS

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

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

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

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

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

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

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

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

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

To ensure that the Risk Management Process functions efficiently and effectively, with reference to all existing or potential risks, in compliance with the legislation in force, the Group has implemented a system of risk limits and objectives (RMP), the process of self-evaluation of the capital adequacy (so-called) ICAAP), a process for the self-assessment of the liquidity profile (ILAAP) and a process for the ex ante assessment of Major Transactions (OMR), with a prior opinion on their coherence with the RMP.

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

The formalisation, through the definition the RMP, of risk limits and objectives that reflect the maximum acceptable risk, the business model and strategic guidelines, is 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, under ordinary and stress conditions, of available assets in relation to exposure to operational risks, and of the operational liquidity and structural profile.

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

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

MAIN RISKS AND UNCERTAINTIES

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

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

The process to identify material risks for the Group is overseen (at least annually) by the CRO Division together with the CFO Division and the support of the other business units.

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 RMP, and are therefore validated by top management, discussed and analysed by the Risks Committee, and subject to approval by the Board of Directors.

Part E of the Explanatory notes to the consolidated financial statements of the illimity Group contains specific information about the following risks and the related management, control and hedging policies employed by the Group:

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

The Group is also equipped with a system of quantitative limits with reference to activities at risk to related parties and beyond. In accordance with the relevant supervisory provisions, indication was envisaged of the level of risk appetite required by the provisions for the determination and formalisation by banks and banking entities, defined in terms of the maximum limit of the total exposures granted to related parties deemed acceptable in relation to the total exposures granted by illimity Bank.

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

In view of the phenomenon of the spread of the Coronavirus in our country, and the related risks and uncertainties relating to both human health and the strategic and business dimensions of the Group, the following interventions have been carried out:

- to protect the health of its staff, customers and suppliers, illimity has activated specific safety and monitoring protocols, and has used as a precautionary measure - graduating it in relation to the updates provided from time to time by the Public Authorities - the tool of integral smart working. These actions also address the objective of ensuring the Bank's business continuity, in order to mitigate potential strategic and business risks regarding the achievement of the 2020 budget targets;
- the offer of collection/employment services through the Digital Bank channel and the German platform "Raisin" has allowed illimity to continue to best serve its Retail and SME customers, even in the areas affected by the spread of the virus;
- the possible impacts in terms of slowing down business processes as a result of endogenous and exogenous factors (e.g. the impact of the spread of the virus and the actions of public authorities on the operations of counterparties and courts and consequent repercussions on the effectiveness of recovery processes, or operational repercussions on the evaluation and origination processes of loans to unrated or high-risk counterparties or UTPs), are constantly monitored by the Bank's Management Committees and Governing Bodies, in order to reactively adapt strategies and policies (including risk) to the changing context;
- capital adequacy (ICAAP) and liquidity (ILAAP) assessments have also been conducted taking into account the economic and financial impacts associated with the spread of the virus, with the aim of incorporating the latest updates in terms of macro-economic and sectoral/geographical scenario into their risk models, as well as conducting assessments with the Business Divisions in order to factor the specific impacts (e.g. increase in the probability of default of SME counterparties, or reduction in the recovery rates of portfolios purchased by the DCIS Division).

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are mainly governed by article 2391 bis of the Italian Civil Code, according to which the administrative 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 the substantial 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.

For more detail about the transactions with related parties and for an examination of the impact of these transactions on the economic-financial situation, refer to Part H of the Explanatory Note.

ATYPICAL OR NON-ORDINARY TRANSACTIONS

In 2019 the Bank did not carry out any such transactions as defined in the Consob Communication no. 6064293 of 28 July 2006.

RESEARCH AND DEVELOPMENT

The Parent Company has conducted research with a focus on technological innovation of its products and retail channels the development of new models of customer service, and on optimising the retail network.

Specifically, preliminary research was completed in view of developing processes, competitiveness, the quality of products and services for SMEs, corporate NPLs and the Direct Bank.

With regard to new technologies, in 2019, solutions were considered for the management of core banking systems, cloud infrastructure and for the development of vertical applications in order to build a modular, open-architecture platform.

Systems based on artificial intelligence and machine learning were also evaluated and implemented, in order to provide private customers with a new way of interacting on digital channels, while for the DCIS and SME Divisions, semantic *big data* and *machine learning* models were developed to improve the efficiency of the documentary and credit process.

For *marketing* and business communications, research was carried out in various customer segments, in particular Retail, along with developments for the new multichannel Direct Bank strategy, with a simple and innovative user experience.

EVENTS AFTER THE END OF THE FINANCIAL YEAR

Following the agreements reached during 2019, the acquisition by illimity of 70% of the share capital of IT Auction, for 10.5 million euros, by Neprix, an illimity Group company in which all the bank's *distressed* credit management activities are concentrated, was completed on 9 January 2020. The remaining 30% is held by current shareholders, including *top management*, who will remain with the company to implement the industrial plan.

IT Auction, founded in 2011, has more than 100 employees and specialises in managing and marketing property and capital goods through an innovative *business* model that aims at the transparent enhancement of assets through *online* auctions on its *network* of portals. IT Auction works with over 110 Italian courts and numerous *leasing* companies, and in 2019 managed approximately 17.3 million visits on its platforms and over 50,000 auctions, for a value of sold goods of approximately 240 million euros, increased by approximately 25% compared to the previous year. With the acquisition of IT Auction, Netprix proposes itself as the first operator specialised in *distressed corporate* credit, with a distinctive *end-to-end* logic, thanks to the ability to cover the entire value chain in managing impaired loans, from acquisition to management and sale on the market of goods connected with these loans, thanks to *core* activities of IT Auction.

On 16 January 2020, illimity signed its first supplementary contract. The agreement reflects the values on which the Bank's mission is founded, based on a new paradigm, born to exploit the potential of companies and individuals by making their projects possible. In defining *welfare* policies, illimity therefore wanted to create an ecosystem that would allow each *illimiter* to express their potential by customising, according to its needs and interests, the measures envisaged by an extremely flexible system.

On 23 January 2020, illimity announced *partnerships* with two leading insurance market operators, the *Aon* Group (the first group in Italy and worldwide in risk and human resources consulting, insurance and reinsurance mediation) and the *Helvetia* Group (the leading Swiss insurance company in Italy for over 70 years), to expand the offer of the direct digital bank, *illimitybank.com*, with value-added services for its customers and non-life insurance products.

In particular, the digital *Tsunami* platform by *Aon* has been integrated into *illimitybank.com*, through which contracts and insurance offers are made available to customers of the bank according to their needs. Moreover, since that date, the first products of *Helvetia* Group are also available on the *Tsunami* platform, which illimity has chosen as a priority *partner* for the digital distribution of non-life insurance products to its customers.

On 23 January 2020, illimity, was recognised as a quality working environment, obtaining the *Great Place to Work® certification, an organisational consulting company in the*HR field, *leader* in Italy in the study and analysis of the business climate. This recognition was awarded following a survey, the *Trust Index©*, aimed at all bank employees for the purpose of measuring their perception of the working environment according to different criteria.

On 25 February 2020, the company illimity SGR S.p.A., controlled by illimity Bank, was authorised to provide the collective asset management service referred to in article 34 of Legislative Decree 58 of 24 February 1998.

On 5 March 2020, the Board of Directors of illimity approved an extraordinary transaction for the acquisition of the entire share capital of IT Auction – through the acquisition of the remaining 30%, a stake now held through the vehicle Core Srl essentially by the shareholders who sold 70% to the Bank on the basis of the agreement announced in June 2019, including the top management of the same company – aimed at acquiring total control of the company and proceeding with its full integration into the illimity Banking Group.

MANAGEMENT OUTLOOK, MAIN RISKS AND UNCERTAINTIES

In 2019, the bank's first year of operations, illimity Group achieved significant results, meeting all the deadlines and strategic objectives set out in the plan. In fact, during the year, the construction of illimity was completed with the launch of the digital direct bank, the establishment of the *distressed* credit *servicing* platform – which guaranteed it a distinctive position on the market – and the commissioning of credit activities for SMEs and investment and financing services in *distressed* loans. The team was also completed, and important business volumes were generated in all the areas in which the bank operates and strategic initiatives were launched in addition to those provided for in the plan. In the light of the objectives achieved, the results obtained and the investments made to complete the structure, the start-up phase that characterised the bank's first year of activity can essentially be said to be concluded.

The year 2020, therefore, opens with a solid starting asset and financial situation and a strong quarterly increase in revenues and profitability is expected.

In particular, interest income is expected to continue to grow quarter over quarter in 2020 thanks to the strong commercial drive in the latter part of 2019, which only partly contributed to revenues for the year just ended.

The success of the digital direct *illimitybank.com*, which in 2019 raised 731 million euro in deposits, mainly medium and long term, has enabled part of the long-term *retail* collection plan planned for 2020 to be brought forward to the fourth quarter; therefore, a modest quarterly increase in interest expense is expected in the future.

With the team, systems and operational resources already in place, operational execution is also expected to become progressively more visible over the course of 2020.

Consolidated financial statements

as of 31 December 2019

CONSOLIDATED BALANCE SHEET

	Assets	31/12/2019	31/12/18*
10.	Cash and cash equivalents	772,125	68,088
20.	Financial assets measured at fair value through profit or loss	8,665	29,350
	a) financial assets held for trading	63	29,251
	b) financial assets designated at fair value	–	–
	c) other financial assets mandatorily measured at fair value	8,602	99
30.	Financial assets measured at fair value through other comprehensive income	125,788	107,913
40.	Financial assets measured at amortised cost	1,982,722	969,559
	a) due from banks	344,858	372,158
	b) loans to customers	1,637,864	597,401
50.	Hedging derivatives	–	–
60.	Fair value change of financial assets in hedged portfolios (+/-)	–	–
70.	Equity investments	–	–
80.	Technical reinsurance reserves	–	–
90.	Property and equipment	25,395	2,495
100.	Intangible assets	40,804	21,913
	of which:		
	– goodwill	21,643	21,643
110.	Tax assets	37,061	19,462
	a) current	5,127	1,972
	b) deferred	31,934	17,490
120.	Non-current assets held for sale and discontinued operations	–	–
130.	Other assets	32,662	16,661
	Total assets	**3,025,222**	**1,235,441**

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

cont'd: **CONSOLIDATED BALANCE SHEET**

	Liabilities and shareholders' equity	31/12/2019	31/12/18*
10.	Financial liabilities measured at amortised cost	2,377,250	643,976
	a) due to banks	376,747	108,842
	b) due to customers	1,985,145	453,721
	c) debt securities issued	15,358	81,413
20.	Financial liabilities held for trading	–	–
30.	Financial liabilities designated at fair value	–	–
40.	Hedging derivatives	–	–
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	–	–
60.	Tax liabilities	770	280
	a) current	53	–
	b) deferred	717	280
70.	Liabilities associated with non-current assets held for sale and discontinued operations	–	–
80.	Other liabilities	100,568	30,510
90.	Employee severance pay	1,097	575
100.	Allowances for risks and charges	1,082	2,855
	a) commitments and guarantees given	598	119
	b) post-employment benefits and similar obligations	–	–
	c) other allowances for risks and charges	484	2,736
110.	Technical reserves	–	–
120.	Valuation reserves	939	26
130.	Redeemable shares	–	–
140.	Equity instruments	–	–
150.	Reserves	36,188	–
160.	Share premium reserve	480,156	517,827
170.	Share capital	43,408	62,781
180.	Treasury shares (-)	(96)	–
190.	Equity attributable to minority interests (+/-)	–	153
200.	Net income (loss) (+/-)	(16,140)	(23,542)
	Total liabilities and shareholders' equity	**3,025,222**	**1,235,441**

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

CONSOLIDATED INCOME STATEMENT

Items		31/12/2019	31/12/18*
10.	Interest income and similar income	62,673	6,241
	of which: interest income calculated according to the effective interest method	60,033	4,949
20.	Interest expenses and similar charges	(14,639)	(1,149)
30.	**Net interest margin**	**48,034**	**5,092**
40.	Fee and commission income	11,578	1,230
50.	Fee and commission expense	(4,957)	(1,143)
60.	**Net fee and commission income**	**6,621**	**87**
70.	Dividends and similar income	–	–
80.	Profits (losses) on trading	111	(30)
90.	Fair value adjustments in hedge accounting	–	–
100.	Profits (losses) on disposal or repurchase of	10,673	(1,952)
	a) financial assets measured at amortised cost	8,078	–
	b) financial assets measured at fair value through other comprehensive income	2,595	(1,952)
	c) financial liabilities	–	–
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	(512)	(104)
	a) financial liabilities measured at fair value	–	–
	b) other financial assets mandatorily measured at fair value	(512)	(104)
120.	**Net interest and other banking income**	**64,927**	**3,093**
130.	Net losses/recoveries for credit risks associated with:	(6,668)	(3,412)
	a) financial assets measured at amortised cost	(6,672)	(3,296)
	b) financial assets measured at fair value through other comprehensive income	4	(116)
140.	Profits (losses) on changes in contracts without derecognition	(1)	–
150.	**Net result from banking activities**	**58,258**	**(319)**
160.	Net premiums	–	–
170.	Balance of other income/charges from insurance management	–	–
180.	**Profits (losses) of banking and insurance management**	**58,258**	**(319)**
190.	Administrative expenses:	(86,028)	(25,610)
	a) personnel expenses	(30,864)	(4,032)
	b) other administrative expenses	(55,164)	(21,578)
200.	Net provisions for risks and charges	(542)	(2,411)
	a) commitments and guarantees given	(480)	(33)
	b) other net provisions	(62)	(2,378)
210.	Net adjustments/recoveries on property and equipment	(2,018)	(80)
220.	Net adjustments/recoveries on intangible assets	(1,129)	(3)
230.	Other operating income/expenses	2,952	(83)
240.	**Operating expenses**	**(86,765)**	**(28,187)**
250.	Profits (losses) on equity investments	–	–
260.	Profits (losses) of fair value valuation of Property and Equipment and intangible assets	–	–
270.	Goodwill impairment	–	–
280.	Profits (losses) on disposal of investments	–	–
290.	**Income (Loss) before tax from continuing operations**	**(28,507)**	**(28,506)**
300.	Income taxes for the financial year on current operations	12,367	4,844
310.	**Income (Loss) after tax from continuing operations**	**(16,140)**	**(23,662)**
320.	Net income (Loss) (+/-) from discontinued operations after taxes	–	–
330.	**Net profit (loss) (+/-)**	**(16,140)**	**(23,662)**
340.	Profit (Loss) for the financial year attributable to minority interests	–	(120)
350.	**Net profit (loss) (+/-) attributable to the Parent Company**	**(16,140)**	**(23,542)**

(cont'd)

* The comparative figures as of 2018 refer to the group controlled by SPAXS, parent company merged into the Bank.

STATEMENT OF THE CONSOLIDATED COMPREHENSIVE INCOME

		31/12/2019	31/12/18*
10.	**Profit (Loss) for the financial year**	**(16,140)**	**(23,662)**
	Other comprehensive income, net of taxes, that may not be reclassified to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	2	–
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating)	–	–
40.	Hedging of equity instruments measured at fair value through other comprehensive income	–	–
50.	Property and Equipment	–	–
60.	Intangible assets	–	–
70.	Defined-benefit plans	(55)	(35)
80.	Non-current assets classified as held for sale	–	–
90.	Share of valuation reserves for equity investments measured at equity:	–	–
	Other comprehensive income (net of taxes) that may be reclassified to the income statement		
100.	Hedges of foreign investments	–	–
110.	Foreign exchange differences	–	–
120.	Cash flow hedges	–	–
130.	Hedging instruments (not designated elements)	–	–
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	967	48
150.	Non-current assets held for sale and discontinued operations	–	–
160.	Share of valuation reserves connected with investments carried at equity	–	–
170.	**Total other comprehensive income (net of tax)**	**914**	**13**
180.	**Total comprehensive income (Item 10+170)**	**(15,226)**	**(23,649)**
190.	Consolidated comprehensive income attributable to minority interests	–	(133)
200.	**Consolidated comprehensive income attributable to the parent company**	**(15,226)**	**(23,516)**

* The comparative figures as of 2018 refer to the group controlled by SPAXS, the company merged into the Bank.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2019

	Balance on 31 December 2018 (SPAXS consolidated financial statements)	Change to opening balance (effects of the merger of SPAXS into Banca Interprovinciale)	Balance on 1 January 2019 (illimity consolidated financial statements)	Allocation of result for the previous financial year		Changes in the PERIOD									Shareholders' equity attributable to the Group as of 31/12/2019	Net equity attributable to minority interests at 31/12/2019
							Equity transactions									
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period		
Share capital:	**62,781**	**(19,404)**	**43,377**		**–**	**–**	**31**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**43,408**	**–**
a) ordinary shares	61,341	(18,990)	42,351	–	–	–	31	–	–	88	–	–	–	–	42,470	–
b) other shares	1,440	(414)	1,026	–	–	–	–	–	–	(88)	–	–	–	–	938	–
Share premium reserve	517,827	–	517,827	–	(23,662)	(14,364)	355								480,156	–
Reserves:	**285**	**19,404**	**19,689**	**–**	**–**	**15,969**	**–**	**–**	**–**	**–**	**–**	**530**	**–**	**–**	**36,188**	**–**
a) retained earnings	–	–	–	–	–	12,007	–	–	–	–	–	–	–	–	12,007	–
b) Others	285	19,404	19,689	–	–	3,962						530	–	–	24,181	–
Valuation reserves	13	–	13	–	–	12	–	–	–	–	–	–	–	914	939	
Equity instruments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Interim dividends	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	(96)	–	–	–	–	–	–	(96)	
Profit (Loss) for the financial year	**(23,662)**	**–**	**(23,662)**	**–**	**23,662**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(16,140)**	**(16,140)**	**–**
Shareholders' equity	**557,244**	**–**	**557,244**	**–**	**–**	**1,617**	**386**	**(96)**	**–**	**–**	**–**	**530**	**–**	**(15,226)**	**544,455**	**–**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2018

	Balance on 31 December 2017	Changes in opening balance	Balance on 1 January 2018	Allocation of result for the previous financial year: Reserves	Allocation of result for the previous financial year: Dividends and other allocations	Changes in the period: Change in reserves	Equity transactions: Issue of new shares	Equity transactions: Purchase of treasury shares	Equity transactions: Extraordinary distribution of dividends	Equity transactions: Change in equity instruments	Equity transactions: Derivatives on treasury shares	Equity transactions: Stock options	Equity transactions: Changes in equity interests	Comprehensive income for the period	Shareholders' equity attributable to the Group at 31/12/2018	Equity attributable to minority interests at 31/12/2018
Share capital:	-	-	-	-	-	-	62,781	-	-	-	-	-	-	-	62,781	-
a) ordinary shares	-	-	-	-	-	-	61,341	-	-	-	-	-	-	-	61,341	-
b) other shares	-	-	-	-	-	-	1,440	-	-	-	-	-	-	-	1,440	-
Share premium reserve	-	-	-	-	-	-	517,827								517,827	-
Reserves:	-	-	-	-	-	-	-	-	-	-	-	-	285	-	-	285
a) retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) others	-	-	-	-	-	-	-	-	-	-	-	-	285	-	-	285
Valuation reserves	-	-	-	-	-	26	-	-	-	-	-	-	-	(13)	26	(13)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,662)	(23,542)	(120)
Shareholders' equity	-	-	-	-	-	26	580,608	-	-	-	-	-	285	(23,675)	557,092	153

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

A. OPERATING ACTIVITIES	Amount 31/12/2019	Amount 31/12/2018
1. Cash flow from operations	**(9,924)**	**(30,752)**
Gains/(Loss) for the period(+/-)	(16,140)	(23,662)
Profits/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (-/+)	–	–
Profits/losses on hedging activities (-/+)	–	–
Net losses/recoveries for credit risk (+/-)	23,950	5,209
Net value adjustments/write-backs on Property and Equipment and intangible assets(+/-)	3,147	140
Net allocations to allowances for risks and charges and other costs/income (+/-)	542	2,306
Taxes, duties and tax credits too be paid/collected (+/-)	(12,361)	(13,975)
Other adjustments (+/-)	(9,062)	(770)
2. Cash flow generated/absorbed by financial assets	**(966,002)**	**(264,162)**
Financial assets held for trading	29,188	42
Financial assets designated at fair value	–	–
other financial assets mandatorily measured at fair value	(8,503)	99
Financial assets measured at fair value through other comprehensive income	(16,664)	127,045
Financial assets measured at amortised cost	(956,041)	(400,633)
Other assets	(13,982)	9,285
3. Cahs flow generated/absorbed by financial liabilities	**1,702,167**	**(236,975)**
Financial liabilities measured at amortised cost	1,705,445	(217,404)
Financial liabilities held for trading	–	–
Financial liabilities measured at fair value	–	–
Other liabilities	(3,278)	(19,571)
Net cash generated/absorbed by operating activities	**726,241**	**(531,889)**

B. INVESTING ACTIVITIES	Amount	
	31/12/2019	31/12/2018
1. Cash flow from	**–**	**–**
Sales of equity investments	–	–
Dividends received on equity investments	–	–
Sales of property and equipment assets	–	–
Sales of intangible assets	–	–
Sales of subsidiaries and business branches	–	–
2. Cash flow used in	***(24,668)***	***(46,435)***
Purchases of equity investments	6	(44,739)
Purchases of property and equipment	(4,654)	(1,428)
Purchases of intangible assets	(20,020)	(268)
Purchases of subsidiaries and business branches	–	–
Net cash generated/absorbed by investing activities	**(24,668)**	**(46,435)**

C. FINANCING ACTIVITIES	Amount	
	31/12/2019	31/12/2018
Issues / Purchases of treasury shares	(96)	569,816
Share capital increases	2,560	–
Dividend distribution and other	–	–
Net cash generated/absorbed by financing activities	**2,464**	**569,816**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**704,037**	**(8,508)**

Reconciliation

BALANCE SHEET ITEMS	Amount	
	31/12/2019	31/12/2018
Cash and cash equivalents at start of financial year	**68,088**	–
Cash acquired through acquisitions		**76,596**
Total cash and cash equivalents generated/absorbed during the financial year	704,037	(8,508)
Cash and cash equivalents: foreign exchange effect	–	–
Cash and cash equivalents at end of financial year	**772,125**	**68,088**
KEY: (+) generated (–) absorbed		

Explanatory Notes

as of 31 December 2019

PART A - ACCOUNTING POLICIES

A.1 GENERAL CRITERIA

Section 1 – Declaration of compliance with International Financial Reporting Standards

These consolidated financial statements have been prepared in application of Legislative Decree of 28 February 2005 no. 38, according to the standards issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Committee, as approved by the European Commission with Regulation (EC) No. 1606 of 19 July 2002.

In preparing these financial statements, the IAS/IFRS in force as of 31 December 2019 were applied, including the SIC and IFRIC interpretations as approved by the European Commission. The line items presented in this report have been valued and measured on the basis of the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Commission, in addition to the guidelines issued for the implementation of Article 9 of Legislative Decree 38/05 and Article 43 of Legislative Decree 136/15.

There were no derogations from the IAS/IFRS.

The Bank of Italy, with reference to the financial statements of banks and financial companies subject to supervision, has established in circular 262 of 22 December 2005, as updated, the financial statements and notes used for the preparation of these financial statements. On 30 November 2018, the 6th update of the same circular was issued, which adjusted the consolidated financial statements and the explanatory notes to reflect the innovations introduced by IFRS 16 – "Leases", approved with Regulation (EU) 2017/1986 of 31 October 2017, which replaced the previous accounting standard IAS 17 for the purposes of the treatment of leasing transactions in the financial statements from 1 January 2019 (see the dedicated paragraph in SECTION 5 – Other aspects). The resulting amendments to other international accounting standards, including IAS 40 on investment properties, introduced to ensure the overall consistency of the accounting *framework* , are also incorporated.

Except as stated herein – and more broadly described in Section 5.5 – there are no changes in the Accounting Standards adopted compared to the previous year.

It is specified that, for comparative purposes, the data of the consolidated financial statements referring to the first financial year of SPAXS S.p.A. and its subsidiaries are shown, which cover the period from 20 December 2017 (the date of incorporation of the Company) to 31 December 2018.

Section 2 – General basis of preparation

The Financial Statements comprises the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (prepared applying the "indirect" method) and the consolidated explanatory Notes. The Consolidated Financial Statements are also accompanied by the Directors' Report on operations, on the economic results achieved and on the financial position and cash flows of the Group.

In accordance with Article 5 of Legislative Decree no. 38/2005, the financial statements have been prepared using the Euro as the functional currency. The amounts presented in the explanatory tables and the explanatory notes are stated in thousands of Euro, unless otherwise indicated. Any discrepancies between the figures presented are due solely to rounding.

These financial statements have been prepared assuming the continuity of the Group, as 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 functioning entity. The valuation criteria adopted are, therefore, consistent with the business continuity requirement and comply with the principles of competence, relevance and materiality of accounting information and the precedence of economic substance over legal form. These criteria remained unchanged from the previous year.

The financial statements are prepared in accordance with IAS 1 and the specific accounting standards approved by the European Commission as illustrated in Part A.2 of these explanatory notes.

These financial statements have also been prepared clearly and provide a true and accurate picture of the financial situation of SPAXS and of its subsidiaries as of 31 December 2019, as described in the "Consolidation area and methods" paragraph.

The general principles used in the preparation of the financial statements are outlined below:

- business continuity: the valuations are made on a going-concern basis;
- matching principle: costs and revenues are recognised in the period in which they accrue in relation to the services received and supplied, regardless of the date of cash settlement;
- consistency of representation: to guarantee the comparability of the data and information in the balance sheet formats and tables, the representation and classification methods are kept the same over time, unless they have to be changed to comply with international accounting standards or interpretations, or unless there is a need to make the presentation of data more significant and reliable;
- relevance and aggregation: each major class of items with a similar nature or function is shown separately in the balance sheet and income statement; items with different functions or of different types, if important, are highlighted separately;
- prohibition on offsetting payments: prohibition on offsetting payments was applied, unless it is provided for or permitted by the international accounting standards or interpretations, or by the Bank of Italy Circular n. 262 of 22 December 2005 and subsequent amendments by the Bank of Italy;
- comparison with the previous year: the financial statements and tables show the amounts from the previous year, which may be adapted to ensure that they can be compared;
- the financial statements are prepared on the basis of substance over form and in accordance with the principle of relevance and materiality of information.

The consolidated statements as of 31 December 2019, which were approved by the Board of Directors on 5 March 2020, were audited by the auditing firm KPMG S.p.A.

Content of the financial statements

1. Consolidated balance sheet and consolidated income statement
   The consolidated balance sheet and consolidated income statement consist of items, sub-items and additional details. In the consolidated income statement, revenues have been presented without sign, whereas costs have been stated in parentheses.
2. Consolidated statement of other comprehensive income
   In addition to the profit (loss) for the year, the consolidated statement of other comprehensive income indicates income components taken to valuation reserves, net of the relevant tax effect, in accordance with the international accounting standards.
   The other comprehensive consolidated income is presented by separately showing income components that will not be reversed to the income statement in the future and those that instead may subsequently be reclassified to profit (loss) for the year in the year in which certain conditions are met. The statement also distinguishes the share of profit attributable to the Parent Company from that attributable to minority-interest shareholders. Negative amounts have been stated in parentheses.

3. Consolidated statement of changes in shareholders' equity
The consolidated statement of changes in shareholders' equity is presented by inverting the rows and columns with respect to the same statement provided for in the update of the Bank of Italy Circular No. 262/2005. The statement shows the composition of and changes in the net equity accounts during the year of the report, broken down into share capital (ordinary and savings shares), capital reserves, earnings reserves and reserves from the valuation of assets or liabilities and net profit. The treasury shares in portfolio are deducted from net equity.
4. Statement of cash flows
The statement of cash flows for the reporting year was prepared on the basis of the indirect method, according to which the cash flows from operations are represented by the results for the period, adjusted by the effects of non-monetary operations. The cash flows are divided between those generated by operations, those generated by investment activities and those generated by funding activities.
In the statement, the cash flows generated during the year are indicated without sign, while those absorbed are indicated in brackets.

Content of the Explanatory Notes

The Explanatory Notes include the information required by the IAS and by the Circular of the Bank of Italy no. 262 issued on 22 December 2005,as amended, which applies to the preparation of these financial statements.

Section 3 – Consolidation scope and methods

The following are the consolidation criteria and principles used to prepare the financial statements as of 31 December 2019.

Financial Statements included in the consolidation

The consolidated financial statements include the illimity Bank S.p.A. and the companies over which it directly or indirectly exercises control, comprising, for the period 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 different from that of the Parent Company. The consolidated financial statements take into account the Parent Company's financial statements for the year ending on 31 December 2019 and the financial statements of subsidiaries, appropriately reclassified and adjusted to take account of consolidation requirements and, where necessary, to bring them into line with the Group accounting principles.

The scope of consolidation of the consolidated financial statement as of 31 December 2019 has changed with respect to the consolidated financial statements for the year ended on 31 December 2018, following the entry of new entities related to the management of leasing NPLs, Neprix and illimity SGR.

Details on the framework of the subsidiaries as of 31 December 2019 are given below:

1. Shares in fully-owned subsidiaries

	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	**Fully consolidated**					
A.1	Aporti S.r.l. (SPV)	Milan	Milan	4	A.0	
A.2	Soperga RE S.r.l.	Milan	Milan	1	A.0	100.0%
A.3	Lumen SPV S.r.l.	Conegliano	Conegliano	4	A.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	
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	
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	
A.10	Neprix S.r.l.	Milan	Milan	1	A.0	100.0%
A.11	illimity SGR S.p.A.	Milan	Milan	1	A.0	100.0%
A.12	Pitti Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.13	Pitti SPV S.r.l. (SPV)	Milan	Milan	4	A.0	
A.14	SWAN	Conegliano	Conegliano	4		

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

2. Significant assessments and assumptions to determine the consolidation area

2.1 Subsidiaries

Subsidiaries are those entities, including structured entities, over which the Parent Company has direct or indirect control. Under IFRS 10, control exists if the following elements are simultaneously present:

- the power to direct the subsidiary's main activities;
- exposure to, or rights to variable returns, deriving from the relation with the investee company;
- the capacity to exercise its power on the investee company, to influence the amount of its returns.

Subsidiaries are consolidated from the date on which control was effectively acquired by the Group. They cease to be fully consolidated on the date on which control is transferred to entities external to the Group. The costs and revenues of a subsidiary are included in the consolidated from the date of acquisition of control. The costs and revenues of a sold subsidiary are included in the consolidated income statements until the date of the sale, i.e. until the moment when the parent company ceases to have control over the affiliate.

Subsidiaries are those companies, including structured entities over which the parent company SPAXS exercises control and, as defined by IFRS 10, has the power to determine, directly or indirectly, their financial and operational policies, in order to obtain benefits from their activities.

The Group may sometimes exercise "de facto control" over certain entities when, even in the absence of a majority of voting rights, it possesses rights that allows a one-way management of the affiliate significant assets.

The subsidiary may also include structured entities, in which the voting rights are not significant for the purposes of assessing control. They include special-purpose entities (SPV "*special purpose entities*") and investment funds. Structured entities are considered to be controlled if:

- the Group has contractual rights giving it the power to govern the major activities;
- the Group is exposed to variable returns deriving from those activities.

With regard to the consolidation methods, subsidiaries are consolidated through the full consolidation method, while those subject to joint control and those over which the Group has a significant influence are consolidated using the simpler net equity method.

The consolidated financial statements prepared according to the full consolidation method represent the financial situation of the Group as a single economic entity.

The full consolidation method involves acquiring the subsidiaries' balance sheet and income statements on a "line by line" basis. After the minority shareholders have been attributed their shares of the assets and profit or loss, the value of the equity investment is cancelled as a contra entry of the residual value of the subsidiary's assets. The assets, liabilities, costs and income of a significant amount, recognised among the consolidated entities, are eliminated.

The controlled entities are consolidated from the date on which the Group acquires control according to the purchase method, ("*purchase method*"), as provided for in IFRS 3, which establish that the identifiable assets purchased and the identifiable liabilities accepted (including the potential liabilities) have to be recognised at their respective*fair values* on the date of acquisition.

Any surplus in the paid price compared to the above *fair values* is recognised as goodwill or as other intangible assets; if the price is lower, the difference is charged to the income statements.

If there is an event that determines a loss of control, the effect recorded on the income statement is equal to the difference between (i) the sum of the *fair value* of the price received and the *fair value* of the residual interest held, and (ii) the previous book value of the assets (including goodwill), of the liabilities of the subsidiary and of any third-party assets. The amounts

previously recognised on the comprehensive income statement (such as reserves from the valuation of financial assets at *fair value* through comprehensive income) have to be recognised in the same way as they would be if the parent company had directly disposed of the related assets or liabilities. According to IFRS 9, any interest in the previously held controlling interest must be valued at the *fair value* required for a financial asset, and, if appropriate, it shows its new value at the time of initial recognition in an affiliate company or in a jointly controlled entity.

2.2 Subsidiaries

These are entities over which an investor has significant influence, and which is neither a subsidiary nor a joint venture.

The controlling entity is considered to have significant influence if:

- it holds, directly or indirectly, at least 20% of the capital in another company, or
- it can, also through shareholders' agreements, exercise significant influence through:
  - a) representation on the company board of directors;
  - b) participation in policy-making process, including participation in decisions about dividends or other distributions;
  - c) material transactions between the investor and the investee;
  - d) interchange of managerial personnel;
  - e) provision of essential technical information.

Investments in associates are recognised using the equity method.

As of 31 December 2019, the Group did not have investments in associated companies.

2.3 Joint control agreements

A joint control agreement is a contractual arrangement whereby two or more counterparts have joint control.

Joint control is the sharing, on a contractual basis, of the control of an arrangement that only exists when the unanimous consent of all the sharing control parties is required for decisions on major activities.

According to IFRS 11, joint control agreements have to be classified as *Joint operation* or *Joint Venture* depending on the contractual rights and obligations held by the Group:

- a *Joint operation* is a joint control agreement in which the parties have rights to the assets and obligations, with regard to the liabilities of the agreement;
- a *Joint Venture* is a joint control agreement in which the parties have the rights to the net assets of the arrangement.

Investments in companies under joint control and qualified as *joint venture* are valued using the equity method.

As of 31 December 2019 the Group does not hold interest in joint control agreements.

3. Interests in fully-owned subsidiaries with major minority interests

As required by paragraph 12 of IFRS 12, it is reported that there are no significant third-party interests for the period ending on 31 December 2019.

4. Significant restrictions

The Group operates in a regulated sector and is subject to the restrictions of paragraph 13 of IFRS 12 concerning significant legal, contractual or regulatory restrictions that could impede the swift transfer of assets within the Group.

5. Other information

There are no financial statements of subsidiaries used in preparing illimity consolidated financial statements for a date other than that of the consolidated financial statements.

Section 4 – Events subsequent to the balance sheet date

In detail, the events subsequent to the reporting date are described in the relevant section of the Report on Operations in this part of the Explanatory Notes it is indicated that pursuant to the requirements of IAS 10, after 31 December 2019 (the reporting date), and until the date when the financial statements were presented to the Board of Directors, no events occurred requiring any rectification of the information presented in the financial statements. For an examination of the business outlook, refer to the Report on Operations.

Section 5 – Other aspects

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

The 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 the one 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 surviving the reverse merger. Accordingly, the use of the so-called "*pooling of interest method*" may be identified as the most appropriate method 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. Therefore, as required by the accounting theory and practice, the financial statements reflect BIP post-merger assets retrospectively from 1 January 2019, in accordance with the principle of "continuity" of values with the consolidated financial statements of SPAXS as of 31 December 2018. In any event, in view of future acquisitions, the post– merger consolidated financial statements of illimity (former BIP) for 2019 was 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 as of 1 January 2019, of values consistent with the pre-merger consolidated financial statements of SPAXS. For SPAXS these values are represented by figures presented in accordance with IFRSs, which differ from the OIC [Official Italian Accounting Board] standards according to which SPAXS prepared its stand-alone financial statements as of 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 on 30 September 2018 entailed, at the level of BIP financial statements, the adjustments described above with regard to the measurement date of securities measured at *fair value* affecting comprehensive income (*Business Model Hold to Collect & Sell*) and measured at amortised cost (*Business Model Hold to Collect)* as of 20 September 2018. These adjustments result in differences between the merger values and those recognised in BIP 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 measured in illimity post– merger financial statements. Regardless of the accounting treatment adopted, the provisions of Article 172 of the Consolidated Income Tax Act apply, requiring that the merger not constitute any realisation of the greater/lesser values of the assets of the merged/merging company or assumption of the rights and obligations of the *corporate* group relating to income taxes. Accordingly, the tax values remain unchanged and the temporary differences arising are managed according to the dual-track principle and recognition of deferred tax liabilities according to the accounting standard IAS 12.

However, in this respect, a discrepancy was also identified between the measurement in *fair value* of the item "Financial assets measured at amortised cost, b) loans to customers" recognised in the consolidated financial statements, and the tax and accounting values recognised in BIP stand-alone financial statements. The tax code provisions 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 for loans to customers. Therefore, in the case in question, the neutrality principle is not sufficient to justify an ongoing misalignment, as there are specific provisions aimed at governing the alignment in question. Ultimately, 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 on December 31, 2019, by 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.

5.2 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 them on the market, resulting from enforcement procedures carried out in the process of recovering non-performing loans acquired by the DCIS Division.

Properties are recognised at the moment when the Bank reaches an agreement that releases the borrower from its obligations. At the same time, pursuant to IFRS 9 "Financial instruments", it is carried out a *derecognition*, of the NPL credit that guaranteed these properties and the interruption of the recognition of interest income from the transaction.

This properties are classified under "tangible assets", indicated as "assets held through the enforcement of received guarantees" 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 "Value adjustments/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 "Value adjustments/write-backs for credit risk: Financial assets measured at amortised 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 properties”, measuring the investment property at *fair value*, with changes in value recognised in the income statement under value adjustments.

5.3 Accounting policies applied to the accounting treatment of NPL leasing operations

NPL *lease* 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 his/her 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* while the operation is still classified as a *lease* credit receivable 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 the IFRS 9 criteria.

If, instead, an agreement is reached with the debtor releasing its obligations (for example full and final settlement, *datio in solutum*, etc.) the NPL *lease*receivable is *derecognised* and the asset is recognised under Tangible Assets, as “Assets obtained from the enforcement of guarantees received”. Following the derecognition of the receivable, the 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 *lease* 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 “Value adjustments/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 properties”, measuring the investment property at *fair value*, with changes in value recognised in the income statement under value adjustments.

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

According to the IFRS framework, the preparation of the consolidated financial statements requires the use of estimates and assumptions that may influence the values stated in the balance sheet and income statement and the disclosures regarding contingent assets and liabilities presented in the consolidated Financial statements.

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 financial statements. The components in which the use of estimates and assumptions is substantially inherent in determining the book values are indicated below:

- measurement of loans;
- measurement of financial assets not quoted on 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 financial statement may differ, also to a significant degree, from current estimates. Any changes in the estimates are applied prospectively and therefore result in an impact on the income statement in the year which the change occurs as well as that for future years.

5.5 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	8 February 2019	(EU) No 2019/237 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 on 1 January 2019.

IFRS 16 was adopted for the interim financial report as of 31 December 2019. Contracts may be classified in the three following categories:

1. Rental of business and personal use properties;
2. Long-term rental of motor vehicles.

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 (*lease liability*).

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

The Group has decided to avail itself of 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 Liability* 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 allotted separately to the income statement.

In the light of these considerations, no significant impacts on shareholders' equity were recognised. Particularly, the first 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 14 million Euro; and
2. in assets, following the recognition of the right to use the assets, of approximately 14 million Euro.

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 the opening balances.

Assets	31/12/2018 (a)	Impact of IFRS 16 (b)	01/01/2019 C= (a)+(b)
90. Property and Equipment	2,495	14,251	16,746
Total assets	**2,495**	**14,251**	**16,746**

Liabilities and net 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	14,251	658,227
Total of liabilities and shareholders' equity	**643,976**	**14,251**	**658,227**

With regard to commitments connected to active 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.

Reconciliation of lease liabilities	Total
IAS 17 operating lease commitments not discounted as of 31/12/2018	23,806
IFRS 16 exceptions to recognition	(142)
For short– term leases	*(131)*
For low value leases	*(11)*
Lease liabilities recognised in the balance sheet as of 01/01/2019 not discounted	**22,429**
FTA RATE discounting effect [1]	(8,178)
IFRS 16 lease liabilities as of 01/01/2019	**14,251**

1 Average rate 6%.

5.6 IAS/IFRS and the relative IFRIC interpretations applicable to financial years starting after 1 January 2019

Documents harmonised by the EU as of 31 December 2019

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date	Notes
Amendments to the references to the conceptual framework in IFRSs	March 2018	1 January 2020	29 November 2019	(EU) No 2019/2075 6 December 2019	Early application is permitted
Amendments to IAS 1 and IAS 8	October 2018	1 January 2020	29 November 2019	(EU) No 2019/2104 10 December 2019	Early application is permitted
Reform of the reference indices for determining interest rates - Amendments to IFRS 9, IAS 39 and IFRS 7	September 2019	1 January 2020	15 January 2020	(EU) No 2020/34 16 January 2020	Early application is permitted

5.7 IAS/IFRS and the relative IFRIC interpretations applicable to financial years starting after 1 January 2019

Documents NOT yet approved by the EU as of 31 December 2019

These documents will only apply after they have been approved by the EU.

Document title	Date issued by IASB	Date of entry into force of the IASB document	Date of expected approval by the EU
Standards			
IFRS 17 Insurance Contracts	May 2017	1 January 2021*	TBD
Amendments			
Definition of business (Amendments to IFRS 3)	October 2018	1 January 2020	Q1 2020

* It should be noted that in June 2019, the IASB published an *exposure draft* that includes some amendments to IFRS 17 and the deferral of the entry into force of the new accounting standard as of 1 January 2022.

5.8 IFRS endorsed as of 31 December 2019 with application after 2019

During 2019, the following regulations were approved (applicable as of 1 January 2020):

- Regulation no. 2075/2019: with the regulation of 29 November2019, applicable as of 1 January 2020, some amendments to IFRS relating to the references to the conceptual framework ("*Conceptual Framework*") have been implemented. The amendments aim to update the references to the previous frameworks in different Accounting Standards and interpretations, replacing them with references to the revised conceptual framework in March 2018. It should be noted that the *Conceptual Framework* is not an accounting standard and is therefore not subject to approval, while the document in question, precisely because it amends some IAS/IFRS, is subject to approval.
- Regulation no. 2104/2019: with the regulation of 29 November 2019, applicable as of 1 January 2020, certain amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Standards, changes in accounting estimates and errors were adopted with the aim of clarifying the definition of material information and improving its understanding. It is highlighted that materiality depends on the nature and relevance of the information or both. An entity also verifies whether information, both individually and in combination with other information, is material in the overall context of the financial statements. Some examples are then given in which information is confused, for example when dissimilar transactions and/or events are inappropriately aggregated or when similar disaggregated facts are reversed. Similarly, the comprehensibility of material information is reduced when it is "hidden" by immaterial information.
  Regulation (EU) No. 2020/34 of 15 January 2020, published in the Official Journal of the European Union of 16 January 2020, adopted the document issued by the IASB on "Reform of reference indices for the determination of interest rates (amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures)". This reform of interest rates, which is still ongoing worldwide, has created uncertainty about the timing and amount of future cash flows related to certain financial instruments, with the consequent risk of having to discontinue the hedging relationships designated in accordance with IAS 39 or IFRS 9. According to the IASB, discontinuing hedging relationships due to these uncertainties does not provide useful information to users of the financial statements and has, therefore, introduced specific amendments to IAS 39, IFRS 9 and IFRS 7, which provide for derogations during the uncertainty period.
  The IASB then amended IFRS 9, IAS 39 and IFRS 7 to allow entities not to interrupt hedging transactions until the reform of the interest rate benchmarks has been completed. In particular, temporary derogations have been introduced from the application of the specific hedge accounting provisions of IFRS 9 and IAS 39, which must be applied to all hedge transactions directly affected by the reform of the interest rate benchmarks.
  Amendments shall apply retrospectively beginning from financial statements starting on or after 1 January 2020 and an early application shall be permitted.

A.2 SECTION ON THE MAIN FINANCIAL STATEMENTS ITEMS

This section presents the accounting standards used to prepare the consolidated accounts to 31 December 2019 with reference to the classification, recognition, valuation and derecognition of the various asset and liability items, and for the methods used for the recognition of costs and revenues.

1. Financial assets measured at fair value through profit or loss

The financial assets measured at fear value through profit or loss (FVTPL) include financial assets that cannot be qualified as assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. This item, therefore, includes:

- financial assets held for trading, which are essentially debt and capital instruments, for which there is a short-term profit-making strategy;

- financial assets with a mandatory fair value valuation that do not meet the requirements for valuation at amortised cost or at fair value through other comprehensive income. These are assets for which the contractual terms do not provide only for reimbursement of capital and payment of interest on the amount of capital to be returned (the so-called "SPPI test" failed), or which are not held in connection with a "Hold to Collect" business model, whose objective is the "Hold to Collect and Sell" business model;(*Business model "Hold to Collect"*) or whose objective is achieved either by collecting contractual cash flows and by selling financial assets (*Business model "Hold to Collect and Sell"*);
- financial assets designated at fair value, namely financial assets which are thus defined at the time of first recognition, if the requirements are met. At the time of recognition, an entity can irrevocably designate, a financial asset as being valued at fair value through profit and loss if and only if by doing so it would eliminate or significantly reduce an inconsistency in valuation.

This item also includes derivatives, which are recognised among financial assets held for trading, which are represented as assets if the fair value is positive, and as a liability if the fair value is negative. It is noted that current positive and negative values from operations with the same counterpart can only be offset if there is currently a legal right to offset the recognised amounts, and where there is an intention to settle the offset positions on a net basis. Derivatives also include those incorporated in complex financial contracts – in which the primary contract is a financial liability – which have been recognised separately, as:

- their characteristics and risks are not closely correlated to the characteristics of the underlying contract;
- the incorporated instruments, even if separate, meet the definition of derivative;
- they belong to hybrid instruments that are not valued at *fair value* with the related changes recognised in the income statement.

Reclassifications to other categories of financial assets are only permitted if the entity changes its *business*model with regard to the management of financial assets. In such cases, which are expected to be infrequent, the financial assets may be reclassified from the category valued at fair value, affecting the income statement, to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets valued at fair value through other comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of first recognition, for stage assignment for impairment purposes.

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives. Upon initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or income, which are immediately recognised in the income statement, even if directly attributable to these financial assets.

After the first recognition, financial assets measured at fair value through profit or loss are valued at fair value and the effects of applying this measuring principle are charged to the income statement. To determine the fair value of financial instruments listed on an active market, market prices are used. Without an active market, the commonly-adopted estimation and valuation models are used. These take into account all the risk factors related to the instruments and are based on observable market data such as: (i) methods based on the valuation of listed instruments with similar characteristics; (ii) discounted cash flow calculations, models for determining the price of options; (iii) recorded values of recent comparable transactions.

Financial assets are eliminated from the balance sheet when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, their ownership has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Realised gains and losses on disposal or redemption and unrealised gains and losses arising from changes in the fair value of financial assets held for trading are recorded in the income statement under the item "Net trading result".

The accounting treatment of financial assets that are compulsorily measured at fair value or designated at fair value is similar to that of "Financial assets held for trading", with the recording of gains or losses, realised and measured, under the item "Net result of other financial assets and liabilities measured at fair value through profit or loss", respectively under the components "a) financial assets and liabilities designated at fair value" and "b) other financial assets that are compulsorily measured at fair value".

2. Financial assets measured at fair value through other comprehensive income

This category includes financial assets that meet both the following conditions:

- the financial asset is owned according to a business model whose goal is achieved both through the collection of contractually determined cash flows and through the sale ("Hold to Collect and Sell" business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

This item also includes equity instruments not held for trading for which, at the time of first recognition, the option for designation at fair value through other comprehensive income has been exercised.

In particular this item includes:

- debt instruments related to a Hold to Collect and Sell model which have passed the SPPI test;
- share interests that cannot be qualified as controlling, affiliated or joint control, which are not held for trading purposes, and for which an option for designation at fair value affecting comprehensive income has been exercised;
- loans connected to a Hold to Collect and Sell model that have passed the SPPI test, including shares in syndicated loans or other types of loan that, from the origin, are destined for sale and which relate to a Hold to Collect and Sell business model.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets.

In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets valued at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In the case of reclassification from this category to the amortised cost category, the cumulative profit or loss recognised in the revaluation reserve is carried as an adjustment to the fair value of the financial asset on the date of reclassification. In the case of reclassification into the category of fair value affecting the income statement, the profit or loss that was previously recognised in the revaluation reserve is reclassified from shareholders' equity to the profit (loss) for the year.

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the debtor or can be classified under normal internal administration costs.

After initial recognition, assets classified at fair value through other comprehensive income, other than equity instruments, are valued at fair value and the impacts from application of amortised cost are recognised in the income statement together with the effects of impairment and any foreign exchange effect. The other profits or losses deriving from a change in fair value, instead, are recognised in a specific reserve until the financial asset is derecognised. At the time of total or partial disposal, the profit or loss in the revaluation reserve is reinstated, in full or in part, in the income statement. Subsequent to the initial recognition, therefore, accrued interest on interest-bearing instruments are recorded in the income statement according to the amortised cost criterion under the item "Interest and similar income" if positive, or under the item "Interest payable and similar costs" if negative. Profits and losses deriving from changes in fair value are instead recognised in the Statement of comprehensive income under the item "Valuation reserves" of shareholders' equity.

Equity instruments that were classified in this category are valued at fair value and the amounts recognised as a contra-entry of net equity (Statement of comprehensive income) must not then be transferred to the income statement, not even in the case of disposal (OCI exemption). The only item relating to the equity instruments in question that is recorded in the income statement is the related dividends.

The fair value is determined on the basis of the principles already described, for the Financial assets designated at fair value affecting profit or loss.

For the equity instruments included in this category not listed on an active market, the cost criterion is used to estimate the fair value only on a secondary basis and limited to a small number of circumstances. Namely, if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate.

Financial assets measured at fair value through other comprehensive income– in the form of debt or credit instruments – are subject to verification of the significant increase in credit risk (impairment) provided for in IFRS 9, along with Assets at amortised cost, and, therefore, a value adjustment is recognised in the income statement to cover the expected losses. These impairment losses are recorded in the income statement under the item "Net Value adjustments/write-backs for credit risk relating to: b) financial assets measured at fair value through other comprehensive income", offset by the statement of comprehensive income and also shown under the item "Reserves from valuation" of net equity. Equity instruments are not recognised in the income statement as long-term impairments in accordance with IFRS9. Only dividends will be shown in the income statement under the item "Dividends and similar income".

Financial assets are eliminated from the accounts when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits.

Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows, and only those, without a significant delay, to other third parties.

In the case of disposal, gains and losses are recognised in the income statement under the item "Profit/losses on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income".

The amounts deriving from the adjustment made to the carrying values of financial assets, considered gross of the related adjustments in total value, in order to reflect changes made to contractual cash flows that do not give rise to write-offs, are recorded in the income statement under the item "Profits (losses) on changes in contracts without derecognition"; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through other comprehensive income".

With regard to equity instruments, in the case of disposal, accumulated gains and losses are recorded under "Reserves".

3. Financial assets measured at amortised cost

This category includes financial assets (in particular, loans and debt instruments) that meet both the following conditions:

- the financial asset is owned according to a business model whose goal is achieved through the collection of contractually determined cash flows ("Hold to Collect" business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid (the so-called "SPPI test" passed).

More specifically, this item includes: loans to customers and banks, both directly disbursed and acquired from third parties, which involve fixed or determinable payments, which are not listed on an active market and which have not been originally classified as Financial assets measured at *fair value* affecting overall profitability.

The receivables item also includes debt instruments, repos, credits originating from financial leasing operations and securities acquired through subscription or private placement with determinate or determinable payments, which are not listed on active markets.

This category also includes business-related credits connected to the provision of financial services as defined in the T.U.B. and T.U.F. (for example, for the distribution of financial products and *service*activities).

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value affecting comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at at amortised cost or Financial assets valued at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. The profits or losses resulting from the difference between the amortised cost of the financial asset and its relative fair value are recognised in the income statement in the case of reclassification among Financial assets designated at fair value affecting profit or loss and net equity, in the relevant revaluation reserve, in the case of reclassification among Financial assets designated at fair value through other comprehensive income.

The initial recognition of the financial assets takes place on the date of settlement for debt instruments and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

With particular reference to loans, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment to disburse funds will be included, which ends on the date the loan is disbursed. The loan will be recognised on the basis of its fair value, equal to the amount lent, or the agreed upon price, including the costs or income directly linked to the individual loan and which can be determined from the outset of the operation, even if paid at a later date. This excludes costs that, despite meeting the above conditions, are the subject to reimbursement by the debtor or can be classified under normal internal administration costs.

After the first recognition the loans are measured at the amortised cost which is equal to the value of first recognition, reduced or increased by the repayments of capital, the value adjustments and the amortisation – calculated according to the effective interest rate method – of the difference between the amount loaned and the amount repayable on maturity, which is typically linked to the costs and income directly attributable to the individual loan.

The effective interest rate is the rate that discounts the flow of estimated future payments for the expected duration of the loan to obtain an accurate net book value at the time of the first recognition, which includes both the transaction costs and revenues directly attributable and also all the payments made or received between the contracting parties. This method of accounting, which uses a financial logic, allows the economic effects of the costs and income to be distributed along the expected residual life of the loan. Accrued interest is shown under the item "Interest and similar income" if positive, or under the item "Interest and similar expense" if negative. Any value adjustments/write-backs are recorded in the income statement under the item "Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost". In the event of sale, profits and losses are recorded in the income statement under the item "Profits/losses on disposal or repurchase of: a) financial assets measured at amortised cost". The amounts arising from the adjustment made to the carrying amounts of financial assets, considered gross of the related overall adjustments, to reflect changes made to contractual cash flows that do not give rise to write-offs, are recorded in the income statement under the item "Profits (losses) on changes in contracts without derecognition"; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost".

The amortised cost method is not used for loans of a short term for which the effect of applying the discounting method is considered negligible. Those loans are valued at the historic cost. The same valuation principle is used for loans with no definite maturity date, or revolving credits.

The valuation criteria are closely connected to the inclusion of these instruments in one of the three stages of credit risk provided for in IFRS 9, the last of which (stage 3) includes impaired financial assets and the others (stages 1 and 2) include performing assets.

With reference to the presentation of these valuations, the value adjustments referring to this type of asset are recorded in the income statement:

- at the time of first recognition, for an amount equal to the loss expected at 12 months;
- at the time of subsequent valuation, if the credit risk has not increased significantly compared to the initial recognition, based on the changes in the value adjustments due to expected losses over the next twelve months;
- at the time of subsequent valuation, if the credit risk has significantly increased compared to initial recognition, based on the recognition of value adjustments for expected losses over the entire residual contractual life of the asset;
- at the time of subsequent valuation, if – after there has been a significant increase in the credit risk compared to initial recognition – the materiality of that increase no longer exists in relation to the change in cumulative value adjustments to take into account the transition from a loss over the asset's lifetime, to one over twelve months.

If the financial assets in question are performing, they are subjected to a valuation intended to define the value adjustments to be taken from the financial statements for each loan account (or "tranche" of the security), based on the risk parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD), and are adjusted as necessary to reflect the provisions of IFRS 9.

If, together with a significant increase in the credit risk there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset – classified as impaired, in the same way as all the other relations with the same counterpart – and the current value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the loss recorded on the income statement is defined according to a detailed valuation process, or is determined for identical categories and therefore, is attributed in detail to each position, taking into account forward-looking information and potential alternative recovery scenarios.

Impaired assets include financial instruments that have been given non-performing status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and European regulations.

The expected cash flows take into account the expected recovery times and the presumed realisation value of any guarantees.

The effective original rate of each asset remains unchanged over time, even if there has been a restructuring of the account that led to the change in the contractual rate, and even if the account is not, in practice, bearing contractual interest.

If the reasons for the impairment are removed following a subsequent event occurring after the recognition of the change in value, write-backs are made and allocated to the income statement. The write-back may not exceed the amortised cost that the financial instrument would have had without such adjustments having been made.

Write-backs connected to the passage of time are posted in the interest margin.

In some cases, during the life of the financial assets in question and of the loans in particular, the original contractual conditions are then modified by the parties to the contract. If the contractual terms are modified during the life of an instrument, it is necessary to verify whether the original asset is still to be recognised or needs to be de-recognised (*derecognition*), and a new financial instrument shall be recognised in its place.

In general, changes to a financial asset lead to its de-recognition and the entry of a new asset, if the changes are substantial. Considerations about the "substantiality" of changes are based on qualitative and quantitative factors. In some cases it may be clear, without using complex analyses, that the changes have substantially modified the characteristics and/or cash flows of a certain asset while in other cases, additional quantitative analysis has to be done to assess the effects of the changes, and to check whether or not to de-recognise the asset and enter a new one.

The (quality–quantitative) analyses intended to define the "substantiality" of the contractual changes made to a financial asset shall therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterpart:
  - commercial reasons, designed to "keep" the customer, involve a debtor that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the debtor, and relate to the onerousness off the debt resulting in an economic benefit to the debtor. In general it is considered that whenever the Group renegotiates to avoid losing a customer, the renegotiations must be considered as substantial because if they did not take place, the customer could be financed by another bank, and the Group would see a decrease in its expected future revenue;
  - the second type of renegotiation, which is done for "credit risk reasons" (forbearance measures) relates to the Group's attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits after the changes are not usually substantially transferred, and, therefore, the accounting presentation that gives the most relevant information to the reader (apart from what is mentioned below about triggers) is the "*modification accounting*" – which implies the recognition in the income statement of the difference between the book value and the discounted value of the modified cash flows, discounted at the original interest rate – and not through *derecognition*;
- the presence of objective elements ("*trigger*") that affect the characteristics and/or contractual flows of the financial instrument (including change of currency, or changes to the type of risk the we are exposed to, if it is correlated to equity and criteria), which s expected to involve the *derecognition* considering their impact (expected to be significant) on the original contractual flows.

Financial assets are derecognised only if the disposal resulted in the substantial transfer of all the risks and benefits connected to the assets. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised on the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows and only those, without a significant delay, to other third parties.

With regard to the measuring modalities for purchased or originated *impaired* financial assets (the so-called POCI) refer to Section 15 – Other information – Part A of these Notes.

4. Hedging operations

As of 31 December 2019 the Group does not hold hedging instruments.

5. Equity investments

This item must include holdings in subsidiaries, affiliated companies and companies subject to joint control (*joint ventures)* by the Bank.

Companies are considered to be subject to joint control if their control is shared between the Bank and one or more other parties or when the unanimous consent of all the controlling parties is necessary for decisions about significant assets.

Companies are considered to be subject to significant influence (affiliates) if the Bank holds at least 20% of the voting rights (including potential voting rights) or if the Bank has a smaller share of the voting rights but can participate in determining the affiliate financial and operational policies because of particular legal conditions such as participation in shareholder agreements.

Companies are considered to be subject to control if the Bank is exposed to variable returns or holds rights to such returns due to its relations with the companies, and can simultaneously affect the returns by exercising its power over them.

Control only exists if all the following elements are present simultaneously:

- the power to direct the subsidiary’s main activities;
- exposure to, or rights to variable returns, deriving from the relation with the investee company;
- the capacity to exercise its power on the investee company, to influence the amount of its returns.

Investments in subsidiaries and companies subject to significant influence are valued at cost, adjusted as necessary to reflect long-term impairments of value.

For the purposes of the information on equity investments as given in Part B to these Explanatory Notes, share interests are considered significant if their value represents at least 5% of the Equity investments item, or if they are held in fully-consolidated entities.

Investments in associates are consolidated using the comprehensive method. Investments in affiliates and those in companies subject to joint control are valued using the net equity method. On each reporting date, any objective evidence that the investment has suffered a loss in value, will be verified. The recoverable value will then be calculated by considering the discounted value of the future cash flows that the equity investment could generate, including the final disposal value. If the value thus determined is lower than the book value, it is charged to the income statement for the year in the item “240 Profit (Loss) of equity investments” (valued at net equity). This item also includes any future write-backs if the reasons that led to the previous write-downs no longer exist.

On each financial closing date, therefore, the Group assesses whether there are any indications of long-term loss of value.

These indications are external and internal factors such as:

- a decline in the equity investment’s market value;
- a change in the environmental conditions in which the subsidiary operates;
- an increase in market rates;
- a decline in the expected performance of the equity investment.

If such indicators do emerge, an *impairment test* is carried out.

If the carrying value of the equity investments exceeds the recoverable value, they will be written down to reflect the recoverable value. The recoverable value is the higher of the *fair value* of an asset or cash generating unit (CGU) net of the cost of sale or value in use, and is determined for each individual asset, except when that asset generates cash flows that are not largely independent of those generated by other assets or asset groups, in which case the Group will estimate the recoverable value of the CGU to which the asset belongs.

In determining the value in use, the Group discounts the estimated future cash flows using the discount rate that reflects the market valuations of the cost of money and the specific risks of the business.

If the loss of value recognised in previous years no longer exists or has been reduced, a write-back is made on the income statement up to the amount of the value of the cost prior to the write-down.

Equity investments are eliminated from the balance sheet when the contractual rights to the related cash flows expire, or when the investment is sold with a substantial transfer of all the related risks and benefits. The result of the disposal of equity investments valued at net equity is charged to the income statement under the item “Profits (losses) from equity investments” (valued at net equity); the result of the disposal of equity investments other than those valued at net equity is charged to the income statement under the item “Profits (losses) on disposal of investments”.

Equity investments are eliminated from the balance sheet when the contractual rights to the related cash flows expire, or when the investment is sold with a substantial transfer of all the related risks and benefits.

As of 31 December 2019 the Group does not hold interests in associates or joint ventures.

6. Property and equipment

This item includes tangible assets for functional use (IAS 16), those held for investment (IAS 40) and inventories of tangible assets (IAS 2). Property and equipment also include leasehold rights of use relating to the use of tangible assets (for the lessee) and operating leasehold assets (for the lessor) under IFRS 16.

Tangible assets include long-term assets held for the purpose of generating income, for leasing or for administration purposes such as land, instrumental real estate, property investments, technical installations, furniture and fittings, tools of any type, and works of art.

Tangible assets also include the costs of improvement to leasehold assets if they can be separated from the assets themselves. If these costs are not independently functional and usable but future benefits are expected, they are entered under "other assets" and are depreciated over the shortest of the foreseeable life of the improvements, and the residual term of the lease. The related depreciation is entered under Other operating expenses/income". The value of tangible assets also include any advances paid for acquisition, and the restructuring of any assets not yet included in the production process and therefore not yet the subject of depreciation.

Tangible assets held for the provision of services or for administration purposes are defined as "for use in the business" (in accordance with IAS 16), while assets "for investment purposes" (IAS 40) are those held to collect leasing charges and/or for the appreciation of the invested capital. Tangible assets constitute inventories (IAS2) whenever they are held for sale in the normal course of business.

Tangible assets are recognised at the cost of acquisition, adjusted by the ancillary costs and any incremental expenses. They are presented in the financial statements net of any value impairments and depreciation on a straight line basis from the period in which they were input into the production process. Maintenance and repair costs that do not lead to an increase in the value of the assets are charged to the income statement for the period.

Subsequent to initial recognition, tangible assets are recognised at cost net of accumulated depreciation and impairment losses. In fact, tangible assets are systematically amortised, using the straight-line method as the amortisation criterion, over their useful life. The properties are depreciated for a portion deemed appropriate to represent the deterioration of the assets over time as a result of their use, taking into account extraordinary maintenance costs, which are increased in the value of the assets.

However, the following are not amortised:

- Plots of land, whether acquired individually or incorporated into the value of the buildings, as it has an indefinite useful life;
- investment properties that, as required by IAS 40, are valued at fair value through profit or loss, must not be depreciated;
- inventories (IAS 2): these assets are measured at the lesser of cost and the net realisable value.

A Property and Equipment is eliminated from the balance sheet at the time of disposal, or when the asset is permanently withdrawn from use and no future economic benefit is expected from its use or disposal. Any difference between the disposal value or recoverable amount and the carrying amount is then recognised in profit or loss respectively under the item "Gains (losses) on disposal of investments" or "Net value adjustments/write-backs on property and equipment".

In application of IFRS 16, from the annual reporting period beginning on 1 January 2019 and later, the item tangible assets also includes the right of use referred to *lease* contracts on tangible assets. A *lease* is defined as a contract the fulfilment of which depends on the use of an identified asset and that gives the right to control the use of the asset for a period of time in exchange for compensation: the international accounting standard IFRS 16, therefore, applies to all transactions that provide for a right to use of the asset, regardless of the contractual form. 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.

In accordance with IFRS 16, the bank shall initially recognise an asset representing the *right of use*("RoU") of the leased asset, together with a liability represented by the current value of the expected future lease payments over the life of the *lease* contract (the "*Lease Liability*") discounted at the implicit rate of the transaction (if determinable); if the rate cannot be easily determined,

the lessee shall instead use the incremental borrowing rate (*IBR*). Therefore, RoU is initially determined by increasing the Lease Liability of the initial direct costs incurred by the lessee.

With regard to measurements following the initial recognition of *lease* contracts, the lessee must measure RoU on the basis of a cost model; therefore:

- 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) and it is subject to impairment;
- the liability was progressively reduced due to the effect of the lease payments and the relevant interest expenses have been recognised and entered separately in the income statement.

For further information on the first application of IFRS 16, see the relevant paragraph in Section 5 – Other aspects.

Please also refer to the above with reference to the recognition of property arising from enforcement procedures adopted in credit collection activities and the recognition of NPL lease operations.

7. Intangible assets

Identifiable, non-monetary assets, not physical in nature, held to be used over several years or for an indefinite period, are defined as intangible. They are generally represented by software and the rights to use intellectual property, trademarks and other intangible assets. They are recognised at the cost of purchase adjusted for any ancillary costs only if the future economic benefits attributable to the asset are likely to be realised and if the cost of the asset can be reliably determined. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. Intangible assets also include leasehold rights of use relating to the use of intangible assets under IFRS 16.

They are only recognised if the assets can be identified and originate from legal or contractual rights. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. An intangible asset is identifiable if:

- it is separable, in other words it can be separated or divided and sold, transferred, given under licence, leased or exchanged;
- it derives from contractual or other legal rights regardless of whether those rights can be transferred or separated from other rights and obligations.

The asset can be controlled by the company as a result of past events on the assumption that through its use, the company will receive economic benefits. The company has control of an asset if it has the power to use the future economic benefits deriving from that asset and it can also limit access to those benefits by third parties. An intangible asset is recognised as such if:

- it is probable that the company will receive future economic benefits from that asset;
- the cost of the asset can be reliably measured.

The probability that there will be future economic benefits is assessed by representing the best estimate of all the economic conditions that will exist during the useful life of the asset, taking into account the available sources of information at the time of initial recognition.

For assets with a definite life, the cost is amortised on a straight line basis or in decreasing amounts, determined on the basis of the flow of expected future economic benefits from the asset. Assets with an indefinite useful life, if existing, are not systematically amortised but undergo a periodic test to check the adequacy of the recognition value.

If there is any indication that demonstrates that an asset may have suffered an impairment of value, its recovery value is estimated. The amount of the loss, recognised on the income statement under the item "Net value adjustments/ write-backs on intangible assets" is equal to the difference between the asset's book value and its recovery value.

Intangible assets include goodwill, which is the positive difference between the cost of purchase and the *fair value* of the assets and liabilities belonging to an acquired entity. Whenever there is a loss in value, and in any case at least once a year, a verification is carried out to ensure there are no long-term value impairments. For this purpose the CGU to which the goodwill should be allocated, will be identified. The CGU is the minimum level at which the goodwill is monitored for internal operational purposes and must not be greater than the operating segment determined in accordance with the IFRS 8 principle.

Any reduction in value is determined on the basis of the difference between the recognition value of the goodwill and its recovery value, if lower. The recovery value is equal to the higher of the *fair value* of the CGU, net of any costs of sale, and the related value in use. The value in use is the current value of the future cash flows expected from the CGUs to which the goodwill was allocated.

In order to verify the adequacy of the goodwill value,the*impairment test*, governed by accounting standard IAS 36 – *Impairment of Assets*, is carried out, which provides that, at least on an annual basis and, in any case, whenever events arise that suggest a potential reduction in value, a test must be carried out to verify the adequacy of the goodwill value subject to registration. The impairment test is carried out identifying the units generating financial flows to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any impairment losses must be recorded in the income statement, they are not susceptible to future value recoveries.

The value of intangible assets having a specific duration is systematically amortised starting from the inclusion of such assets in the production process. Therefore, an intangible asset is derecognised (i) at the time of disposal, (ii) full amortisation, or (iii) if no future economic benefits are expected. Any difference between the disposal value or recoverable amount and the carrying amount is recognised in profit or loss respectively under the item "Gains (losses) on disposal of investments" or “Net value adjustments/recoveries on intangible assets”

With reference to the methods of recognition of leases pertaining to intangible assets in accordance with IFRS 16, see the paragraph referring to tangible assets.

8. Other assets

Other assets mainly include items awaiting settlement and items not attributable to other items in the balance sheet, including receivables deriving from the supply of non-financial goods and services, tax items other than those recognised as own items (for example, related to substitute tax activities), gold, silver and precious metals and accruals other than those to be capitalised on the related financial assets, including those deriving from contracts with customers pursuant to IFRS 15, paragraphs 116 et seq. As required by paragraphs 91 et seq. of IFRS 15, the costs of acquiring and fulfilling contracts with customers with a multi-year maturity are capitalised and amortised to the extent that they are incremental and are expected to be recovered.

9. Non-current assets/liabilities or groups held for sale

As of 31 December 2019 the Group did not hold such assets/liabilities or groups.

10. Current and deferred taxes

Income taxes, calculated in accordance with current tax regulations, are recognised on the income statement according to the accruals principle, in line with the recognition of the costs and revenues that generated them, apart from those relating to entries debited or credited directly to net equity, for which the recognition of the related taxes is done in net equity, for the sake of consistency. Current and deferred taxes are recognised in the income statement under the item "Income taxes for the year of current operations”, with the exception of those taxes that refer to items that are credited or debited, in the same or another year, directly to net equity, such as, for example, those relating to profits or losses on financial assets at fair value through comprehensive income and those relating to changes in the fair value of financial derivatives hedging cash flows, whose changes in value are recognised, net of taxes, directly in the Statement of Comprehensive Income, among the Valuation Reserves.

Provisions for income taxes are determined on the basis of the provision of the current tax burden, the prepaid taxes and the deferred taxes.

In general, deferred tax assets and liabilities arise in cases where the deductibility or taxability of the cost or income is deferred with respect to their accounting recognition. Tax assets and deferred tax liabilities are recognised on the basis of the tax rates that, as of the reporting date, are expected to be applicable in the year in which the asset will be realised or the liability will be extinguished, on the basis of current tax legislation, and are periodically reviewed in order to take into account any regulatory changes.

Deferred tax assets are recognised only to the extent that they are expected to be recovered through the production of sufficient taxable income by the entity. In accordance with IAS 12, the likelihood of future taxable income sufficient for the use of deferred tax assets is subject to periodic review. If the aforementioned review reveals that future taxable income is insufficient, the deferred tax assets are correspondingly reduced.

Prepaid and deferred taxes are recognised in the balance sheet as open balances without compensation, the former being included in “tax assets” and the latter in “tax liabilities”. Any deferred taxes payable on capital reserves under tax suspension are not recognised, as it can reasonably be considered that there will be no operations that will result in their being taxed.

11. Allowances for risks and charges

Commitments and guarantees given

Allowances for risks and charges against commitments and guarantees given are recognised against all commitments and guarantees, revocable and irrevocable, whether they fall within the scope of IFRS 9 or within the scope of IAS 37. For these cases, the same allocation methods are adopted, in principle, between the three stages (credit risk stages) as well as the same calculation methods of the expected losses shown with reference to financial assets measured at amortised cost or the fair value through other comprehensive income.

post-employment benefits and similar obligations

Pension funds are set up to reflect company agreements and are classified as defined benefit plans. The liabilities relating to these plans and the welfare cost of current workers are determined according to actuarial assumptions, applying the “Unit Credit Projection” method, which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. The contributions paid each year are considered as separate units and are identified and valued individually for the purposes of determining the final obligation. The discounting rate used is determined according to the market returns recognised on the valuation date, for the obligations of leading companies taking into account the liability's average residual life. The current value of the obligation on the reporting date is also adjusted by the *fair value* of any assets used for the plan.

Actuarial gains and losses (which are changes in the current value of the obligation deriving from changes in the actuarial assumptions are recognised as contra entry of net equity under the item "Valuation reserves" and shown on the statement of comprehensive income.

Other allowances

Other allowances for risks and charges include provisions for legal obligations and those relating to employment relations or disputes, including tax disputes, originating from a past event, for which an outlay of financial resources is probable in order to fulfil the obligations, but for which a reliable estimate of the amount cannot be made.

Therefore an allowance is recognised if, and only if:

- there is a current legal or implied obligation resulting from a past event;
- it is probable that funds designated to produce economic benefits will have to be used to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as an allowance represents the best estimate of the cost required to fulfil the obligation on the reference date and reflects any risks and uncertainties that characterise multiple events and circumstances.

If the temporal value of money is a relevant aspect, the amount of the allowance must be discounted at a rate, inclusive of the fiscal effects, which reflects the market valuations of the passage of time on the value of the liabilities and which takes into account the specific risks of the liability itself (IAS 37 - 45,47). The provision and the increases due to the time factor are recorded in the income statement.

The allowance is reversed if the use of funds designed to produce economic benefits is improbable, or when the obligation is discharged. A provision is used only for the charges for which it was originally recorded.

The provision for the year, recorded under the item “Net provisions for risks and charges: b) other net provisions” of the income statement, includes increases in provisions due to the passage of time and is net of any transfer.

This item also includes long-term employee benefits, the cost of which is determined using simplified actuarial criteria compared to those described for the pension funds. Actuarial gains and losses are immediately recognised on the income statement.

12. Financial liabilities measured at amortised cost

This item includes financial instruments, other than trading liabilities and those designated at fair value, representing the various forms of funding from third parties (loans, repurchase agreements, securities lending and bonds) and includes: (i) amounts due to banks, (ii) amounts due to customers, and (iii) securities issued. The item includes operational payables with the exception of those to providers of services and goods, and lease liabilities.

These financial liabilities are initially recognised on the contractual settlement date which is normally the time of receipt of the sums collected, or the issue of the debt instruments.

The first recognition takes place on the basis of the liability’s fair value which normally corresponds to the amount collected or the issue price, adjusted by any additional costs/income directly attributable to the individual funding operation or issue. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the debtor or can be classified under normal internal administration costs.

After initial recognition these financial liabilities are valued at the amortised cost using the effective interest rate method. Accrued interest is shown under the item "Interest and similar expense” if negative, or in the item “Interest and similar income” if positive.

Securities issued are valued at the amortised cost using the effective interest rate method and they are shown net of any repurchased share. In the case of transactions in treasury shares, the difference between the cost of repurchasing the securities issued and the value of the amortised cost is charged to the income statement. The subsequent sale of securities previously repurchased is, for accounting purposes, a new placement and therefore there is a change in the average carrying cost of the related liabilities and of the corresponding effective interest.

Liabilities are derecognised when they have expired or been discharged. They are also derecognised if there is a repurchase, even temporary, of previously issued securities.

Any difference between the carrying value of the discharged liability and the amount paid is registered in the income statement under the item “Profits (loss) on disposal or repurchase of: c) financial liabilities”. If, after the repurchase, the treasury shares are returned to the market, this operation is considered as a new issue and the liability is recognised at the new placement price.

13. Financial liabilities held for trading

As of 31 December 2019 the Group does not hold financial liabilities held for trading.

14. Financial liabilities designated at fair value

As of 31 December 2019 the Group does not hold financial liabilities designated at *fair value*.

15. Foreign currency transactions

Foreign currency transactions are recognised at the time of settlement, at the exchange rate for the transaction at the amount in the original currency. Foreign currency assets and liabilities are converted at the spot exchange rates in force on the closing date (ECB official average).

“*Off balance sheet*” transactions are valued:

- at the spot exchange rate on the closing date if they are cash transactions not yet settled;
- at the forward exchange rate on the above date, for maturities corresponding to those of the valued operations, if they are forward transactions.

The Exchange differences deriving from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of the previous financial statements, are recognised on the income statement in the period in which they arise.

16. Other information

Impairment of financial instruments

According to IFRS 9, the following assets are subject to impairment provisions:

a) financial assets measured at amortised cost;

b) financial assets valued at *fair value* through other comprehensive income other than equity instruments;

c) commitments to lend funds and guarantees given that they are not valued at *fair value* through profit or loss:

d) contractual activities resulting from operations covered by the scope of application of IFRS 15.

The quantification of “*Expected Credit Losses*” (ECL), which are expected losses to be recorded as value adjustments in the income statement, is determined according to whether or not there is a significant increase in the credit risk of a financial instrument compared to the risk determined on the date of initial recognition.

For that purpose, instruments subject to impairment regulations are usually associated to different stages, which have different criteria to quantify value adjustments:

a) if there is no significant increase in the credit risk compared to the initial recognition, the financial instrument is kept in stage 1 and is written down by the amount of the loss expected over 12 months (or the expected loss resulting from a default on the asset considered possible within 12 months from the date of the reference period);
b) if there is a significant increase in the credit risk compared to the initial recognition, the financial instrument is classified in stage 2 or in stage 3 if the instrument is impaired, and a value adjustment is recorded equal to the amount of the expected lifetime loss (or the expected loss resulting from a default on the asset considered possible during its life cycle).

An exception to this are the "Purchased or originated credit *impaired* financial assets", the so-called POCI, dealt with later in this paragraph.

Any significant increase in credit risk is identified on a case by case basis, using qualitative-quantitative criteria.

The criteria adopted by the Bank to capture the significant increase in credit risk are shown below.

- Quantitative criteria
  a) Negative change in *the rating* class (so-called *delta notch*).
- Qualitative criteria
  a) Rebuttable presumption – 30 days past due;
  b) Forbearance;
  c) POCI;
  d) Watchlist.

For more detailed information on the criteria adopted by the Bank to capture the significant increase in credit risk, see Part E of the Notes to the Consolidated Financial Statements.

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

For more detailed information on the criteria adopted by the Bank for the calculation of expected losses on loans classified in *stage* 1 and *stage* 2, refer to Part E of the Notes to these Financial Statements.

<u>Estimate of expected losses on impaired positions (stage 3)</u>

Non-performing positions are usually evaluated using analytical techniques. The criteria for estimating the adjustments to be made to impaired loans are based on the discounting of expected cash flows taking into account any supporting guarantees, and any advances received. The fundamental elements in determining the current value of the cash flows are the identification of the estimated receipts, the related due dates, and the discounting rate to be applied. The amount of the adjustment is equal to the difference between the book value of the asset and the current value of the expected future cash flows, discounted at the original effective interest rate, which is updated as necessary in the case of a variable-rate instrument or, for positions classified as non-performing, at the effective interest rate in force on the date of transition to non-performing.

Depending on the seriousness of the impairment and the materiality of the exposure, estimates of the recovery value will be based on the so-called *going concern* approach which assumes that the counterpart's business will continue and will continue to generate cash flows, or alternatively on the so-called *gone concern* approach. The gone-concern approach is based on the assumption that the business that leads to the only source of cash available to recover the debt, will cease trading and that the underlying guarantees will be called on.

With particular regard to non-performing positions, the analytical assessment rules include *forward looking* elements:

- in estimating the percentage of reduction in value of the real estate given as guarantee (estimated on the basis of the updated valuation reports or the report of the court– appointed expert - CTU);
- by introducing recovery scenarios for specific exposures, considering that they are expected to be sold within a reasonable period of time to a third party in order to maximise the cash flow and also based on a specific strategy for managing impaired loans. Therefore, the estimated expected losses of such positions reflects not only recovery of the debt through ordinary management of the loan but also the presence of a suitably adjusted sale scenario and therefore, of the cash flows deriving from this operation.

For more information on the criteria adopted by the Bank for the calculation of expected losses on positions classified in *stage* 3, refer to the contents of Part E of the Explanatory Notes.

Purchased or originated impaired financial assets (POCI)

Under IFRS 9, loans considered to be impaired right from initial recognition due to the high level of associated credit risk, are termed Purchased or Originated Credit Impaired Assets (POCI). POCI also include loans acquired as part of sale operations (individual or portfolio sales) and business combinations.

Such loans, when included in the impairment perimeter for the purposes of IFRS 9, are valued by allocating, from the initial recognition date, provisions to cover the losses along the entire lifetime of the loan (Expected Credit Loss lifetime). As these are impaired loans, the initial recognition takes place in stage 3, but they may be moved during their lifetime to stage 2 if they are no longer impaired, based on an analysis of the credit risk.

These assets are not identified under a specific balance-sheet item but are classified according to the business model in which the asset is managed, under the following headings:

- "Financial assets measured at *fair value* through other comprehensive income";
- "Financial assets measured at amortised cost".

In terms of the initial recognition, valuation and derecognition criteria, refer to the criteria mentioned in the respective items.

Interest income must be calculated by applying the effective interest rate on the net value of the instrument (therefore also considering expected losses on loans) for POCI.

As for POCI, in some cases the financial asset is considered to be impaired at the time of initial recognition because the credit risk is very high and in the case of acquisition, it has been acquired at a significant discount. In this case it is necessary to include in the estimates of cash flows the expected losses on initial receivables for the purpose of calculating the credit-adjusted effective interest rate (also called *"credit adjusted"*) for financial assets that are considered impaired financial assets purchased or originated at the time of initial recognition.

Treasury shares

Treasury shares are recognised as a direct reduction of net equity.

Accruals and deferrals

Items that include costs and income pertaining to the period, accruing on assets and liabilities, are recognised as an adjustment to the assets and liabilities to which they refer.

Costs of leasehold improvements

The costs of refurbishing non-proprietary real estate are capitalised in consideration of the fact that the lessee has control of the property throughout the term of the rental agreement, and can derive future economic benefits from it. If these costs, classified under Other assets, as required by the Bank of Italy Instructions, are not within the scope of IFRS 16, are amortised over a period that never exceeds the duration of the rental agreement.

Employee benefits

Employee benefits are any type of remuneration paid by the company in exchange for work done by employees. Employee benefits are classified as:

1. short-term benefits (other than those due to employees the termination of employment contract, and share ownership benefits), which are expected to be paid in full within twelve months from the end of the year in which the employees did the work, and are recognised entirely on the income statement at the time of accrual (this category includes wages and salaries, and overtime);
2. post-employment benefits due after termination of the working relationship, which require the company to make future payments to staff. This type of benefits include severance pay and pension fund which in turn can be divided into defined-contribution plans and defined-benefit plans or company pension schemes;
3. early retirement benefits, which are payments made by the company to employees in return for termination of the employment contract following the employee's decision to retire earlier than the normal retirement date;
4. long-term benefits other than the above, which are not expected to be paid in full within twelve months after the end of the year in which the employees did the work.

Provisions for termination indemnities

Severance pay ("TFR") is defined, under IAS 19 "Employee benefits" as a "post-employment benefit".

Following the entry into force of the 2007 Finance Act, which brought forward to 1 January 2007 the supplementary pension reforms in legislative decree no. 252 of 5 December 2005, amounts accruing from 1 January 2007 must be allocated, at the discretion of the employee, either to a supplementary pension fund or be kept within the company. For companies with at least 50 staff members, the benefits must be transferred by the company to a fund managed by INPS. The obligation towards employees is considered a:

1. "defined contribution plan" for employee severance pay accruing from 1 January 2007 (the date of entry into force of the supplementary pension reforms in legislative decree no. 25 252 of 5 December 2005) whether the employee opts for a supplementary pension fund or whether the provision is allocated to the INPS (Italian Pension Fund) Treasury fund. For these amounts, the amount recognised under personnel costs is determined on the basis of the contributions due, without applying actuarial calculation methods;
2. "defined benefit plan" recognised according to the actuarial value determined according to the unitary credit projection method, for the amount of employee severance pay accruing up until 31 December 2006.

According to this method, the amount already accrued must be increased by the current service cost, which is projected into the future until the expected date of termination of the contract, and therefore discounted to the reference date. The current service cost is also determined on the basis of the employee's expected working life.

However in this specific case, the past liability is valued without applying the prorate of the services rendered, as the service cost ("*service cost*") of the TFR is already accrued in full. The annual provision thus only includes the "*interest cost*" pertaining to the revaluation of the service expected, as a result of the passage of time.

For discounting purposes, the rate used is determined on the basis of the market return of the obligations of leading companies taking into account the average residual life of the liabilities, weighted according to the percentage of the amount paid and advanced, on each due date, compared to the total to be paid and advanced until the whole debenture is completely discharged.

The costs of servicing the plan are recognised under personnel costs, while the actuarial gains and losses are recognised in the comprehensive income statement.

Share-based payments

Share-based personnel remuneration plans are recorded in the income statement, with a corresponding increase in shareholders' equity, based on the fair value of the financial instruments attributed on the assignment date, dividing the burden over the period provided for by the plan. In the presence of options, the fair value of the same is calculated using a model that considers, in addition to information such as the exercise price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk–free interest rate, and also the specific characteristics of the existing plan. In the valuation model, the option and the probability of realisation of the conditions under which the options were assigned are assessed separately. The combination of the two values provides the fair value of the assigned instrument. Any reduction in the number of financial instruments allocated shall be accounted for as cancellation of part of them.

Recognition of commission revenues

The basic principle of IFRS 15 provides for the recognition of revenues when the transfer of control over the contractual goods or services takes place, at an amount that reflects the price that the company receives or expects to receive from the sale (IFRS15-31).

For the purposes of recognising these revenues on the accounts, there is a five-step process:

- Identification of the contract: contract for the sale of goods or services (or a combination of contracts);
- Identification of the performance obligations in the contract: identification of performance obligations under the contract;
- Determination of the transaction price: the transaction price of the contract is defined by taking into account its various components;
- Allocation of the transaction price to the contract "performance obligations;
- Recognition of income when (or to the extent to which) the performance obligation has been fulfilled.

Business combinations

The accounting standard applicable to business combinations is IFRS 3.

The transfer of control of a company (or of a group of integrated assets and goods, which are managed as a single unit) constitutes a business combination.

Control is considered to have been transferred when the investor is exposed to variable returns or holds rights to such returns due to its relations with the investee company, and can simultaneously affect the returns by exercising its power over the investee.

Identifying the buyer

IFRS 3 requires that for all business combinations a buyer is identified. This is the person who obtains the control of another entity, in the sense of the power to determine that entity's financial and operational policies in order to receive benefits from its activities. If there are business combinations that determine the exchange of shareholdings, the buyer's identification will be based on factors such as:

1. the number of new ordinary voting shares that will make up the capital of the existing company, post-combination;
2. the *fair value* of the entities taking part in the combination;
3. the composition of the new corporate bodies;
4. the entity that issues the new shares.

Determining the cost of the combination

The price transferred in a business combination operation must be determined as a sum of the *fair value,* on the date of the exchange, of the assets transferred, the liabilities incurred or accepted and the equity instruments issued by the buyer in exchange for control.

The price transferred by the buyer in exchange for the acquired entity includes any asset or liability resulting from an agreement on the potential price, to be recorded on the acquisition date based on the *fair value*. The transferred price may be modified if additional information arises, about facts and events existing on the acquisition date and which can be recognised during the measurement period of the business combination (twelve months from the date of acquisition, as specified below). Any other change deriving from any events or circumstances after the acquisition, such as a change for the vendor, linked to the achievement of certain income targets, must be recognised on the income statement.

The costs of the acquisition, including intermediation fees, advisory, legal, accounting and professional expenses, and general administration costs, are recorded in the income statement when they are incurred.

Sectorial information

The operating segment of the Group is identified on the basis of IFRS 8 *Operating Segments*. This standard requires that information is given about the valuations made by company management in the aggregation of the operating segments, by describing the aggregated segments and economic indicators used to determine that the aggregated segments have similar economic characteristics.

For the purposes of IFRS 8 *Operating segments*, a single *reporting segment* has been identified, as the operating segments have similar economic characteristics and the information given to *management* representing the highest operational level of decision-making to assess the performance of the *business* and take the related decisions, is prepared in aggregate form.

The fair value of financial instruments

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 counterparts and issuers.

A.3 DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

There were no such transfers during the current year.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

For a description of the valuation techniques and inputs, refer to the contents of Part A.2 of the explanatory notes.

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, participating financial instruments and units in UCIs.

In the portfolios held on the reporting date, there was only minor recourse to financial estimation methods in relation to the bank's total assets. In particular, it is deemed that the input data considered for the valuation of the equity instruments are those used by normal market practices and that a change in them does not have a significant impact for the explanatory notes.

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 counterparts 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 counterparts and issuers of the instruments;
- 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 (the so-called *fair value*hierarchy):

<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.

<u>Level 2</u>
The valuation takes place using methods used if the instrument is not listed on an active market, and is based on inputs other than those for Level 1. The 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.

<u>Level 3</u>
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 so-called "*Mark to Model Approach*").

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

A.4.4 Other information

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

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

Assets / Financial Liabilities at fair value	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	106	–	8,559	–	29,350	–
a Financial assets held for trading	7	–	56	–	29,251	–
b) Financial assets at fair value	–	–	–	–	–	–
c) other financial assets mandatorily measured at fair value	99	–	8,503	–	99	–
2. Financial assets measured at fair value through other comprehensive income	125,773	–	15	86,383	21,517	13
3. Hedging derivatives	–	–	–	–	–	–
4. Property and Equipment	–	–	–	–	–	–
5. Intangible assets	–	–	–	–	–	–
Total	**125,879**	**–**	**8,574**	**86,383**	**50,867**	**13**
1. Financial liabilities held for trading	–	–	–	–	–	–
2. Financial liabilities carried 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 (6.34%) 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", mainly related to the *Turnaround*. The same portfolio includes equity investments valued on the basis of the historic cost method.

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

	Financial assets measured at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily designated at fair value				
1. Starting balances	**–**	**–**	**–**	**–**	**13**	**–**	**–**	**–**
2. Increases	**8,559**	**56**	**–**	**8,503**	**2**	**–**	**–**	**–**
2.1. Purchases	8,559	56	–	8,503	–	–	–	–
2.2. Earnings charged to:	–	–	–	–	–	–	–	–
2.2.1. Income statement	–	–	–	–	–	–	–	–
- of which capital gains	–	–	–	–	–	–	–	–
2.2.2. Net Equity	–	X	X	X	–	–	–	–
2.3. Transfers from other levels	–	–	–	–	–	–	–	–
2.4. Other increases	–	–	–	–	2	–	–	–
3. Decreases	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1. Sales	–	–	–	–	–	–	–	–
3.2. Repayments	–	–	–	–	–	–	–	–
3.3. Losses attributed to:	–	–	–	–	–	–	–	–
3.3.1. Income statement	–	–	–	–	–	–	–	–
- of which capital losses	–	–	–	–	–	–	–	–
3.3.2. Net Equity	–	X	X	X	–	–	–	–
3.4. Transfers to other levels	–	–	–	–	–	–	–	–
3.5. Other decreases	–	–	–	–	–	–	–	–
4. Final amount	**8,559**	**56**	**–**	**8,503**	**15**	**–**	**–**	**–**

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

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

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

Assets and liabilities not valued at fair value or valued at fair value on a non-recurring basis	31/12/2019				31/12/2018			
	Book Value	L1	L2	L3	Book Value	L1	L2	L3
1. Financial assets measured at amortised cost	1,982,722	–	–	2,018,466	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	**1,982,722**	**–**	**–**	**2,018,466**	**969,559**	**103,078**	**–**	**891,349**
1. Financial liabilities measured at amortised cost	2,377,250	–	15,381	2,266,256	643,976	–	22,459	624,256
2. Liabilities linked to assets held for sale	–	–	–	–	–	–	–	–
Total	**2,377,250**	**–**	**15,381**	**2,266,256**	**643,976**	**–**	**22,459**	**624,256**

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

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

A.5 INFORMATION ON THE SO-CALLED "DAY ONE PROFIT/LOSS"

According to paragraph 28 of IFRS 7, it is necessary to provide evidence of the "*day one profit or loss*" to be recognised in the income statement at year end, together with a reconciliation with respect to the initial balance. "*Day one profit or loss*" refers to the difference between the *fair value* of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined on that date using a valuation technique. There are no cases that require reporting in this section.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2019	Total 31/12/2018
a) Cash	70	815
b) On demand deposits with Central Banks	772,055	67,273
Total	**772,125**	**68,088**

The sub-item "b) On demand deposits with Central Banks" records the liquidity deposited with the Bank of Italy.

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

2.1 Financial assets held for trading: breakdown by type

Items/values	Total 31/12/2019			Total 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 securities	–	–	–	–	–	–
2. Equity securities	–	–	–	–	–	–
3. Units of UCIs	7	–	56	–	29,251	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Others	–	–	–	–	–	–
Total (A)	**7**	**–**	**56**	**–**	**29,251**	**–**
B. Derivatives	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial derivatives	–	–	–	–	–	–
1.1 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)	**7**	**–**	**56**	**–**	**29,251**	**–**

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

In 2019, the investment in UCIs relating to the Soprarno open fund in the previous year was completely discontinued.

2.2 Financial assets held for trading: borrower/issuer breakdown

Items/values	Total 31/12/2019	Total 31/12/2018
A. On-balance-sheet assets		
1. Debt securities	–	–
a) Central Banks	–	–
b) Public authorities	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
2. Equity securities	–	–
a) Banks	–	–
b) Other financial companies	–	–
of which: insurance companies	–	–
c) Non-financial companies	–	–
d) Other issuers	–	–
3. Units of UCIs	63	29,251
4. Loans	–	–
a) Central Banks	–	–
b) Public authorities	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**63**	**29,251**
B. Derivatives		
a) Central counterparts	–	–
b) Others	–	–
Total (B)	**–**	**–**
Total (A+B)	**63**	**29,251**

2.3 Financial assets at fair value: breakdown by type

The Bank does not hold financial assets measured at fair value.

2.4 Financial assets at fair value: breakdown by debtor/issuer

The Bank does not hold financial assets measured at fair value.

2.5 Other financial assets mandatorily measured at fair value: breakdown by type

Items/values	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**–**	**–**	**2,342**	**–**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other debt securities	–	–	2,342	–	–	–
2. Equity securities	**–**	**–**	**6,161**	**–**	**–**	**–**
3. Units of UCIs	**99**	**–**	**–**	**–**	**99**	**–**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Others	–	–	–	–	–	–
Total	**99**	**–**	**8,503**	**–**	**99**	**–**

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

Debt securities include junior securities related to securitisation transactions for a total amount of approximately 2,342 thousand Euro

An investment in equity instruments attributable to a transaction concluded by the SME division is recognised for a total amount of approximately 6,161 thousand Euro.

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

	Total 31/12/2019	Total 31/12/2018
1. Equity securities	**6,161**	**–**
of which: banks	–	–
of which: other financial companies	–	–
of which: other non-financial companies	6,161	–
2. Debt securities	**2,342**	**–**
a) Central Banks	–	–
b) Public authorities	–	–
c) Banks	–	–
d) Other financial companies	2,342	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
3. Units of UCIs	**99**	**99**
4. Loans	**–**	**–**
a) Central Banks	–	–
b) Public authorities	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**8,602**	**99**

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

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

Items/values	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**125,773**	**–**	**–**	**86,383**	**21,517**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other debt securities	125,773	–	–	86,383	21,517	–
2. Equity securities	**–**	**–**	**15**	**–**	**–**	**13**
3. Loans	**–**	**–**	**–**	**–**	**–**	**–**
Total	**125,773**	**–**	**15**	**86,383**	**21,517**	**13**

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

The debt instruments in this item are represented by government bonds (approximately 11 million Euro), securities issued by credit institutions (approximately 74 million Euro) and securities issued by financial companies and *Corporates* (approximately 41 million Euro).

Equity instruments classified as "Financial assets measured at *fair value* through other comprehensive income" are represented by equity interests not qualified as control, association or joint control.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by borrower/issuer

Items/values	Total 31/12/2019	Total 31/12/2018
1. Debt securities	**125,773**	**107,900**
a) Central Banks	–	–
b) Public authorities	10,736	80,816
c) Banks	73,624	27,084
d) Other financial companies	22,245	–
of which: insurance companies	–	–
e) Non-financial companies	19,168	–
2. Equity securities	**15**	**13**
a) Banks	–	8
b) Other issuers:	15	5
– other financial companies	7	–
of which: insurance companies	–	–
– non-financial companies	–	5
– others	8	–
3. Loans	**–**	**–**
a) Central Banks	–	–
b) Public authorities	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**125,788**	**107,913**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total adjustments

	Gross amount				Total value adjustments			Total partial write-offs
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
Debt securities	125,969	81,541	–	–	196	–	–	–
Loans	–	–	–	–	–	–	–	–
Total 31/12/2019	**125,969**	**81,541**	**–**	**–**	**196**	**–**	**–**	**–**
Total 31/12/2018	**108,100**	**–**	**–**	**–**	**200**	**–**	**–**	**–**
of which: purchased or originated credit impaired financial assets	X	X	–	–	X	–	–	–

With regard to the approach used in the representation of the gross amount and total value adjustments related to impaired financial assets, refer to Part A – Accounting policies.

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

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

Type of operations/Values	Total 31/12/2019						Total 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 from Central Banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Time deposits	–	–	–	X	X	X	–	–	–	X	X	X
2. Reserve requirements	–	–	–	X	X	X	–	–	–	X	X	X
3. Repurchase agreements	–	–	–	X	X	X	–	–	–	X	X	X
4. Other	–	–	–	X	X	X	–	–	–	X	X	X
B. Due from banks	**344,858**	**–**	**–**	**–**	**–**	**344,831**	**372,158**	**–**	**–**	**–**	**–**	**372,158**
1. Loans	344,858	–	–	–	–	344,831	372,158	–	–	–	–	372,158
1.1 Current accounts and sight deposits	9,791	–	–	X	X	X	358,131	–	–	X	X	X
1.2. Time deposits	59,042	–	–	X	X	X	14,027	–	–	X	X	X
1.3. Other loans:	276,025	–	–	X	X	X	–	–	–	X	X	X
– Reverse Repurchase Agreements	276,025	–	–	X	X	X	–	–	–	X	X	X
– Finance leases	–	–	–	X	X	X	–	–	–	X	X	X
– Others	–	–	–	X	X	X	–	–	–	X	X	X
2. Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–	–	–	–	–	–	–
2.2 Other debt securities	–	–	–	–	–	–	–	–	–	–	–	–
Total	**344,858**	**–**	**–**	**–**	**–**	**344,831**	**372,158**	**–**	**–**	**–**	**–**	**372,158**

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

The *fair value* of the items is assumed to be equal to the book value as these are short-term assets.

The obligations to maintain a Legal reserve are fulfilled through Depobank, and the balance is recognised under the sub item "Time deposits".

As can be seen from the above table, the balance sheet item consists to a large extent of Reverse Repurchase Agreements.

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

Type of operations/Values	Total 31/12/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired	L1	L2	L3
1. Loans	**563,232**	**724,879**	**705,421**	**-**	**-**	**1,323,882**	**379,986**	**103,727**	**86,452**	**-**	**-**	**519,191**
1.1. Current accounts	39,122	17,998	13,725	X	X	X	102,286	10,110	3	X	X	X
1.2. Reverse Repurchase Agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	369,117	357,165	347,407	X	X	X	267,547	43,642	38,277	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	961	995	957	X	X	X	1,355	601	566	X	X	X
1.5 Finance leases	-	89,517	89,517	X	X	X	-	-	-	X	X	X
1.6. Factoring	126,561	45	-	X	X	X	188	-	-	X	X	X
1.7. Other loans	27,471	259,159	253,815	X	X	X	8,610	49,374	47,606	X	X	X
2. Debt securities	**299,390**	**50,363**	**50,363**	**-**	**-**	**349,753**	**113,688**	**-**	**-**	**103,078**	**-**	**-**
2.1. Structured securities	-	50,363	50,363	-	-	50,363	-	-	-	-	-	-
2.2. Other debt securities	299,390	-	-	-	-	299,390	113,688	-	-	103,078	-	-
Total	**862,622**	**775,242**	**755,784**	**-**	**-**	**1,673,635**	**493,674**	**103,727**	**86,452**	**103,078**	**-**	**519,191**

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

"Other debt securities" include 299 million Euro in *senior financing notes*. Under the sub-item "Structured Securities" there is a POCI security attributable to a transaction concluded by the SME division during the year. During the fourth quarter of 2019, the Bank redefined its investment strategy for the securities portfolio by selling all securities managed through a Held to Collect business model to meet the Bank's liquidity management flexibility requirements for financing disbursements and investments, which – in particular in the area of investments in distressed loan portfolios – show high volatility with seasonal peaks. As of 31 December 2019, the sale of this portfolio brought the net profits from sales to approximately 8 million Euro.

4.3 *Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers*

Type of operations/Values	Total 31/12/2019			Total 31/12/2018		
	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired
1. Debt securities	**299,390**	**50,363**	**50,363**	**113,688**	**–**	**–**
a) Public authorities	–	–	–	113,565	–	–
b) Other financial companies	299,390	–	–	123	–	–
of which: insurance companies	–	–	–	–	–	–
c) Non-financial companies	–	50,363	50,363	–	–	–
2. Loans to:	**563,232**	**724,879**	**705,421**	**379,986**	**103,727**	**86,452**
a) Public authorities	13,805	–	–	3,614	–	–
b) Other financial companies	52,624	35,152	35,130	21,432	27	12
of which: insurance companies	565	–	–	–	–	–
c) Non-financial companies	446,770	593,838	577,285	290,226	74,823	59,908
d) Households	50,033	95,889	93,006	64,715	28,877	26,532
Total	**862,622**	**775,242**	**755,784**	**493,674**	**103,727**	**86,452**

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

	Gross amount				Total value adjustments		
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three
Debt securities	299,753	299,753	–	50,362	363	–	–
Loans	894,699	135,120	19,119	743,371	5,133	594	18,492
Total 31/12/2019	**1,194,452**	**434,873**	**19,119**	**793,733**	**5,496**	**594**	**18,492**
Total 31/12/2018	**845,281**	**–**	**24,600**	**117,303**	**2,496**	**1,554**	**13,576**
of which: purchased or originated impaired financial assets	X	X	–	756,037	X	–	253

With regard to the approach used in the representation of the gross value and total value adjustments related to impaired financial assets, refer to Part A – Accounting policies.

Section 5 – Hedging derivatives – Item 50

The Group has no hedge transactions.

Section 6 - Adjustment in value of generic hedging financial assets– Item 60

The Group has no hedge transactions.

Section 7 – Equity investments– item 70

There are no equity investments in net Equity or joint control. For more information about the consolidation area, see Section 3 – Consolidation area and methods.

Section 8 – Reinsurance Technical Reserves – Item 80

The Group has no reinsurance technical reserves.

Section 9 – Property and equipment – Item 90

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

Assets/Values	Total 31/12/2019	Total 31/12/2018
1. Proprietary assets	**2,583**	**2,495**
a) lands	–	–
b) buildings	994	1,045
c) furniture and fittings	667	522
d) electronic systems	828	181
(e) other	94	747
2. Rights of use acquired through leases	**20,489**	**–**
a) lands	–	–
b) buildings	19,333	–
c) furniture and fittings	1	–
d) electronic systems	8	–
(e) other	1,147	–
Total	**23,072**	**2,495**
of which: obtained by enforcement of guarantees received	–	–

Under the item is recognised the initial increase due to the recognition of right of use assets (*Right of Use Asset*) acquired through *leases*, in accordance with IFRS 16 for a total amount of 20.5 million Euro, net of the amortisation fund.

For more information on the first application of IFRS16 refer to Part A – Accounting Policies and Part M – *Lease*Information.

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

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

9.2 Property and equipment held for investment: breakdown of assets measured at cost

The Group does not hold Property and equipment measured at cost and held for investment as of the reporting date.

9.3 Property and equipment with functional use: breakdown of revalued assets

The Group does not hold Property and equipment with functional use as of the reporting date.

9.4 Property and equipment held for investment: breakdown of assets measured at fair value

The Group does not hold Property and equipment held for investment designated at fair value as of the reporting date.

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

Assets/Values	Total 31/12/2019	Total 31/12/2018
1. Inventories of assets obtained by the enforcement of guarantees received	**2,322**	**–**
a) lands	–	–
b) buildings	2,322	–
c) furniture and fittings	–	–
d) electronic systems	–	–
e) other	–	–
2. Other tangible assets inventories	**–**	**–**
Total	**2,322**	**–**
of which: measured at fair value net of costs to sell	–	–

9.6 *Property and equipment with functional use: yearly changes*

	Land	Buildings	Furnishings	Electronic system	Others	Total
A. Opening gross balance	**–**	**1,695**	**1,174**	**385**	**1,520**	**4,774**
A.1 Total net write-downs	–	–	–	–	–	–
A.2 Opening net balance	–	1,045	522	181	747	2,495
B. Increases	**–**	**20,925**	**279**	**756**	**1,256**	**23,216**
B.1 Purchases	–	–	278	85	101	464
– of which operations of business combinations	–	–	–	–	–	–
B.2 Capitalised expenditure on improvements	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4Positive changes in fair value charged to	–	–	–	–	–	–
a) Shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange differences	–	–	–	–	–	–
B.6 Transfers from real estate held for investment	–	–	X	X	X	–
B.7 Other changes	–	20,925	1	671	1,155	22,752
C. Decreases:	**–**	**1,427**	**133**	**101**	**978**	**2,639**
C.1 Sales	–	–	–	–	–	–
– of which operations of business combinations	–	–	–	–	–	–
C.2 Depreciation	–	1,427	133	101	389	2,050
C.3 Depreciation and impairment charged to	–	–	–	–	–	–
a) Net equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4Negative changes in fair value charged to	–	–	–	–	–	–
a) Net equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange differences	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) Tangible assets held for investment	–	–	X	X	X	–
b) non-current assets and groups of assets held for disposal	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	589	589
D. Closing Net Balance	**–**	**20,543**	**668**	**836**	**1,025**	**23,072**
D.1 Total net write-downs	–	13	–	3	–	16
D.2 Closing Gross Amount	–	20,556	668	839	1,025	23,088
E. Valuation at cost	**–**	**–**	**–**	**–**	**–**	**–**

Among tangible assets, under the sub-item “Other changes - increases”, there was an initial recognition of *right-of-use assets* acquired under *leases*, in accordance with IFRS 16, amounting to approximately 22 million Euro, while the respective provision for amortisation and depreciation amounting to 1.5 million Euro was recognised under the sub-item “Amortisations-Depreciations”.

For more information on the first application of IFRS16 refer to Part A – Accounting Policies and Part M – *Lease*Information.

9.7 *Property and equipment held for investment: yearly changes*

The Group does not hold Property and equipment held for investment as of the reporting date.

9.8 *Inventories of property and equipment governed by IAS 2: yearly changes*

	Inventories of tangible assets obtained by the enforcement of guarantees received					Other tangible assets inventories	Total
	Land	Buildings	Furnishings	Electronic system	Others		
A. Opening balance	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. Increases	**–**	**2,322**	**–**	**–**	**–**	**–**	**2,322**
B.1 Purchases	–	2,322	–	–	–	–	2,322
B.2 Write-backs	–	–	–	–	–	–	–
B.3 Positive exchange differences	–	–	–	–	–	–	–
B.4 Other changes	–	–	–	–	–	–	–
C. Decreases	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Sales	–	–	–	–	–	–	–
C.2 Depreciation and impairment	–	–	–	–	–	–	–
C.3 Positive exchange differences	–	–	–	–	–	–	–
C.4 Other changes	–	–	–	–	–	–	–
D. Closing balance	**–**	**2,322**	**–**	**–**	**–**	**–**	**2,322**

9.9 *Commitments to purchase Property and equipment*

The Group does not hold commitments to purchase Property and equipment as of the reporting date.

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

Assets/Values	Total 31/12/2019		Total 31/12/2018	
	Finite useful life	indefinite useful life	finite useful life	indefinite useful life
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 minorities	X	–	X	–
A.2 Other intangible assets	**19,161**	**–**	**270**	–
A.2.1 Assets measured at cost:	19,162	–	270	–
a) internally generated intangible assets	2,947	–	–	–
b) other assets	16,214	–	270	–
A.2.2 Assets measured at fair value:	–	–	–	–
a) internally generated intangible assets	–	–	–	–
b) other assets	–	–	–	–
Total	**19,161**	**21,643**	**270**	**21,643**

The item consists mainly of the registration of software, for 16 million Euro, and goodwill, for 21.6 million Euro.

Purchase price allocation

The goodwill recorded in the Bank financial statement, amounting to 21.6 million Euro, was estimated, in accordance with IFRS 3, at the time of *the purchase price allocation* ("PPA") of the purchase price of Interprovinciale Bank by SPAXS, a company merged into illimity on 5 March 2019. According to IFRS 3, goodwill is the surplus cost paid for the acquisition compared to the *fair value* of the assets (including identifiable intangible assets) acquired and the liabilities and potential liabilities accepted.

To determine goodwill, the Shareholders' equity of Interprovinciale Bank as of 30 September 2018 was utilised. This was the closest date to the date relevant for the purposes of applying IFRS 3 (20 September 2018). That was then adjusted after significant accounting effects of those transactions were identified between the acquisition date of 20 September 2018 and the reporting date of 30 September 2018.

Impairment Tests

The impairment test is governed by accounting standard IAS 36 – *Impairment of Assets*, which provides that, at least on an annual basis and, in any case, whenever events arise suggesting a potential impairment, a test must be carried out to verify the adequacy of the value of the goodwill subject to recognition. The impairment test is carried out identifying the units generating financial flows ("CGU") to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any impairment losses must be recorded in the income statement, they are not likely to undergo future value recoveries.

As required by IAS 36, the goodwill was subject to an *impairment* test to check whether there is objective evidence that the recognition value of the financial assets may not be fully recoverable. The impairment test policy was approved by the Board of Directors on 11 February 2019. Management has not identified any need to modify and/or supplement this policy for the purpose of closing the 2019 financial statements.

The process of recognising possible *impairment* involves checking for the presence of *impairment*indicators and the identification of any write-down. There are essentially two categories of *impairment* indicators: qualitative indicators such as a negative profit/

loss result or a significant deviation from the *budget*targets or the targets in long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans; quantitative indicators show a book value of the entity's net assets higher than its market capitalisation, or a carrying amount of the investment in the separate financial statement higher than the carrying amount of the net assets and goodwill of the subsidiary on the consolidated financial statement, or the distribution by the latter of a dividend that is higher than its total income.

Therefore, for the purposes of the consolidated financial statements as of 31 December 2019, and for impairment purposes, an updated 2020 budget has been developed that takes into account the deferment of the full implementation of all the Bank businesses. However, the results for subsequent years are confirmed.

Criteria used to determinate the Value in Use

The value in use was determined using the "Excess Capital" variant of the Discounted Dividend Model methodology. This method is commonly used in valuation practices in the financial sector. According to this model the economic value is equal to the sum of the following elements:

- the current value of the dividends potentially available for distribution over a certain period of time, maintaining a minimum level of capitalisation consistent with the growth of the business and with the supervisory regulations;
- the current value of a perpetual annuity defined on the basis of a sustainable dividend for the years following the planning period.

The cash flows were elaborated on the basis of the information in the 2018–2023 business plan approved by the board of directors of Interprovinciale Bank (now illimity Bank) on 30 November 2018, whose forecasts are confirmed for the period 2021–2023. However, with reference to the year 2020, as stated above, an updated budget was elaborated in the light of the final results for the year 2019, which takes into account a deferment in the full implementation of the Bank's business.

Estimates of cash flows

To define the cash flows beyond the analytical forecast period, it was taken into account the market context in which such forward-looking scenario was defined. With regard to the impairment test as of 31 December 2019 (in line with the methodology applied in the previous year), to determine the terminal value, the cash flows for 2023, the last year of the analytical forecast, were projected in perpetuity, based on a g growth factor determined as the average rate of growth of the Italian nominal GDP, equal to 1.34%.

The business plan was developed on the basis of an analysis of the economic context, by elaborating the forecast data on the economic situation and the financial services sector, adjusted to reflect the context and dynamics of illimity operations. The plan considers a scenario characterised by the evolution of the following main macroeconomic variables:

- growth of gross domestic product (GDP) in Italy between 2019 and 2023;
- the 3-month Euribor rate rising from 2018, up to 1.2% in 2023;
- the growing inflation rate up by 1.5% in 2019 to 1.7% at the end of the plan.

The 2018-2023 plan will focus, as mentioned, on the following main strategies:

- The development, from the final quarter of 2018 onwards, of assets invested for high-potential businesses with a suboptimal financial structure and/or with a low rating or no rating, including the *non-performing*segment of SMEs (UTP) through the SME division;
- The entry, from the final quarter of 2018, into the Italian market for the acquisition and management of corporate secured and unsecured NPL portfolios through the DCIS division;
- The development of illimitybank.com, an innovative, fully digital, online bank, aimed at households and businesses also with the goal of achieving stable funding through term deposit accounts.

With regard to the prudential supervision provisions, in elaborating the volumes of business for the various divisions, the Bank assumed a capitalisation with a CET1 ratio of 15% or more, throughout the plan period.

Cash flow discount rate

In determining the value in use, cash flows have to be discounted at a rate that reflects the current market valuations, the current value of money, and the specific risks related to the business. In the case of a banking enterprise, it is estimated using the equity side approach, which means considering only the cost of its own capital (Ke), in line with the method used to determine the cash flows which, as already mentioned, include the cash flows from the financial assets and liabilities.

The cost of capital was determined by using the "Capital Asset Pricing Model" (CAPM). According to that model, the cost of capital is determined as the sum of the return on risk-free investments and of a risk premium, which in turn depends on the specific risk of the activity (which means the risk level of the operating unit and the geographical risk level, which is the so-called "country risk"). Taking into account the current stage of the illimity development project, an additional risk factor was also considered to give a better representation of the risks linked to illimity in the current start– up phase.

The cost of capital is determined net of taxes, to be consistent with the discounted cash flows. As the cash flows have been determined in nominal terms, the discounted rates have also been determined in the same way, in other words by incorporating the expectations on inflation.

Looking in detail at the various components that go towards determining the discounting rate, the following decisions were made:

1. with regard to the *risk free* rate, it was used the average mean return (average in the last 12 months) on 30-year Italian government bonds (BTP);
2. with regard to the market risk premium, which represents the premium that an investor would require when investing in the stock market compared to the risk-free rate, data from the international databases generally used for such valuations, were utilised (source: Damodaran);
3. the beta coefficient, which measures the specific risk of an individual company, was determined by identifying a sample of comparable companies (in business terms), and the average beta recorded was then utilised by means of weekly observations over a five-year period;
4. with regard to the alpha coefficient, which expresses a share's aptitude to vary regardless of the market (specific risk), a percentage equal to 20% of Ke was used (the so-called «execution risk»).

The Ke discounting rate used for the*impairment test* for the year ending on 31 December 2019 was 10.07%.

Book value of CGUs

For the purposes of the 2019 financial statement, and in line with the analysis carried out for the 2018 financial statement, management has identified a single reporting segment, as the operational segment have similar economic characteristics, and in 2019 the information given to management, which represents the highest operational level of decision-making, to assess the performance of the business and take the relevant decisions, is prepared in aggregate form.

As of 31 December 2019, the book value of CGU corresponds to the shareholders' equity book value; in particular, it corresponds to the shareholders' equity value deducted from the consolidated financial statements as of 31 December 2019, or 544.5 million Euro.

Results of the impairment tests

The results of the*impairment test* showed that the CGU value in use is higher than its book value, represented by the net assets recorded in the consolidated financial statements. Therefore, no write-down was necessary for the purposes of the financial statement for the year ended on 31 December 2019.

The criteria and information used for the*impairment test* are significantly influenced by the macroeconomic scenario and by the trends on the financial markets, which could show changes that are not currently foreseeable. If the macroeconomic scenario does deteriorate compared to the current forecast, this would impact the estimates of cash flows and the main assumptions adopted, which could lead to results other than those prospected in these accounts, over the coming years.

Sensitivity tests

As the value in use is determined by using estimates and assumptions that may contain uncertainties, sensitivity tests were carried out, as required by IAS/IFRS, aimed at verifying the sensitivity of the results obtained, if certain parameters or underlying assumptions should vary.

In particular, it was verified the impact on the value in use of a change of up to 50 bps for the discount rates and a change of 25 bps in the *g* growth rate used to determine cash flows for the purposes of *terminal value*. None of the scenarios considered revealed any cases of *impairment*, even considering an increase of 50 bps in the discount rates combined with a reduction of 25 bps in the *g* rate.

The table below shows the *sensitivity analysis* of the CGU value in use, if there is a change in the *g* growth rate or in the discount rate.

		Ke				
		9.57%	9.82%	10.07%	10.32%	10.57%
g	1.09%	2,310	2,226	2,147	2,072	2,002
	1.34%	2,363	2,275	**2,192**	2,115	2,041
	1.39%	2,419	2,327	2,241	2,159	2,083

Again from a *stress test* perspective, analysis were carried out to highlight the limit values of the main *inputs*, beyond which the *impairment test* would require an *impairment* to be recognised; in this regard the g growth rate and the discount rate that would lead to values in use equal to the book values,if considering the same flows to be discounted. This analysis showed that the value in use would be reduced to book values with a consequent need for *impairment* only if there was a significant deterioration in the discounting rate (Ke) and in the g growth rate.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**21,643**	**–**	**–**	**270**	**–**	**21,913**
A.1 Total net write-downs	–	–	–	–	–	–
A.2 Opening net balance	21,643	–	–	270	–	21,913
B. Increases	**–**	**3,057**	**–**	**16,963**	**–**	**20,020**
B.1 Purchases	–	3,057	–	16,678	–	19,735
– of which operations of business combinations	–	–	–	–	–	–
B.2 Increases of internally generated intangible assets	X	–	–	–	–	–
B.3 Recoveries	X	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
– recognised to net equity	X	–	–	–	–	–
– recognised to income statement	X	–	–	–	–	–
B.5 Positive foreign exchange differences	–	–	–	–	–	–
B.6 Other changes	–	–	–	285	–	285
C. Decreases	**–**	**110**	**–**	**1,019**	**–**	**1,129**
C.1 Sales	–	–	–	–	–	–
– of which operations of business combinations	–	–	–	–	–	–
C.2 Write-downs	–	110	–	1,019	–	1,129
- Amortisations	X	110	–	1,019	–	1,129
- Depreciations	–	–	–	–	–	–
+ net equity	X	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value:	–	–	–	–	–	–
– recognised to net equity	X	–	–	–	–	–
– recognised to income statement	X	–	–	–	–	–
C.4 Transfers to non current assets held for sale	–	–	–	–	–	–
C.5 Negative foreign exchange differences	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. Closing Net Balance	**21,643**	**2,947**	**–**	**16,214**	**–**	**40,804**
D.1 Net total value adjustments	–	–	–	25	–	25
E. Gross closing balance	**21,643**	**2,947**	**–**	**16,239**	**–**	**40,829**
F. Measured at cost	**–**	**–**	**–**	**–**	**–**	**–**

Key
DEF: finite useful life

INDEF: indefinite useful life

10.3 Other information

The following information is provided in accordance with IAS 38:

1. there are no revalued intangible assets nor impediments to the distribution of the related gains to shareholders;
2. there are no intangible assets acquired through government grants;
3. there are no intangible assets provided as a guarantee to secure liabilities nor commitments to buy such assets;
4. there are no leases pertaining to intangible assets.

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

11.1 Deferred tax assets: breakdown

Main deductible temporary differences: IRES	31/12/2019	31/12/2018
Depreciation of customers' loans and receivables	1,622	1,829
Provisions for liabilities and charges		769
Tax losses	23,692	8,556
ACE	3,429	156
Write-down of HTCS securities	108	442
Others	2,477	4,753
Total	**31,328**	**16,505**

Main deductible temporary differences: IRAP	31/12/2019	31/12/2018
Depreciation of customers' loans and receivables	200	225
Provisions for liabilities and charges		18
Write-down of HTCS securities	22	89
Others	384	653
Total	**606**	**985**

Deferred tax assets other than those convertible into tax credits pursuant to Article 2 paragraphs 55 et seq. of Legislative Decree 225/2010, are recognised based on the likelihood of earning taxable income, in future years, able to reabsorb the above temporary differences.

The so-called "*probability test*' was performed in support of the reasonable certainty of the future recovery of the prepaid tax assets that justifies their recognition pursuant to IAS 12. The test consists of simulating the ability to recover the deductible temporary differences and accrued tax losses as of the reporting date using future taxable income. The "*probability test*" conducted on the basis of the Bank business plan had positive results, showing that the prepaid tax assets would be reabsorbed by 2021.

11.2 Deferred tax liabilities: breakdown

Main taxable temporary differences: IRES	31/12/2019	31/12/2018
Gains by instalments	–	–
Revaluation of FVOCI securities	488	18
Others	119	215
Total	**607**	**233**

Main taxable temporary differences: IRAP	31/12/2019	31/12/2018
Revaluation of FVOCI securities	99	4
Others	11	43
Total	**110**	**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.

11.3 Changes in deferred tax assets (through profit or loss)

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**13,098**	**–**
2. Increases	**22,068**	**13,383**
2.1 Deferred taxes recognised during the year	17,543	13,383
a) relating to previous years	3,784	–
b) due to changes in accounting criteria	–	–
c) write-backs	–	–
d) others	13,759	13,383
2.2 New taxes or increases in tax rates	–	–
2.3 Other Increases	4,525	–
3. Decreases	**5,681**	**285**
3.1 Deferred taxes cancelled during the year	1,156	285
a) reversals	1,156	285
b) write-downs of non-recoverable items	–	–
c) changes in accounting criteria	–	–
d) others	–	–
3.2 Reductions in tax rates	–	–
3.3 Other reductions:	4,525	–
a) conversion into tax credits pursuant to Law n. 214/2011	233	–
b) other	4,292	–
4. Final amount	**29,485**	**13,098**

11.4 Changes in deferred taxes pursuant to Law n. 214/2011

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**2,054**	**–**
2. Increases	**–**	**2,054**
3. Decreases	**233**	**–**
3.1 Reversals	–	–
3.2 Conversion into tax credits	233	–
a) attributable to operating losses	233	–
b) attributable to tax losses	–	–
3.3 Other reductions	–	–
4. Final amount	**1,821**	**2,054**

11.5 Changes in deferred tax liabilities (through profit or loss)

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**192**	**–**
2. Increases	**744**	**192**
2.1 Deferred taxes recognised during the year	–	192
a) relating to previous years	–	–
b) due to changes in accounting criteria	–	–
c) other	–	192
2.2 New taxes or increases in tax rates	–	–
2.3 Other Increases	744	–
3. Decreases	**933**	**–**
3.1 Deferred taxes cancelled during the year	–	–
a) reversals	–	–
b) due to changes in accounting criteria	–	–
c) other	–	–
3.2 Reductions in tax rates	–	–
3.3 Other reductions	933	–
4. Final amount	**3**	**192**

11.6 Changes in deferred tax assets (recorded in equity)

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**4,392**	**–**
2. Increases	**2,209**	**5,129**
2.1 Deferred tax assets recognised during the year	2,209	5,027
a) related to previous years	–	–
b) due to changes in accounting criteria	–	–
c) other	2,178	5,027
2.2 New taxes or increases in tax rates	–	–
2.3 Other Increases	31	102
3. Decreases	**4,151**	**737**
3.1 Deferred tax assets cancelled during the year	414	737
a) reversals	–	737
b) write-downs of non-recoverable items	–	–
c) due to changes in accounting criteria	–	–
d) others	414	–
3.2 Reductions in tax rates	–	–
3.3 Other reductions	3,737	–
4. Final amount	**2,450**	**4,392**

11.7 Changes in deferred tax liabilities (recorded in equity)

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**88**	**–**
2. Increases	**626**	**2,249**
2.1 Deferred tax liabilities recognised during the year	564	2,249
a) related to previous years	–	–
b) due to changes in accounting criteria	–	–
c) other	564	2,249
2.2 New taxes or increases in tax rates	–	–
2.3 Other Increases	62	–
3. Decreases	**–**	**(2,161)**
3.1 Deferred taxes cancelled during the year	–	(2,161)
a) reversals	–	(2,161)
b) due to changes in accounting criteria	–	–
c) other	–	–
3.2 Reductions in tax rates	–	–
3.3 Other reductions	–	–
4. Final amount	**714**	**88**

11.8 Other information

Current fiscal assets: breakdown

Type of operations/Values	31/12/2019	31/12/2018
Deferred taxes paid to tax authority	4,237	1,601
Withholding taxes	193	183
Other tax credits	697	187
Total	**5,127**	**1,972**

Current fiscal liabilities: breakdown

Main taxable temporary differences: IRAP	31/12/2019	31/12/2018
Balance for the previous year	–	1,607
Provision for taxes	53	–
Withdrawals to pay taxes	–	(1,607)
Other changes	–	–
Total	**53**	**–**

Section 12 – Non-current assets held for sale and discountinued operations and related liabilities - Item 120 of assets and Item 70 of liabilities

The Group does not hold non-current assets and groups of assets held for disposal and associated liabilities, as of the reporting date.

Section 13– Other assets – Item 130

13.1 Other assets: breakdown

Items	
Cheques and other equivalents in hand	130
Various debtors	15,487
Leasehold improvements	854
Entries being processed	12,555
Miscellaneous items	3,636
Total 31/12/2019	**32,662**
Total 31/12/2018	**16,661**

The item is largely composed of “Entries being processed”, linked to normal banking operations, which will be properly recorded in the days following their generation. The sub-item “Other debtors” includes advances paid by the Group companies as part of the ordinary management of commercial suppliers.

LIABILITIES

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

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

Type of operations/Values	Total 31/12/2019				Total 31/12/2018			
	Book Value	Fair Value			Book Value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central Banks	**52,409**	**X**	**X**	**X**	**52,622**	**X**	**X**	**X**
2. Due to banks	**324,338**	**X**	**X**	**X**	**56,220**	**X**	**X**	**X**
2.1 Current accounts and on-demand deposits	5	X	X	X	4,010	X	X	X
2.2 Time deposits	25,556	X	X	X	1,370	X	X	X
2.3 Loans	283,091	X	X	X	35,061	X	X	X
2.3.1 Repurchase agreements - payables	279,091	X	X	X	35,061	X	X	X
2.3.2 Others	4,000	X	X	X	–	X	X	X
2.4 Debts for commitments to repurchase equity instruments	–	X	X	X	–	X	X	X
2.5 Payables for leasing	–	X	X	X	–	X	X	X
2.6 Other Payables	15,686	X	X	X	15,779	X	X	X
Total	**376,747**	**–**	**–**	**376,747**	**108,842**	**–**	**–**	**108,842**
Total	**376,747**				**108,842**			

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

The explanation of the criteria for determining *fair value* is reported in Part A – Accounting policies. Repurchase agreements payables against financial assets sold and not derecognised are detailed in Part E – Section E of the Explanatory note

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

Type of operations/Values	Total 31/12/2019				Total 31/12/2018			
	Book Value	Fair Value			Book Value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	391,011	X	X	X	398,695	X	X	X
2. Time deposits	1,384,394	X	X	X	41,692	X	X	X
3. Loans	149,625	X	X	X	9,802	X	X	X
3.1 Repurchase agreements - payables	–	X	X	X	–	X	X	X
3.2 Others	149,625	X	X	X	9,802	X	X	X
4. debt for commitments to repurchase equity instruments	–	X	X	X	–	X	X	X
5. Payables for leasing	21,690	X	X	X	–	X	X	X
6. Other payables	38,425	X	X	X	3,532	X	X	X
Total	**1,985,145**	**–**	**–**	**1,889,509**	**453,721**	**–**	**–**	**455,044**

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

The item "Term deposits" is increased as a result of the launch of the Digital Bank, which has enabled significant amounts of money to be raised from customers.

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

Type of securities/Values	Total 31/12/2019				Total 31/12/2018			
	Book Value	Fair Value			Book Value	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	15,358	–	15,381	–	22,498	–	22,459	–
1.1 structured	–	–	–	–	–	–	–	–
1.2 others	15,358	–	15,381	–	22,498	–	22,459	–
2. other securities	–	–	–	–	58,915	–	–	60,368
2.1 structured	–	–	–	–	–	–	–	–
2.2 others	–	–	–	–	58,915	–	–	60,368
Total	**15,358**	**–**	**15,381**	**–**	**81,413**	**–**	**22,459**	**60,368**

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

1.4 Breakdown of subordinated debts/securities

The Group does not hold such debts/securities on the reporting date.

1.5 Breakdown of structured debts

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

1.6 Payables for leasing

At the reporting date, the Group has outstanding payables for *leasing* equal to 21,914 thousand euros, divided between 20,751 thousand euros relating to the rental component of Properties for personal and instrumental use and 1,163 thousand euros relating to the long-term rental component of automobiles.

Section 2 – Financial liabilities held for trading – Item 20

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

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

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

Section 4 – Hedging derivatives – Item 40

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

Section 5 – Adjustment in value of generic hedging financial liabilities – Item 50

The Group does not hold such generic hedging liabilities.

Section 6 – Tax liabilities – Item 60

For details regarding tax liabilities, see Section 11 – Tax assets and tax liabilities – Item 110 of assets and Item 60 of liabilities.

Section 7 – Liabilities linked to assets held for sale – Item 70

The Group does not hold liabilities linked to assets held for sale.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: composition

Items	
Payables related to employees	1,921
Payables to social security and welfare bodies	569
Payables to suppliers	23,507
Payables to the Treasury	5,661
Miscellaneous items	68,910
Total 31/12/2019	**100,568**
Total 31/12/2018	**30,510**

The item is largely composed of “Miscellaneous items", which mainly includes items in processing, linked to normal banking operations, which see their physiological accounting arrangement in the days following their generation. The sub-item "Payables to suppliers” is, instead, mainly composed of trade payables to suppliers.

Section 9 – Employee severance pay – Item 90

Following the reform to supplementary pension scheme in Italian Legislative Decree no. 252 of 5 December 2005, severance pay indemnities accrued from 1 January 2007 can be allocated either to supplementary pension schemes or transferred to INPS (the Italian national social security institute) pension fund, at the employee's discretion. The provisions take into account the actuarial valuations.

9.1 Employee severance pay: annual changes

	Total 31/12/2019	Total 31/12/2018
A. Opening balance	**575**	**–**
B. Increases	**639**	**674**
B.1 Provisions for the year	588	80
B.2 Other changes	51	594
– of which operations of business combinations	41	586
C. Decreases	**117**	**99**
C.1 Payments made	114	99
C.2 Other changes	3	–
– of which operations of business combinations	3	–
D. Closing balance	**1,097**	**575**
Total	**1,097**	**575**

SUMMARY OF TECHNICAL ECONOMIC BASES

	31/12/2019	31/12/2018
Annual discount rate	1.04%	1.97%
Annual inflation rate	1.20%	1.50%
Annual rate of TFR increase	2.40%	2.63%
Annual rate of salary increase	1.00%	1.00%

It should be noted that:

- the annual discount rate used to determine the current value of the obligation is taken, in accordance with paragraph 83 of IAS 19, from the Iboxx Corporate A index with a duration of 10+ as recorded on the valuation date. The yield with a comparable duration to that of the collective body of workers being valued was chosen for this purpose;
- the annual rate of increase in TFR as provided for in Article 2120 civil code is 75% of inflation +1.5 percentage points;
- the annual salary increase rate applied exclusively to companies with on average fewer than 50 staff during 2006, and in any case to identify the amounts payable for length of service bonuses, was determined in accordance with the information provided by the Bank's managers.

The technical demographic assumptions used are illustrated below.

SUMMARY OF TECHNICAL DEMOGRAPHIC BASES

Death	RG 48 mortality tables published by the State General Accounting Office
Incapacity	INPS tables by age and gender
Retirement	100% upon reaching the AGO requirements

9.2 Other information

No information other than that already provided in the previous sections is reported.

Section 10 – Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: composition

Items/Components	Total 31/12/2019	Total 31/12/2018
1. Allowance for credit risk relating to commitments and financial guarantees given	598	63
2. Allowance for other commitments and guarantees issued	–	56
3. post-employment benefits and similar commitments	–	–
4. Other allowances for risks and charges	484	2,736
4.1 legal and tax disputes	70	120
4.2 Personnel costs	295	316
4.3 others	119	2,300
Total	**1,082**	**2,855**

The "Legal disputes" provision was set up in order to cover any losses deriving from litigation in which the cost can be reliably estimated on the basis of IAS 37. This relates to proceedings in which the Bank is the defendant, and revocation proceedings for which the future cost and duration of the dispute has been estimated. The discounting of future commitments has not been done, as this is not significant.

The "Personnel costs" provision regards:

1. long-term payments relating to the productivity bonus and incentive schemes;
2. other long term service bonuses.

10.2 Allowances for risks and charges: annual changes

	Provisions for other commitments and guarantees issued	Pension funds	Other Provisions for risks and charges	Total
A. Opening balance	**56**	**–**	**2,735**	**2,791**
B. Increases	**–**	**–**	**384**	**384**
B.1 Provision for the year	–	–	384	384
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	–	–	–
B.4 Other changes	–	–	–	–
– of which operations of business combinations	–	–	–	–
C. Decreases	**56**	**–**	**2,635**	**2,691**
C.1 Utilisation for the year	56	–	2,635	2,691
C.2 Changes due to variations in the discount rate	–	–	–	–
C.3 Other changes	–	–	–	–
– of which operations of business combinations	–	–	–	–
D. Closing balance	**–**	**–**	**484**	**484**

10.3 Allowance for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to Commitments and financial guarantees issued			
	Stage one	Stage two	Stage three	Total
Commitments to disburse funds	424	8	–	432
Financial guarantees issued	55	31	80	166
Total	**479**	**39**	**80**	**598**

10.4 Allowance for other commitments and guarantees issued

The Group does not make any provision for other commitments and guarantees issued as of the reporting date.

10.5 Defined-benefit pension funds

The Group does not hold pension funds on the reporting date.

10.6 Allowaces for risks and charges – other provisions

During the year, the charges of early termination of the *outsourcing* contract for the accounting and reporting systems used by the Bank, set aside in the previous year, were settled.

Section 11 – Technical Reserves – Item 110

The Group has no such reserves on the reporting date.

Section 12 – Redeemable shares – Item 130

The Bank does not hold redeemable shares on the reporting date.

Section 13 – Group shareholders' equity – Items 120, 130, 140, 150, 160, 170 and 180

At 31 December 2019, the Group's subscribed and paid up share capital, amounted to 43,407,662 euros, divided into 65,164,434 ordinary shares (equivalent to 42,469,180.25 euros) and 1,440,000 special shares (equivalent to 938,481.56 euros), without par value.

During the year, the Bank purchased from the Shareholders of Banca Interprovinciale, who did not adhere to the merger between SPAXS and BIP, pursuant to article 2505-bis of the Italian Civil Code, no. 10,554 "treasury shares" at the unit price of Euro 9.09 each, for an equivalent of EUR 95,940, as per the resolution of the Shareholders' Meeting of 18 January 2019.

13.2 Capital – Number of parent company shares: annual changes

Items/Types	Ordinary	Others
A. Shares at the beginning of the year	**59,442,861**	**1,440,000**
– fully paid-in	59,442,861	1,440,000
– not fully paid-in	–	–
A.1 Treasury shares (-)	–	-
A.2 Shares outstanding: initial balance	59,422,861	1,440,000
B. Increases	**5,741,573**	**–**
B.1 New issues	5,741,573	–
– for cash:	–	–
– conversion of bonds	–	–
– exercise of warrants	–	–
– others	–	–
– free:	5,741,573	–
– in favour of employees	43,022	–
– in favour of Directors	–	–
– others	5,698,551	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. Decreases	**(10,554)**	**–**
C.1 Cancellation	–	–
C.2 Purchase of treasury shares	(10,554)	–
C.3 Business transfer transactions	–	–
C.4 Other changes	–	–
D. Shares outstanding: closing balance	**65,153,880**	**1,440,000**
D.1 Treasury shares (+)	10,554	–
D.2 Shares existing at the end of the year	65,164,434	1,440,000
– fully paid-in	65,164,434	1,440,000
– not fully paid-in	–	–

The number of shares at the beginning of the year takes into account the extraordinary reverse merger, which took place with accounting backdating on 1 January 2019 in accordance with the principle of continuity of values, as required by international accounting standards.

13.3 Capital: other information

See Part B - Explanatory note of the parent company illimity Bank S.p.A. – Section 12 – Bank assets – Items 110, 130, 140, 150, 160, 170 and 180 – "12.3 Capital: other information", which is fully disclosed here.

13.4 *Profit reserves: other information*

	Amounts as of 31/12/2019
Legal reserve	804
Extraordinary reserve	10,228
Other Provisions	975
Total	**12,007**

13.5 *Equity instruments: breakdown and annual changes*

The Group does not hold equity instruments.

13.6 *Other information*

On 5 March 2019, illimity Bank S.p.A. completed the reverse merger with SPAXS S.p.A. ("SPAXS") with the completion of the *translisting* after obtaining admission to trading from the AIM market to the MTA market by Borsa Italiana S.p.A. and obtaining clearance by Consob for publication of the prospectus.

The accounting and tax effective date of the reverse merger of SPAXS into BIP was 1 January 2019. The reverse merger represents the arrival point of the business combination process that allowed SPAXS to take control of Banca Interprovinciale at the end of the third quarter of 2018.

Basic loss and diluted loss per consolidated shares

The basic loss per share is calculated by dividing the Group's net loss for the year by the weighted average number of ordinary shares outstanding during the period. The diluted loss per share on 31 December 2019 coincides with the basic loss per share.

As described previously, on 20 September 2019, holders of Conditional Share Rights were assigned 5,698,551 new-issue illimity conversion shares, having the same characteristics as the Ordinary Shares, and at the same time, 28,492,827 Conditional Share Rights were cancelled. This increase in the number of shares, in keeping with IAS 33 requirements, was considered retroactively as if it had occurred at the start of 2018 (comparison period). Comparative data for the period ended 31 December 2018 was therefore restated.

(Amounts in thousands of euro)

Basic and diluted loss per share	Profit/(Loss) for the period	Average number of shares	Basic and diluted loss per share
Period ended 31 December 2019	(16,140)	65,128,632	(0.25)
Period ended 31 December 2018	(23,542)	57,342,876	(0.41)

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 31 December 2019:

	shareholders' equity	Result
illimity Bank S.p.A.	**544,568**	**(16,840)**
Effect of consolidation of subsidiaries	(1,048)	47
Results of the consolidated companies	(782)	(782)
Consolidation adjustments	1,717	1,435
Dividends	–	–
Effect of valuation at equity method of associates and joint ventures	–	–
Group	**544,455**	**(16,140)**

Section 14 – Equity of minority interests – Item 190

The group does not hold equity investments in consolidated companies with significant minority interests.

OTHER INFORMATION

1. Commitments and financial guarantees issued

	Nominal value on commitments and financial guarantees issued			Total 31/12/2019	Total 31/12/2018
	Stage one	Stage two	Stage three		
1. Commitments to disburse funds	**162,941**	**7,991**	**25,549**	**196,481**	**152,382**
a) Central Banks	–	–	–	–	–
b) Public administrations	–	–	–	–	–
c) Banks	–	–	–	–	–
d) Other financial companies	30,126	–	–	30,126	25,849
e) Non-financial companies	129,256	7,716	25,498	162,470	119,283
f) Households	3,559	275	51	3,885	7,250
2. Financial guarantees issued	**6,786**	**5,119**	**827**	**12,732**	**1,750**
a) Central Banks	–	–	–	–	–
b) Public administrations	–	–	–	–	–
c) Banks	–	–	–	–	141
d) Other financial companies	1,948	–	–	1,948	–
e) Non-financial companies	4,701	5,102	827	10,630	1,609
f) Households	137	17	–	154	–

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2019	Nominal value Total 31/12/2018
1. Other guarantees issued		
of which: non-performing loans	–	–
a) Central Banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	1,977
e) Non-financial companies	–	16,954
f) Households	–	804
2. Other commitments		
of which: non-performing loans	–	–
a) Central Banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	913	–
e) Non-financial companies	4,778	233
f) Households	–	–

3. Assets issued as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	100	–
2. Financial assets measured at fair value through other comprehensive income	42,362	32,481
3. Financial assets measured at amortised cost	279,845	124,402
4. Property and equipment	–	–
of which: property and equipment that constitute inventories	–	–

4. Breakdown of investments against unit-linked and index-linked policies

There are no investments against *unit-linked* and *index-linked*policies.

5. Management and dealing on behalf of third parties

Type of service	Amount
1. Execution of orders for customers	**–**
a) purchases	–
1. settled	–
2. to be settled	–
b) sales	–
1. settled	–
2. to be settled	–
2. Portfolio management	**–**
a) individual	–
b) collective	–
3. Custody and administration of securities	**1,610,590**
a) third-party securities held in deposit: related to depositary bank activities (excluding portfolio management)	–
1. securities issued by companies included in the consolidation	–
2. other securities	–
b) third party securities held in deposit (excluding portfolio management): others	280,645
1. securities issued by companies included in the consolidation	524
2. other securities	280,121
c) third party securities deposited with third parties	280,604
d) proprietary securities deposited with third parties	1,329,945
4. Other transactions	**–**

6. Financial assets subject to offsetting in the financial statements, or subject to master netting agreements or similar agreements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets reported in the balance sheet (c=a-b)	Related amounts not offset in the financial statements		Net amount (f=c-d-e) 31/12/2019	Net amount 31/12/2018
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	–	–	–	–	–	–	–
2. Repurchase agreements	–	–	–	276,200	163,740	439,940	–
3. Loan of securities	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
Total 31/12/2019	**–**	**–**	**–**	**276,200**	**163,740**	**439,940**	**X**
Total 31/12/2018	**–**	**–**	**–**	**–**	**–**	**X**	**–**

7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting agreements or similar agreements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Related amounts not subject to accounting offsetting		Net amount (f=c-d-e) 31/12/2019	Net amount 31/12/2018
				Financial instruments (d)	Cash deposits as guarantees (e)		
1. Derivatives	–	–	–	–	–	–	–
2. Repurchase agreements	–	–	–	278,512	161,428	(439,940)	–
3. Loan of securities	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–
Total 31/12/2019	**–**	**–**	**–**	**278,512**	**161,428**	**(439,940)**	**X**
Total 31/12/2018	**–**	**–**	**–**	**–**	**–**	**X**	**–**

As described in the paragraph "New accounting standards or changes to existing standards approved by the European Commission" contained in Part A – accounting policies, from 1 January 2013 the changes to IFRS 7 concerning disclosures on set-off agreements, as approved with Regulation no. 1256 of 13 December 2012, came into mandatory application.

Following these approved changes, IFRS 7 requires specific disclosures to be given about financial instruments that have been offset on the balance sheet under IAS 32, and which can potentially be offset under certain conditions, but presented on the balance sheet with opening balances as they are regulated by "master netting agreements or similar" which do not however meet the criteria of IAS 32 to make the set off on the financial statements.

In providing disclosures of these agreements, the standard also requires that consideration be given to the effects of the real financial guarantees (including guarantees in cash) received and given.

7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting agreements or similar agreements.

See previous paragraph.

8. Securities lending transactions

There are no securities lending transactions.

9. Disclosure on joint control activities

There are no joint control activities.

PART C– INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2019	Total 31/12/2018
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 through other comprehensive income	**1,723**	**–**	**X**	**1,723**	**196**
3. Financial assets measured at amortised cost:	**8,398**	**52,233**	**X**	**60,631**	**5,974**
3.1 Due from banks	–	1,571	X	1,571	754
3.2 Loans to customers	8,398	50,662	X	59,060	5,220
4. Hedging derivatives	**X**	**X**	**–**	**–**	**–**
5. Other assets	**X**	**X**	**70**	**70**	**–**
6. Financial liabilities	**X**	**X**	**X**	**249**	**70**
Total	**10,121**	**52,233**	**70**	**62,673**	**6,241**
of which: interest income on impaired financial assets	–	*35,871*	–	*35,871*	*3,181*
of which: interest income on finance leasing	–	–	–	–	–

Interest income on Loans is mainly attributable to the returns accrued on NPL credits purchased by the Group; the profitability generated by loans disbursed by the SME Division and coupons collected on the securities of the treasury portfolio also contributes to the item.

1.2 *Interest income and similar income: other information*

1.2.1 Interest income on foreign currency financial assets

Items/values	31/12/2019	31/12/2018
Interest income on foreign currency financial assets	475	93

1.2.2 Interest income on finance lease transactions

There is no interest income on finance lease transactions.

1.3 *Interest expense and similar expenses: breakdown*

Items/Technical forms	Payables	Securities	Other transactions	Total 31/12/2019	Total 31/12/2018
1. Financial liabilities measured at amortised cost	**(12,245)**	**(1,297)**	**X**	**(13,542)**	**(999)**
1.1 Amounts due to central banks	(123)	X	X	(123)	-
1.2 Amounts due to banks	(2,551)	X	X	(2,551)	(27)
1.3 Amounts due to customers	(9,571)	X	X	(9,571)	(478)
1.4 Securities issued	X	(1,297)	X	(1,297)	(494)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	**X**	**X**	**(10)**	**(10)**	-
5. Hedging derivatives	**X**	**X**	-	-	-
6. Financial assets	**X**	**X**	**X**	**(1,087)**	**(150)**
Total	**(12,245)**	**(1,297)**	**(10)**	**(14,639)**	**(1,149)**
of which: interest expense relative to leasing liabilities	*(1,261)*	-	-	*(1,261)*	-

Interest expense is mainly attributable to the remuneration of customer passive deposits collected during the Direct Bank launch phase during the second half of 2019.

1.4 *Interest expenses and similar expenses: other information*

1.4.1 Interest expenses on currency liabilities

Items/values	31/12/2019	31/12/2018
Interest expenses on currency financial liabilities	(5)	(52)

1.5 *Differentials relating to hedging transactions*

As of 31 December 2019 there were no hedging transactions.

Section 2 – Commission – Items 40 and 50

2.1 *Fee and commission income: breakdown*

Type of service/Values	Total 31/12/2019	Total 31/12/2018
a) guarantees issued	209	65
b) credit derivatives	–	–
c) management, brokerage and advisory services:	390	112
1. financial instruments trading	–	–
2. currency dealing	12	–
3. portfolio management	–	–
3.1 individual	–	–
3.2 collective	–	–
4. custody and administration of securities	5	5
5. custodian bank	–	–
6. placement of securities	83	92
7. reception and transmission of orders	12	14
8. advisory services	–	–
8.1 related to investments	–	–
8.2 related to financial structure	–	–
9. distribution of third party services	278	1
9.1 portfolio management	–	–
9.1.1 individual	–	–
9.1.2 collective	–	–
9.2 insurance products	258	–
9.3 other products	20	1
d) collection and payment services	411	256
e) services for securitisation transactions	–	–
f) services for factoring transactions	420	–
g) tax collection and treasury services	–	–
h) management of multilateral trading systems	–	–
i) maintenance and management of current accounts	546	794
j) other services	9,602	3
Total	**11,578**	**1,230**

The sub-item "j) other services" includes *structuring* commissions relating to new finance transactions within the DCIS Division (*Senior Financing*) and the SME Division.

2.2 Fee and commission expense: breakdown

Services/Values	Total 31/12/2019	Total 31/12/2018
a) guarantees received	(15)	(13)
b) credit derivatives	–	–
c) management and brokerage services:	(279)	(7)
1. trading in financial instruments	(210)	(2)
2. currency trading	–	–
3. portfolio management:	–	–
3.1. own	–	–
3.2 delegated to third parties	–	–
4. custody and administration of securities	(69)	(5)
5. placement of financial instruments	–	–
6. off-site offer of financial instruments, products and services	–	–
d) collection and payment services	(3,800)	(930)
e) other services	(863)	(193)
Total	**(4,957)**	**(1,143)**

Section 3 – Dividends and similar income – Item 70

No dividends were collected during the year.

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

4.1 Profits (losses) on trading: breakdown

Transactions/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) – (C+D)]
1. Financial assets held for trading	**33**	**1**	**(35)**	**(11)**	**(13)**
1.1 Debt securities	–	–	–	(1)	(1)
1.2 Equity instruments	–	–	–	–	–
1.3 Units of UCIs	33	1	(35)	(10)	(11)
1.4 Loans	–	–	–	–	–
1.5 Others	–	–	–	–	–
2. Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**
2.1 Debt securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Others	–	–	–	–	–
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**124**
4. Derivatives	**–**	**–**	**–**	**–**	**–**
4.1 Financial derivatives:	–	–	–	–	–
– On debt securities and interest rates	–	–	–	–	–
– On equity securities and share indices	–	–	–	–	–
– On currency and gold	X	X	X	X	–
– Others	–	–	–	–	–
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedging related to the fair value option	X	X	X	X	–
Total	**33**	**1**	**(35)**	**(11)**	**111**

Section 5 – Profit (losses) on hedge accounting – Item 90

No hedging transactions were recorded during the year.

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

6.1 *Profits (Losses) on disposal/repurchase: breakdown*

Items/Income items	Total 31/12/2019			Total 31/12/2018		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	8,788	(710)	8,078	–	–	–
1.1 Due from Banks	–	–	–	–	–	–
1.2 Loans to customers	8,788	(710)	8,078	–	–	–
2. Financial assets measured at fair value through other comprehensive income	2,759	(164)	2,595	5,141	(7,093)	(1,952)
2.1 Debt securities	2,759	(164)	2,595	5,141	(7,093)	(1,952)
2.2 Loans	–	–	–	–	–	–
Total assets (A)	**11,547**	**(874)**	**10,673**	**5,141**	**(7,093)**	**(1,952)**
Financial liabilities measured at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Debt securities issued	–	–	–	–	–	–
Total liabilities (B)	**–**	**–**	**–**	**–**	**–**	**–**

During the fourth quarter of 2019, the Bank redefined its investment strategy in the securities portfolio by selling all securities managed through a *Held to Collect* business model in order to meet the needs for flexibility of liquidity management functional to the financing of disbursements and investments of the Bank which - particularly in the sector of investments in *distressed* loan portfolios - show high volatility with seasonal peaks. The sale of this portfolio brought the net profits on disposal as of 31.12.2019 to approximately € 8 million.

Section 7 – Profit (Loss) on other financial assets and liabilities measured at *fair value* – Item 110

7.1 *Net change in the value of other financial assets and liabilities measured at fair value through profit or loss breakdown of financial assets and liabilities designated at fair value*

Group did not record any profits or losses from such financial assets or liabilities at fair value in 2019.

7.2 *Net change in the value of other financial assets and liabilities measured at fair value through profit or loss breakdown of other financial assets mandatorily measured at fair value*

Transactions/Income items	Capital gains (A)	Profits on sale (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) – (C+D)]
1. Financial assets	**18**	**–**	**(530)**	**–**	**(512)**
1.1 Debt securities	–	–	–	–	–
1.2 Equity instruments	–	–	(530)	–	(530)
1.3 Units of UCIs	18	–	–	–	18
1.4 Loans	–	–	–	–	–
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**–**
Total	**18**	**–**	**(530)**	**–**	**(512)**

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*

Transactions/Income items	Value adjustments (1)			Value write-backs (2)		Total 31/12/2019	Total 31/12/2018
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Loans to banks	(283)	–	–	94	–	(189)	1
– Loans	(283)	–	–	94	–	(189)	1
– Debt securities	–	–	–	–	–	–	–
of which: credit impaired acquired or originated	–	–	–	–	–	–	–
B. Loans to customers	(5,469)	(345)	(23,499)	2,272	20,558	(6,483)	(3,297)
– Loans	(5,086)	(345)	(23,499)	2,020	20,558	(6,352)	(3,273)
– Debt securities	(383)	–	–	252	–	(131)	(24)
of which: credit impaired acquired or originated	–	(345)	(16,443)	–	17,699	911	–
Total	**(5,752)**	**(345)**	**(23,499)**	**2,366**	**20,558**	**(6,672)**	**(3,296)**

The sub-item "*impaired* credits acquired or originated" shows the amount of adjustments/write-backs of *impaired* credits acquired or originated as a result of proceeds or revisions of business plans.

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

Transactions/Income items	Value adjustments (1)			Value write-backs (2)		Total 31/12/2019	Total 31/12/2018
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Debt securities	(404)	–	–	408	–	4	(116)
B. Loans	–	–	–	–	–	–	–
– To customers	–	–	–	–	–	–	–
– To banks	–	–	–	–	–	–	–
of which: impaired credits acquired or originated	–	–	–	–	–	–	–
Total	**(404)**	**–**	**–**	**408**	**–**	**4**	**(116)**

Section 9 - Profits (losses) on changes in contracts without derecognition – item 140

The Group did not achieve any gains or losses from contract amendments of a significant amount in 2019.

Section 10 – Net premiums – Item 160

The Group does not conduct insurance business.

Section 11 – Balance of other income/costs from insurance management – Item 170

The Group does not conduct insurance business.

Section 12 - Administrative expenses- item 190

12.1 Personnel expenses: breakdown

Type of expenses/Values	Total 31/12/2019	Total 31/12/2018
1) Employees	(28,548)	(3,530)
a) wages and salaries	(18,865)	(2,754)
b) social security contributions	(4,188)	(632)
c) provision for employee severance pay	–	–
d) pension costs	–	(30)
e) provision for employee severance pay	(571)	(15)
f) provision for post-employment benefits and similar provisions:	–	–
– with defined contribution	–	–
– with defined benefits	–	–
g) payments to external complementary pension funds:	(630)	(12)
– with defined contribution	(630)	(12)
– with defined benefits	–	–
h) costs deriving from payment agreements based on own equity instruments	–	–
i) other employee benefits	(4,294)	(87)
2) Other personnel in service	(971)	(346)
3) Directors and statutory auditors	(1,345)	(156)
4) Expenses for retired personnel	–	–
5) Recoveries of payments for employees seconded to other companies	–	–
6) Reimbursements of expenses for third-party employees seconded to the company	–	–
Total	**(30,864)**	**(4,032)**

12.2 Average number of employees per category

Category	No. of employees	Average age
a) senior managers	44	46
b) management supervisors	191	37
c) other employees	113	32
Total employees	**348**	**38**
Other personnel	21	34

12.3 Defined-benefit pension funds: costs and revenues

There are no company defined-benefit pension funds.

12.4 Other employee benefits

The other benefits to employees mainly relate to canteen vouchers and the costs of staff training as well as various insurance policies.

12.5 other administrative expenses: breakdown

Items/Technical forms	31/12/2019
Rental of premises	(506)
Insurance	(575)
Various payments	(4,582)
Miscellaneous consulting services	(8,502)
Membership fees	(263)
DGS, SRF contribution and voluntary scheme	(873)
Cost of services	(2,429)
Financial information	(933)
Adverts and advertising	(4,714)
Recoveries of expenses	(11)
Audit of the financial statements	(373)
Maintenance and repair costs	(449)
Business expenses	(341)
IT and software expenses	(9,320)
Legal and notary's fees	(10,892)
Postal and stationery expenses	(230)
Utilities and services	(1,237)
Other indirect taxes and duties	(1,619)
Others	(7,315)
Total other administrative expenses	**(55,164)**
Total 31/12/2018	**(21,578)**

The item "Various payments" mainly includes fees related to the use of the accounting system. The sub-item "Miscellaneous consulting services" mainly includes consulting services that the Group used during 2019 as part of the start-up phase in order to implement its business models. The "IT and software expenses" item includes costs related to the use of the Group's application systems. The "Legal and notary fees" item is mainly attributable to legal costs related to due diligence activities related to NPL credit acquisitions.

Section 13 – Net provisions for risks and charges – Item 200

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

Income items/Values	Value adjustments		Value write-backs		31/12/2019	31/12/2018
	Stage one and Stage two	Stage three	Stage one and Stage two	Stage three		
Guarantees issued	(167)	(18)	135	–	(50)	(35)
Irrevocable commitments to disburse funds	(498)	–	69	–	(430)	2
Total	**(665)**	**(18)**	**204**	**–**	**(480)**	**(33)**

13.2 Net provisions relating to other commitments and guarantees issued: breakdown

The Group did not make any net provisions relating to other commitments and guarantees issued over the course of the year.

13.3 Net provisions to other funds for risks and charges: breakdown

The item "Net provisions to other funds for risks and charges", the balance of which amounts to 62 thousand euros, includes allocations for the year that mainly related to liabilities and for personnel costs, see Part B of the Explanatory Notes for more details.

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

14.1 Net value adjustments to property and equipment: breakdown

Asset/Income items	Amortisation	Value adjustments for impairment	Value write-backs	Net result
	(a)	(b)	(c)	(a + b – c)
A. Property and equipment				
1 For business use	(2,018)	–	–	(2,018)
– Owned	(411)	–	–	(411)
– Rights of use acquired through leasing	(1,607)	–	–	(1,607)
2 Held for investment	–	–	–	–
– Owned	–	–	–	–
– Rights of use acquired through leasing	–	–	–	–
3 Inventories	X	–	–	–
Total	**(2,018)**	**–**	**–**	**(2,018)**

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

15.1 Net adjustments/recoveries on intangible assets: breakdown

Asset/Income item	Amortisation	Value adjustments for impairment	Value write-backs	Net result
	(a)	(b)	(c)	(a + b – c)
A. Intangible assets				
A.1 Owned	(1,129)	–	–	(1,129)
– Generated internally by the company	(110)	–	–	(110)
– Other	(1,019)	–	–	(1,019)
A.2 Rights of use acquired through leasing	–	–	–	–
Total	**(1,129)**	**–**	**–**	**(1,129)**

Section 16 – Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

Items/Technical forms	31/12/2019	31/12/2018
Other operating costs		
Amortisation of expenses for improvements on third party assets	(50)	(253)
Other operating costs	(311)	(9)
Total	**(361)**	**(262)**

16.2 Other operating income: breakdown

Items/Technical forms	31/12/2019	31/12/2018
Recoveries of expenses from other customers	1,987	21
Other non-recurrent income	16	
Recoveries of indirect taxes		157
Other income	1,310	1
Total	**3,313**	**179**

The item "Other operating income" includes compensation of EUR 1.3 million as of 31 December 2019 related to the acquisition of Banca Interprovinciale as part of the Reverse Merger transaction, described in the Management Report.

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

Cases not present during the year.

Section 18 – Profits (losses) of fair value valuation of Property and Equipment and intangible assets - item 260

The Group did not hold material and intangible assets measured at fair value during the year.

Section 19 – Goodwill impairment – Item 270

There is no impairment of goodwill.

Section 20 – Profits (losses) on disposal of investments – Item 280

There are no Profits (losses) coming from disposal of investments.

Section 21 – Income taxes for the year on current operations – Item 300

21.1 Income taxes for the year on current operations: breakdown

Income items/Sectors	Total 31/12/2019	Total 31/12/2018
1. Current taxes (-)	(29)	–
2. Adjustment to current taxes of prior years (+/-)	(4,022)	(14)
3. Reduction of current taxes for the year (+)	–	–
3.bis Reduction of current taxes for the year for tax credits pursuant to Law no. 214/2011 (+)	–	84
4. Change in prepaid taxes (+/-)	16,418	4,774
5. Change in deferred taxes (+/-)	–	–
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	12,367	4,844

21.2 Reconciliation of theoretical tax charge with 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 22 – Profit (loss) from discontinued operations net of taxes – Item 320

There are no profits (loss) from discontinued operations net of taxes.

Section 23 – Profit (loss) for the year of minority interests – Item 340

23.1 Breakdown of item 340 "Profit (loss) for the year of minority interests"

The Group has no profits/(losses) to be attributed to third parties. On the reporting date, there were no third-party interests.

Section 24 – Other information

There is no other information as of the reporting date.

Disclosure of fees for legal auditing and other fees

With reference to fees for legal auditing, refer to Part C of the Financial Statements as of 31 December 2019 of illimity Bank S.p.A.

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

The basic loss per share is calculated by dividing the Group's net loss for the year by the weighted average number of ordinary shares outstanding during the period. The diluted loss per share on 31 December 2019 coincides with the basic loss per share.

As described previously, on 20 September 2019, holders of Conditional Share Rights were assigned 5,698,551 new-issue illimity conversion shares, having the same characteristics as the Ordinary Shares, and at the same time, 28,492,827 Conditional Share Rights were cancelled. This increase in the number of shares, in keeping with IAS 33 requirements, was considered retroactively as if it had occurred at the start of 2018 (comparison period). Comparative data for the period ended 31 December 2018 were therefore restated.

(Amounts in thousands of euro)

Basic and diluted loss per share	Profit/(Loss) for the period	Average number of shares	Basic and diluted loss per share
Period ended 31 December 2019	(16,140)	65,128,632	(0.25)
Period ended 31 December 2018	(23,542)	57,342,876	(0.41)

25.2 Other information

There is no other information as of the reporting date.

PART D - CONSOLIDATED COMPREHENSIVE INCOME

ANALYTICAL STATEMENT OF THE CONSOLIDATED COMPREHENSIVE INCOME

	Items	31 December 2019	From 20 December 2017 to 31 December 2018
10.	**Net profit (loss) (+/-) for the period**	**(16,140)**	**(23,662)**
	Other income components, net of taxes, that may not be reclassified to the income statement	**(53)**	**(35)**
20.	Equity instruments designated at fair value through other comprehensive income	2	
	a) fair value changes	2	
	b) transfers to other shareholders' equity items		
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)		
	a) fair value changes		
	b) transfers to other shareholders' equity		
40.	Hedging of equity instruments designated at fair value through other comprehensive income		
	a) fair value changes (hedged instrument)		
	b) fair value changes (hedging instrument)		
50.	Property and equipment assets		
60.	Intangible assets		
70.	Defined-benefit plans	(79)	(35)
80.	Non-current assets and disposal groups		
90.	Share of valuation reserves for equity investments measured at equity		
100.	Other income components without recycling to the income statement	24	
	Other income components, net of taxes, that may be reclassified to the income statement	**967**	**48**
110.	Hedging of foreign investments		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
120.	Foreign exchange differences		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
130.	Cash flow hedges		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		

(cont'd)

	Items	31 December 2019	From 20 December 2017 to 31 December 2018
140.	Hedging instruments (undesignated elements)		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income	1,933	48
	a) fair value changes	1,377	48
	b) reclassification through income statement		
	– adjustments for credit risk	(4)	
	– profits/losses on disposals	560	
	c) other changes		
160.	Non-current assets and disposal groups		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
170.	Share of valuation reserves for equity investments measured at equity		
	a) fair value changes		
	b) reclassification through income statement		
	– adjustments due to impairment		
	– gains/losses on disposals		
	c) other changes		
180.	Income taxes relating to other income components with recycling to the income statement	(966)	
190.	**Total other comprehensive income**	**914**	**13**
200.	**Comprehensive income (Item 10+190)**	**(15,226)**	**(23,649)**
210.	Consolidated comprehensive income attributable to minority interest	0	(133)
220.	**Consolidated comprehensive income attributable to the Parent Company**	**(15,226)**	**(23,516)**

PART E - INFORMATION ON RISKS AND HEDGING POLICIES

Preamble

Risk Management Process and Internal Control System

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

At a general level, the Group implements the aforementioned process through an organisation model that requires the coordinated use of human resources, technologies and methodologies based on a set of internal rules that define the structure of management controls, the *policy* (rules, mandates 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 and objectives and risk limits, it approves the risk management policies and assesses the level of efficiency and adequacy of the Internal Control System. The Board of Directors relies on the Risks Committee and the Management Committee to carry out inquiry and consultation relating to internal control and the monitoring of business risks. In collaboration with the Managing Director, it oversees the implementation of strategic guidelines, the RAF and risk governance policies.

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

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

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

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

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

Finally, the Area Organisation, Process & Special Projects plays an important role, and is responsible for defining - with the support of *the business* units and the Control Functions – the organisational and control measures for the significant risks that characterise the Group, in current and prospective terms.

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

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

The formalisation, 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 Plan*, an instrument that regulates the management of crisis situations, and strategies designed to restore ordinary operation, a well as the *Contingency Funding Plan* that defines the emergency plan to manage liquidity in crisis situations.

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

The Group has defined and codified an operational *Risk Mapping* process based on qualitative-quantitative metrics and rules shared within the organisation, which allow identification of the individual types of risk that the Bank is or might be exposed to, and also assessment of these risks according to specific representative *drivers* of the significance of 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 current operations, and to structure them according to the *business* lines that generate these risks in order to determine the overall risk exposure.

The periodic execution (at least annually) of the process of identifying the risks important to the Group is performed by the CRO Division together with the CFO Division and the support of other organisational units.

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

This Part E contains specific information regarding the risk profiles indicated below, and the related management, control and hedging policies implemented by the Group:

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

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

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

Further limits are envisaged with reference to the credit lines to subjects in conflict of interest pursuant to article 2391 of the Italian Civil Code, insolvency proceedings, as well as stricter limits than the regulations for the individual borrower or connected group.

Section 1 - Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Impaired and non-impaired credit exposures: amounts, value adjustments, trends and economic breakdown

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

Portfolio/quality	Bad loans	Unlikely-to-pay positions	Past-due impaired exposures	Past due non-impaired exposures	Other non-impaired exposures	Total
1. Financial assets measured at amortised cost	549,998	224,034	1,209	10,082	1,197,399	1,982,722
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	125,773	125,773
3. Financial assets designated at fair value	–	–	–	–	–	–
4. other financial assets mandatorily measured at fair value	–	–	–	–	2,342	2,342
5. Financial assets held for sale	–	–	–	–	–	–
Total 31/12/2019	**549,998**	**224,034**	**1,209**	**10,082**	**1,325,514**	**2,110,837**
Total 31/12/2018	**94,070**	**9,453**	**205**	**42,033**	**931,698**	**1,077,459**

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

Portfolio/quality	Impaired				Non-impaired			
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortised cost	793,733	(18,492)	775,241	–	1,213,570	(6,089)	1,207,481	1,982,722
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	125,969	(196)	125,773	125,773
3. Financial assets designated at fair value	–	–	–	–	X	X	–	–
4. other financial assets mandatorily measured at fair value	–	–	–	–	X	X	2,342	2,342
5. Financial assets held for sale	–	–	–	–	–	–	–	–

B. Disclosure of structured entities (other than SPV)

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

Section 2 - Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

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

Credit risk also includes the case of risk of concentration, 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. There are two main components of concentration risk:

- *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 in terms of legal and economic ties);
- 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.

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

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

The main operational factors that contribute to 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 in Legal and Economic Groups.

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

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

2. *Credit risk management policies*

2.1 Organisational aspects

Refer to the following paragraph.

2.2 Management, measurement and control systems

SME Division

The SME Division specialises in loans to high-potential businesses with a suboptimal financial structure and/or with a low *rating* or *no* rating (*Crossover*), including the *Turnaround* segment of *non-performing* SMEs (Small and Medium Enterprises classified as UTPs), through the offer of skills, products and services. The Division is also operational in *Acquisition Financing* activities, in terms of loans to both industrial operators and *private equity* funds to support their growth through external channels, and *factoring*, through *the offer of factoring* services to SMEs, in particular to companies operating in supply chain and/or industrial sector.

For all counterparties, after an initial application process carried out by the specific *Business* Areas, based on a principle of specialisation based on the segments/products described above, in-depth analysis is conducted (also with reference to the sector to which the counterparty belongs), with the outcome submitted to the decision-making body (which may be individual or collective, depending on current internal rules regarding delegated powers). The presence of an internal management *rating* may be taken into consideration in the evaluation of the request.

The Division makes use of the most advanced data analysis technologies based on the application of *big data* and artificial intelligence, which assume a central role in the processes of determination of credit-worthiness (so-called "*Credit Machine*").

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

A periodic update of the readily realizable value of mortgage guarantees is carried out.

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

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

DCIS Division

The DCIS Division operates through three activities: (*i*) purchase of secured and unsecured portfolios of corporate NPLs and *single names*, (*ii*) *servicing* of *corporate* NPL portfolios on own account and for third parties, on the basis of specialised expertise developed internally or through commercial agreements with specialised operators, (*iii*) financing services to non-banking NPL investors.

The purchased *non performing*portfolios credits 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 Pricing Area operates within the Division and is responsible, together with the Risk Management Area, for implementing and maintaining the *portfolio pricing* models.

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 expected costs to be 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;
- analysis of data published in relation to timing and *status* of legal procedures;
- 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 integration and/or support for the specific analysis carried out during the *due diligence*, and allows a more accurate valuation of the cash flows and, therefore, the purchase price for the portfolio. In addition, 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 DCIS Division relies on Neprix S.p.A, recently acquired and incorporated in the illimity Group, and through this company, on 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 DCIS 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 SPVs.

The *business plan* for each portfolio, estimated during the evaluation phase, are periodically reviewed (and communicated to the *Master Servicer*) to reflect the value adjustments/write-backsdeduced 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.

On 9 January 2020, the Group completed the acquisition by Neprix of a share representing a total of 70% of the share capital of IT Auction Srl, a company active in managing and selling property and capital goods originating from insolvency proceedings and foreclosure, through a *network* of platforms and *online* auctions and through a group of professionals operating throughout Italy.

In this context, the acquisition of a majority stake in an operator active in the mediation of real estate and capital goods as well as in the promotion of auctions, through its *online* platform, represents for illimity the strategic opportunity to achieve an integration downstream in the value chain of the NPL credit *servicing* process. The activity carried out by this company is instrumental to the illimity Group both to improve the recovery *performance* of NPL credits, increasing the effectiveness of the disposals of capital and/or real estate assets to guarantee NPL credits, and during the investment phase in NPL portfolios, since the *database* developed by IT Auction over the years will allow for an important integration into the analysis and statistical bases used by the Group in the *pricing* of the portfolios to be acquired.

CRO and CFO & Central Functions Division

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, in ordinary and *stress* conditions, and also considering the regulatory compliance and reputational factors, and the connected impact on RAF indicators (*Risk Opinion*), with the formalisation of sustainability and coherence analyses; in particular for Major Transactions. The CFO & Central Functions Division is also involved in considerations on the control and compliance with the capital and liquidity limits allocated to each Division, the *funding* structure associated with the transaction and accounting treatment of the transaction, as well as the start of the *income recognition* phase according to the accounting principle of amortised cost adjusted for credit risk.

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

The controls and relative *reporting* of the CRO 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 profiles of credit exposures).

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

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

2.3 Methods of measuring expected losses

Among the main elements characterising this principle are:

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

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

Significant increase in credit risk

Quantitative criteria

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

Qualitative criteria

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

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

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

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

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

With reference to debt securities, the methodology used by the Group for the allocation of relationships in the different *Stages* is based, contrary to the above for credit exposures, only on quantitative *drivers* (so-called *delta notch*) as well as on a practical rule expressly permitted by IFRS 9 (*Low Credit Risk Exemption*). With respect to the latter, the legislation provides that an entity may use its own internal credit risk *ratings* or other methodologies consistent with a globally shared definition of low credit risk to determine whether a financial instrument is low credit risk, taking into account the risks and type of financial instruments being measured. In particular, an exposure is considered to have "low credit risk" if the financial instrument presents a low risk of default, i.e. if the borrower has a strong ability to meet its obligations regarding short-term contractual cash flows and if unfavourable changes in longer-term economic and commercial conditions could reduce, but will not necessarily reduce, the borrower's ability to meet its obligations regarding contractual cash flows. Consistent with the provisions of the standard, the Group has decided to adopt, even in the presence of information on credit risk measures at the date of *origination*, the assumption according to which the credit quality of a government "*investment grade*" *rating* can be assumed not to have significantly deteriorated, thus making use of *the Low Credit Risk Exemption* (LCRE) option. Therefore, only securities that, on the reporting date, have an "*investment grade*" *rating* are allocated to *Stage* 1, while *tranche* associated with defaulting securities are classified in *Stage* 3.

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

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

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

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

For this purpose, for the 2019 financial statements, the illimity Bank Group has developed a model (hereinafter, the "Main Model") that implements the following approaches, differentiated by type of portfolio:

- application of an evolved model for the *shadow rating* of exposures originating from illimity, and attribution of the relative probabilities of *default* based on the expected *default* rates for Italian SMEs, also considering the expected macroeconomic scenario;
- application of an external *rating* to the remaining exposures (former Banca Interprovinciale Portfolio) and attribution of the relative probabilities of default based on historical *default* rates and expectations also linked to the macroeconomic scenario, using the PD *forward looking* Model;
- application of estimated LGD on consortium data to all exposures.

2.4 Credit risk mitigation techniques

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

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

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

3. Impaired credit exposures

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

- Past-due impaired exposures;
- Unlikely-to-pay positions;
- Non-performing loans.

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

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

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

The EBA's *Implementing Technical Standard* (ITS) also introduced the concept of "*forborne*" which refers to exposures where a concession has been granted, in other words a change to the previous contractual conditions and/or a partial or total refinancing of the debt, given the customer's financial difficulties at the time of the concession. When implementing the EC regulation, the Banca d'Italia introduced, with reference to impaired loans, what is known as "impaired forborne exposures" means individual on-balance sheet exposures and revocable and irrevocable commitments to disburse funds, which are subject to a concession that meets the rules in paragraph 180 of the ITS. These exposures are cross-category and depending on the situation, they are included in non-performing loans, unlikely-to-pay positions or past-due impaired exposures. They do not form a separate category of impaired assets.

The main forborne exposures or support measures are:

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

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

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

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

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

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

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

A. Credit quality

A.1. Impaired and non-impaired credit exposures: amounts, value adjustments, trends and economic distribution

A.1.1 Prudential consolidation – Breakdown of financial assets by category of impairment (book values)

Portfolios/risk stages	Stage one			Stage two			Stage three		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	6,451	528	–	307	2,445	352	1,336	1,752	692,404
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–
3. Financial assets held for sale	–	–	–	–	–	–	–	–	–
Total 31/12/2019	**6,451**	**528**	**–**	**307**	**2,445**	**352**	**1,336**	**1,752**	**692,404**
Total 31/12/2018	**35,764**	**–**	**–**	**3,157**	**2,119**	**993**	**1,844**	**530**	**100,843**

A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees issued: trend in total value adjustments and total provisions

p.1

Descriptions/risk stages	Total value adjustments									
	Assets in stage one					Assets in stage two				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**2,496**	**200**	**–**	**–**	**2,696**	**1,554**	**–**	**–**	**–**	**1,554**
Increases in purchased or originated financial assets	–	–	–	–	–	–	–	–	–	–
Derecognitions other than write-offs	–	–	–	–	–	–	–	–	–	–
Net value adjustments/write-backs for credit risk (+/-)	409	(200)	–	–	209	43	–	–	–	43
Contractual amendments without derecognitions	–	–	–	–	–	–	–	–	–	–
Changes in estimate methodology	–	–	–	–	–	–	–	–	–	–
Write-offs not recognised directly on the income statement	–	–	–	–	–	–	–	–	–	–
Other changes	2,591	196	–	–	2,787	(1,003)	–	–	–	(1,003)
Final Total adjustments	**5,496**	**196**	**–**	**–**	**5,692**	**594**	**–**	**–**	**–**	**594**
Recoveries from receipts on written-off financial assets	–	–	–	–	–	–	–	–	–	–
Write-offs recognised directly on the income statement	–	–	–	–	–	–	–	–	–	–

A.1.2 Prudential consolidations - Financial assets, commitments to disburse funds and financial guarantees issued: trend in total value adjustments and total provisions

p.2

Descriptions/risk stages	Total value adjustments						Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets in stage three					Of which: purchased or originated impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs		Stage one	Stage two	Stage three	
Opening total adjustments	**13,576**	**–**	**–**	**13,576**	**–**	**–**	**97**	**20**	**2**	**17,945**
Increases in purchased or originated financial assets	253	–	–	253	–	253	–	–	–	253
Derecognitions other than write-offs	–	–	–	–	–	–	–	–	–	–
Net value adjustments/ write-backs for credit risk (+/-)	(135)	–	–	(135)	–	–	–	–	–	117
Contractual amendments without derecognitions	–	–	–	–	–	–	–	–	–	–
Changes in estimate methodology	–	–	–	–	–	–	–	–	–	–
Write-offs not recognised directly on the income statement	–	–	–	–	–	–	–	–	–	–
Other changes	4,768	–	–	4,768	–	–	382	19	78	7,031
Final total adjustments	**18,462**	**–**	**–**	**18,462**	**–**	**253**	**479**	**39**	**80**	**25,346**
Recoveries from receipts on written-off financial assets	–	–	–	–	–	–	–	–	–	–
Write-offs recognised directly on the income statement	–	–	–	–	–	–	–	–	–	–

A.1.3 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	19,144	7,844	6,010	1	15,677	–
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Financial assets held for sale	–	–	–	–	–	–
4. Commitments to disburse funds and financial guarantees issued	–	–	–	–	–	–
Total 31/12/2019	**19,144**	**7,844**	**6,010**	**1**	**15,677**	**–**
Total 31/12/2018	**16,121**	**11,769**	**2,486**	**33**	**10,483**	**–**

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

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-Balance-sheet credit exposures					
a) Bad loans	–	X	–	–	–
– of which: forborne exposures	–	X	–	–	–
b) Unlikely-to-pay positions	–	X	–	–	–
– of which: forborne exposures	–	X	–	–	–
c) Past-due non-performing exposures	–	X	–	–	–
– of which: forborne exposures	–	X	–	–	–
d) Past-due performing exposures	X	–	–	–	–
– of which: forborne exposures	X	–	–	–	–
e) Other performing exposures	X	418,901	420	418,481	–
– of which: forborne exposures	X	–	–	–	–
Total (A)	**–**	**418,901**	**420**	**418,481**	**–**
B. Off-Balance Sheet credit exposures					
a) Non-performing	–	X	–	–	–
b) Performing	X	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**
Total (A+B)	**–**	**418,901**	**420**	**418,481**	**–**

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

Type of exposures/values	Gross exposure		Total value adjustments and total provisions	Net exposure
	non-performing	performing		
A. On-Balance-sheet credit exposures				
a) Bad loans	562,195	X	12,197	549,998
– of which: forborne exposures	–	X	–	–
b) Unlikely-to-pay positions	230,129	X	6,094	224,035
– of which: forborne exposures	1,397	X	386	1,011
c) Past-due non-performing exposures	1,410	X	200	1,210
– of which: forborne exposures	–	X	–	–
d) Past due performing exposures	X	10,217	135	10,082
– of which: forborne exposures	X	–	–	–
e) Other performing exposures	X	912,762	5,731	907,031
– of which: forborne exposures	X	1,495	82	1,413
Total (A)	**793,734**	**922,979**	**24,357**	**1,692,356**
B. Off-Balance Sheet credit exposures				
a) Non-performing	26,376	X	80	26,296
b) Performing	X	188,526	518	188,008
Total (B)	**26,376**	**188,526**	**598**	**214,304**
Total (A+B)	**820,110**	**1,111,505**	**24,955**	**1,906,660**

A.1.6 Prudential consolidation – On-balance sheet credit exposures to banks: trend in gross impaired exposures

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.6bis Prudential consolidation - On-balance sheet credit exposures to banks: trend of the gross forborne exposures, distinguished by credit quality

There are no forborne on-balance sheet exposures to banks.

A.1.7 Prudential consolidation – On-balance sheet credit exposures to customers: trend in gross impaired exposures

Descriptions/Categories	Non-performing loans	Unlikely-to-pay positions	Past-due non-performing exposures
A. Starting gross exposure	**103,036**	**13,948**	**319**
– of which: exposures transferred but not derecognised	–	–	–
B. Increasing variations	**546,918**	**227,469**	**1,407**
B.1 inflows from performing exposures	2,299	11,346	1,190
B.2 inflows from purchased or originated credit-impaired financial assets	498,855	207,281	–
B.3 transfers from other non-performing exposures categories	4,497	2,553	–
B.4 contractual amendments without derecognitions	–	–	–
B.5 other increasing variations	41,267	6,289	217
C. Decreasing variations	**87,759**	**11,288**	**316**
C.1 outflows to performing exposures	–	–	1
C.2 write-offs	345	–	–
C.3 collections	65,733	1,211	255
C.4 profits from disposals	–	–	–
C.5 losses from disposals	–	–	–
C.6 transfers to other categories of non-performing exposures	1,408	5,584	59
C.7 contractual amendments without derecognitions	–	4,493	1
C.8 other decreasing variations	20,273	–	–
A. Gross final exposure	**562,195**	**230,129**	**1,410**
– of which: exposures transferred but not derecognised	–	–	–

A.1.7bis Prudential consolidation – On-balance sheet credit exposures to customers: trend of the gross in gross forborne exposures, distinguished by credit quality

Descriptions/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Starting gross exposure	**7,780**	**3,065**
– of which: exposures transferred but not derecognised	-	-
B. Increasing variations	**1,398**	**523**
B.1 inflows from performing, non forborne exposures	-	-
B.2 inflows from performing, forborne exposures	95	X
B.3 inflows from non-performing forborne exposures	X	-
B.4 inflows from non-performing, non forborne exposures	-	-
B.4 other increasing variations	1,303	523
C. Decreasing variations	**7,781**	**2,093**
C.1 outflows towards non-forborne performing exposures	X	-
C.2 outflows towards forborne performing exposures	-	X
C.3 outflows towards non-performing forborne exposures	X	95
C.4 write-offs	-	-
C.5 collections	-	-
C.6 proceeds from disposals	-	-
C.7 losses from disposals	-	-
C.8 other decreasing variations	7,781	1,998
A. Gross final exposure	**1,397**	**1,495**
– of which: exposures transferred but not derecognised	-	-

A.1.8 Prudential consolidation – On-balance sheet impaired credit exposures to banks: trend of the total value adjustments

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.9 Prudential consolidation – On-balance sheet impaired credit exposures to Customers: trend of the total value adjustments

Descriptions/Categories	bad loans		Unlikely-to-pay positions		non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total adjustments	**8,966**	**–**	**4,495**	**115**	**114**	**–**
– of which: exposures transferred but not derecognised	–	–	–	–	–	–
B. Increasing variations	**4,660**	**–**	**3,638**	**271**	**200**	**–**
B.1 value adjustments to purchased or originated creditimpaired assets	–	X	–	X	–	X
B.2 other value adjustments	–	–	–	–	–	–
B.3 losses from disposals	–	–	–	–	–	–
B.4 transfers from other categories of deteriorated exposures	1,451	–	103	–	–	–
B.5 contractual amendments without derecognitions	–	–	–	–	–	–
B.6 other increasing variations	3,209	–	3,535	271	200	–
C. Decreasing variations	**1,429**	**–**	**2,070**	**–**	**114**	**–**
C.1 write-backs from valuation	–	–	–	–	–	–
C.2 write-backs from proceeds	370	–	509	–	107	–
C.3 profits from disposals	–	–	–	–	–	–
C.4 write-offs	–	–	–	–	–	–
C.5 transfers to other categories of deteriorated exposures	193	–	1,354	–	7	–
C.6 contractual amendments without derecognitions	–	–	–	–	–	–
C.7 other decreasing variations	866	–	207	–	–	–
A. Final total adjustments	**12,197**	**–**	**6,063**	**386**	**200**	**–**
– of which: exposures transferred but not derecognised	–	–	–	–	–	–

A.2 Classification of the exposures based on internal and external ratings

For the purposes of calculating the capital requirement for credit risk, illimity Bank uses the external rating agency (ECAI) Fitch Ratings only for positions included in the "Exposures to central governments or central banks" and "Exposures to institutions" classes; no external ratings are used for other asset classes.

A.2.1 Prudential consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees issued: by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**161,428**	**114,772**	**–**	**1,593**	**–**	**–**	**1,730,865**	**2,008,658**
– Stage one	161,428	114,772	–	1,593	–	–	918,013	1,195,806
– Stage two	–	–	–	–	–	–	19,119	19,119
– Stage three	–	–	–	–	–	–	793,733	793,733
B. Financial assets measured at fair value through other comprehensive income	**5,354**	**36,972**	**41,221**	**13,269**	**5,168**	**–**	**23,986**	**125,970**
– Stage one	5,354	36,972	41,221	13,269	5,168	–	23,986	125,970
– Stage two	–	–	–	–	–	–	–	–
– Stage three	–	–	–	–	–	–	–	–
C. Financial assets held for sale	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Stage one	–	–	–	–	–	–	–	–
– Stage two	–	–	–	–	–	–	–	–
– Stage three	–	–	–	–	–	–	–	–
Total (A+B + C)	**166,782**	**151,744**	**41,221**	**14,862**	**5,168**	**–**	**1,754,851**	**2,134,628**
of which: purchased or originated credit-impaired financial assets	–	–	–	–	–	–	138,048	138,048
D. Commitments to disburse funds and financial guarantees issued								
– Stage one	–	–	–	–	–	–	169,727	169,727
– Stage two	–	–	–	–	–	–	13,110	13,110
– Stage three	–	–	–	–	–	–	26,376	26,376
Total (D)	**–**	**–**	**–**	**–**	**–**	**–**	**209,213**	**209,213**
Total (A+B+C+D)	**166,782**	**151,744**	**41,221**	**14,862**	**5,168**	**–**	**1,964,064**	**2,343,841**

A.2.2 **Breakdown of financial assets, of commitments to disburse funds and financial guarantees issued by classes of internal ratings (gross values)**

Exposures	Internal rating classes	Total
	No Rating	
A. Financial assets measured at amortised cost	**2,008,658**	**2,008,658**
– Stage one	1,195,806	1,195,806
– Stage two	19,119	19,119
– Stage three	793,733	793,733
B. Financial assets measured at fair value through other comprehensive income	**125,969**	**125,969**
– Stage one	125,969	125,969
– Stage two	–	–
– Stage three	–	–
C. Financial assets held for sale	**–**	**–**
– Stage one	–	–
– Stage two	–	–
– Stage three	–	–
Total (A + B + C)	**2,134,628**	**2,134,628**
of which: purchased or originated impaired financial assets	138,048	138,048
D. Commitments to disburse funds and financial guarantees issued	**209,213**	**209,213**
– Stage one	169,727	169,727
– Stage two	13,110	13,110
– Stage three	26,376	26,376
Total (D)	**209,213**	**209,213**
Total (A + B + C + D)	**2,343,841**	**2,343,841**

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Effective guarantees				Personal guarantees (2)										Total (1)+(2)
							Credit derivatives						Endorsement credits				
								Other derivatives									
			Real estate - liens	Property - Loans for leasing	Securities	Other real guarantees	Credit link notes	Central Counterparties	Banks	Other financial companies	Other entities		Public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance sheet credit exposures:	**418,901**	**418,482**	**–**	**–**	**273,944**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**	**–**	**–**	**273,944**
1.1 totally secured	418,901	418,482	–	–	273,944	–	–	–	–	–	–		–	–	–	–	273,944
– of which impaired	–	–	–	–	–	–	–	–	–	–	–		–	–	–	–	–
1.2 partially secured	–	–	–	–	–	–	–	–	–	–	–		–	–	–	–	–
– of which impaired	–	–	–	–	–	–	–	–	–	–	–		–	–	–	–	–
2. B. Guaranteed Off-Balance Sheet credit exposures:	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**	**–**	**–**	**–**
2.1 totally secured	–	–	–	–	–	–	–	–	–	–	–		–	–	–	–	–
– of which impaired	–	–	–	–	–	–	–	–	–	–	–		–	–	–	–	–
2.2 partially secured	–	–	–	–	–	–	–	–	–	–	–		–	–	–	–	–
– of which impaired	–	–	–	–	–	–	–	–	–	–	–		–	–	–	–	–

A.3.2 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to customers

p.1

	Gross exposure	Net exposure	Real guarantees (1)				Personal guarantees (2)	
							Credit derivatives	
								Other derivatives
			Real estate - liens	Real estate - Loans for leasing	Securities	Other real guarantees	CREDIT LINK NOTES	Central Counterparties
1. Guaranteed on-balance sheet credit exposures:	**1,646,377**	**1,622,049**	**183,204**	**–**	**8,044**	**13,439**	**–**	**–**
1.1 totally secured	1,008,653	985,674	124,964	–	7,934	2,667	–	–
– of which impaired	61,459	54,928	12,036	–	7	1,712	–	–
1.2 partially secured	637,724	636,375	58,240	–	110	10,772	–	–
– of which impaired	78,479	27,338	–	–	–	5,976	–	–
2. Guaranteed "Off-Balance Sheet" credit exposures:	**214,903**	**214,305**	**350**	**–**	**6,681**	**1,808**	**–**	**–**
2.1 totally secured	192,566	191,975	350	–	6,676	936	–	–
– of which impaired	6,354	6,350	–	–	–	146	–	–
2.2 partially secured	22,337	22,330	–	–	5	872	–	–
– of which impaired	40	40	–	–	–	–	–	–

A.3.2 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to customers

p.2

	Personal guarantees (2)							Total
	Credit derivatives			Endorsement credits				
	Other derivatives							(1)+(2)
	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance sheet credit exposures:	**–**	**–**	**1,291**	**–**	**11,056**	**1,321**	**103,153**	**321,508**
1.1 totally secured	–	–	–	–	9,865	1,197	55,128	201,755
– of which impaired	–	–	–	–	1,291	621	38,875	54,542
1.2 partially secured	–	–	1,291	–	1,191	124	48,025	119,753
– of which impaired	–	–	–	–	182	3	1,465	7,626
2. Guaranteed "Off-Balance Sheet" credit exposures:	**–**	**–**	**–**	**–**	**2,191**	**719**	**17,355**	**29,104**
2.1 totally secured	–	–	–	–	1,022	719	12,515	22,218
– of which impaired	–	–	–	–	109	–	6,095	6,350
2.2 partially secured	–	–	–	–	1,169	–	4,840	6,886
– of which impaired	–	–	–	–	–	–	40	40

A.4 Prudential consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross value	Total value adjustments	Book value	
					of which obtained during the course of the financial year
A. Property and equipment	**–**	**2,322**	**–**	**2,322**	**2,322**
A.1. Used in the business	–	–	–	–	–
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	2,322	–	2,322	2,322
B. Equity securities and debt securities	**–**	**–**	**–**	**–**	**–**
C. Other assets	**–**	**–**	**–**	**–**	**–**
D. Non-current assets and groups held for sale	**–**	**–**	**–**	**–**	**–**
D.1 Property and equipment	–	–	–	–	–
D.2 Other assets	–	–	–	–	–
Total 31/12/2019	**–**	**2,322**	**–**	**2,322**	**2,322**
Total 31/12/2018	**–**	**–**	**–**	**–**	**–**

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Prudential consolidation – Sector breakdown of on- and "off-balance sheet" credit exposures to customers

p.1

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures						
A.1 Bad loans	–	–	2,987	25	–	–
– of which forborne exposures	–	–	–	–	–	–
A.2 Unlikely-to-pay positions	–	–	32,665	190	–	–
– of which forborne exposures	–	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	–	–	–
– of which forborne exposures	–	–	–	–	–	–
A.4 Performing exposures	24,541	434	376,601	1,101	565	3
– of which forborne exposures	–	1	–	–	–	–
Total (A)	**24,541**	**434**	**412,253**	**1,316**	**565**	**3**
B. Off-Balance Sheet credit exposures						
B.1 Non-performing exposures	–	–	–	–	–	–
B.2 Performing exposures	–	–	32,053	21	–	–
Total (B)	**–**	**–**	**32,053**	**21**	**–**	**–**
Total (A+B) 31/12/2019	**24,541**	**434**	**444,306**	**1,337**	**565**	**3**
Total (A+B) 31/12/2018	**–**	**432**	**27,824**	**296**	**1,000**	**–**

B.1 Prudential consolidation – Sector breakdown of on- and "off-balance sheet" credit exposures to customers

p.2

Exposures/Counterparties	Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures				
A.1 Bad loans	454,367	10,432	93,226	1,740
– of which forborne exposures	–	–	–	–
A.2 Unlikely-to-pay positions	189,948	5,399	1,422	505
– of which forborne exposures	998	383	13	3
A.3 Past-due non-performing exposures	908	168	302	32
– of which forborne exposures	–	–	–	–
A.4 Performing exposures	465,938	3,957	50,033	374
– of which forborne exposures	1,162	79	251	2
Total (A)	**1,111,161**	**19,956**	**144,983**	**2,651**
B. Off-Balance Sheet credit exposures				
B.1 Non-performing exposure	26,245	80	51	–
B.2 Performing exposures	151,974	491	3,981	6
Total (B)	**178,219**	**571**	**4,032**	**6**
Total (A+B) 31/12/2019	**1,289,380**	**20,527**	**149,015**	**2,657**
Total (A+B) 31/12/2018	**503,012**	**14,711**	**37,369**	**2,360**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure
A. On-Balance-sheet credit exposures					
A.1 Bad loans	549,998	12,197	–	–	–
A.2 Unlikely-to-pay positions	224,035	6,094	–	–	–
A.3 Past-due non-performing exposures	1,209	200	–	–	–
A.4 Performing exposures	821,022	5,392	87,000	425	2,262
Total (A)	**1,596,264**	**23,883**	**87,000**	**425**	**2,262**
B. Off-Balance Sheet credit exposures					
B.1 Non-performing exposures	26,296	80	–	–	–
B.2 Performing exposures	184,999	508	2,989	10	20
Total (B)	**211,295**	**588**	**2,989**	**10**	**20**
Total (A+B) 31/12/2019	**1,807,559**	**24,471**	**89,989**	**435**	**2,282**
Total (A+B) 31/12/2018	**800,329**	**17,400**	**52,044**	**399**	**20**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures					
A.1 Bad loans	–	–	–	1	–
A.2 Unlikely-to-pay positions	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	1	–
A.4 Performing exposures	12	3,485	19	3,344	18
Total (A)	**12**	**3,485**	**19**	**3,346**	**18**
B. Off-Balance Sheet credit exposures					
B.1 Non-performing exposure	–	–	–	–	–
B.2 Performing exposures	–	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2019	**12**	**3,485**	**19**	**3,346**	**18**
Total (A+B) 31/12/2018	**–**	**–**	**–**	**–**	**–**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.3

Exposures / Geographical areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures								
A.1 Bad loans	129,509	523	96,352	10,857	180,292	591	143,845	226
A.2 Unlikely-to-pay positions	50,466	279	85,336	5,717	83,900	85	4,333	13
A.3 Past-due non performing exposures	127	19	1,082	181	–	–	–	–
A.4 Performing exposures	457,206	2,495	289,692	2,076	37,316	644	36,807	178
Total (A)	**637,308**	**3,316**	**472,462**	**18,831**	**301,508**	**1,320**	**184,985**	**417**
B. Off-Balance Sheet credit exposures								
B.1 Non-performing exposures	1,608	–	24,293	80	395	–	–	–
B.2 Performing exposures	45,132	190	129,214	257	9,170	54	1,483	7
Total (B)	**46,740**	**190**	**153,507**	**337**	**9,565**	**54**	**1,483**	**7**
Total (A+B) 31/12/2019	**684,048**	**3,506**	**625,969**	**19,168**	**311,073**	**1,374**	**186,468**	**424**
Total (A+B) 31/12/2018	**81,867**	**946**	**310,763**	**15,080**	**248,415**	**1,282**	**14,134**	**92**

B.3 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures
A. On-Balance-sheet credit exposures					
A.1 Bad loans	–	–	–	–	–
A.2 Unlikely-to-pay positions	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	–	–
A.4 Performing exposures	114,485	210	303,997	209	–
Total (A)	**114,485**	**210**	**303,997**	**209**	**–**
B. Off-Balance Sheet credit exposures					
B.1 Non-performing exposures	–	–	–	–	–
B.2 Performing exposures	–	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2019	**114,485**	**210**	**303,997**	**209**	**–**
Total (A+B) 31/12/2018	**399,384**	**144**	**–**	**–**	**–**

B.3 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures					
A.1 Bad loans	–	–	–	–	–
A.2 Unlikely-to-pay positions	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	–	–
A.4 Performing exposures	–	–	–	–	–
Total (A)	**–**	**–**	**–**	**–**	**–**
B. Off-Balance Sheet credit exposures					
B.1 Non-performing exposures	–	–	–	–	–
B.2 Performing exposures	–	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2019	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2018	**–**	**–**	**–**	**–**	**–**

B.3 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.3

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance sheet credit exposures								
A.1 Bad loans	–	–	–	–	–	–	–	–
A.2 Unlikely-to-pay positions	–	–	–	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	–	–	–	–	–
A.4 Performing exposures	44,093	91	5,440	19	64,952	100	–	–
Total (A)	**44,093**	**91**	**5,440**	**19**	**64,952**	**100**	**–**	**–**
B. Off-Balance Sheet credit exposures								
B.1 Non-performing exposures	–	–	–	–	–	–	–	–
B.2 Performing exposures	–	–	–	–	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2019	**44,093**	**91**	**5,440**	**19**	**64,952**	**100**	**–**	**–**
Total (A+B) 31/12/2018	**59,106**	**68**	**19,809**	**31**	**320,328**	**45**	**–**	**–**

B.4 Large exposures

	31/12/2019
Book value	1,645,667
Weighted value	321,611
Number	5

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

C. SECURITISATION TRANSACTIONS

Qualitative information

During the fourth quarter, the Group, through its Parent Company illimity Bank, carried out a self-securitisation operation (Project SWAN) through the SWAN SPV S.r.l. Vehicle managed by Finint; in detail, performing loans in the portfolio were legally sold with an IAS book value of 107.6 million euros, subscribing fully 100% of the notes issued by the SPV.

However, with regard to third-party securitisations, below is a brief description, by Division:

DCIS Division

For its NPL operations, the Parent company uses some SPVs, securitisation vehicles in accordance with Law 130/99, comprised of 130 Servicing, a financial intermediary and securitisation master servicer, through an “orphan” structure headed by the trust company of 130 Servicing, named 130 trust company S.r.l. These vehicles are, therefore, subject to full consolidation within the consolidated financial statements.

Also within the DCIS Division, the Parent Company also structures senior financing operations, represented by financing services to investors of *distressed* credits through the subscription of *Senior* or *Junior* notes.

SME Division

During the transitional phase, the operations unit of the Business Invoice Lending department of the SME Division uses specialised operators (i.e. Credimi), through the construction of a SPV called Lumen (in run-off), within which all the factoring positions are included (at the moment, without-recourse transactions only). Similar to the approach to all the operations described above within the DCIS Division, the Bank fully consolidates the vehicle’s in its financial statement as well.

Quantitative information

C.1 Prudential consolidation – Exposures resulting from the main "in-house" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitisation/Exposures	On-balance sheet exposures			
	Senior		Junior	
	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs
A. Subject of complete derecognition from the financial statements				
N/A	–	–	–	–
B. Object of partial derecognition from the financial statements				
N/A	–	–	–	–
C. Not derecognised from the balance sheet Financing contracts granted to small and medium-sized companies	**57,681**	**–**	**42,044**	**(642)**

C.2 Prudential consolidation – Exposures resulting from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of underlying asset/Exposures			On-balance sheet exposures							
			Single tranche		Senior		Mezzanine		Junior	
			Book value	Value (Adjustments)/ write-backs	Book value	Value (Adjustments)/ write-backs	Book value	Value (Adjustments)/ write-backs	Book value	Value (Adjustments)/ write-backs
1 SENIOR FINANCING	NPL credits	Loans to customers FV Obligation			299,390	(363)			2,342	

C.3 Prudential consolidation - SPV

As described above, to carry out its activities of the DCIS and SME Divisions, the Bank utilises SPV pursuant to Law 130/99. These SPV have not been acquired by the Bank and will not form part of the banking group. However, since the Parent Company holds de facto control – in accordance with IFRS 10 – of these SPV, they are subject to consolidation within the consolidated financial statements of illimity.

C.4 Prudential consolidation - Non-consolidated SPVs

The Bank does not use a SPV for non-consolidated securitiation.

C.5 Prudential consolidation – Servicer activities – in-house securitisations: collections of securitised credits and redemptions of securities issued by the SPV

The Bank does not act as a servicer SWAN self-securitisation transactions in which the sold assets are derecognised from the financial statement in accordance with IFRS 9.

SPV	Securitised assets 31 December 2019		Proceeds from credits obtained during the financial year		Percentage share of securities redeemed 31 December 2019			
					Senior		Junior	
	Impaired	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired
SWAN SPV SRL	207	89,930	–	17,571	0%	13%	0%	0%

C.6 Prudential consolidation - Consolidated SPVs

The Special Purpose Vehicles used for securitisations relating to the DCIS Division the following:

- Aporti SPV
- Doria SPV
- River SPV
- Pitti SPV
- Friuli SPV

All securitised transactions are represented by NPL credits and the transactions are carried out through the issuance of single-trance securities. The SPV used for securitisation transactions relating to the SME Division is Lumen SPV. The underlying assets are factoring credits and the transaction is carried out through the issuance of a single-tranche security.

For more details refer to Part E – Section C, illimity Financial Statements.

D. DISPOSAL TRANSACTIONS

A. Financial assets sold and partially derecognised

Qualitative information

The sales connected to financial assets sold and not derecognised relate to repurchase agreements - payable, where the buyer has to resell on expiration of the assets (for example securities).

Quantitative information

D.1 Prudential consolidation - Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which subject to securitisation transactions	of which: subject to sale agreements with repurchase clause	of which impaired	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading	**–**	**–**	**–**	**X**	**–**	**–**	**–**
1. Debt securities	–	–	–	X	–	–	–
2. Equity securities	–	–	–	X	–	–	–
3. Loans	–	–	–	X	–	–	–
4. Derivatives	–	–	–	X	–	–	–
B. other financial assets mandatorily measured at fair value	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Debt securities	–	–	–	–	–	–	–
2. Equity securities	–	–	–	X	–	–	–
3. Loans	–	–	–	–	–	–	–
C. Financial assets designated at fair value	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Debt securities	–	–	–	–	–	–	–
2. Loans	–	–	–	–	–	–	–
D. Financial assets measured at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Debt securities	–	–	–	–	–	–	–
2. Equity securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
E. Financial assets measured at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Debt securities	424,557	–	424,557	–	278,512	–	278,512
2. Loans	90,779	90,779	–	207	–	–	–
Total 31/12/2019	**515,336**	**90,779**	**424,557**	**207**	**278,512**	**–**	**278,512**
Total 31/12/2018	**9,594**	**–**	**9,594**	**–**	**8,960**	**–**	**8,960**

D.2 Financial assets sold and partially recognised and associated financial liabilities: book values

On the reporting date, the Group does not hold financial assets sold and partially recognised and associated financial liabilities.

D.3 Disposal transactions with liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

In table D.1, the financial assets refer to the portfolio “E. Financial assets valued at amortised cost”, and their book value may be considered a proxy of the same fair value.

B. Assets sold and fully derecognised with recognition of continuing involvement

The Group has no such operations.

D.4 Covered bond transactions

The Group has no such operations.

E. CREDIT RISK MEASUREMENT MODELS

For management purposes, as well as for the calculation of collective write-downs, internal *rating* models were developed by the Group. These models were developed with the aim of making the valuation metrics more *risk-sensitive* and more relevant to the Group's *business*. The most advanced component of these models is the *shadow rating* model of “organic” exposures originating from illimity, which has been calibrated using deep external databases (*Corporate* counterparties of the European market), including the *forward looking* component to incorporate the effect of the expected macroeconomic scenario and providing a documented *override process* downstream (with qualitative *notching* in the case of more information).

Rating models provided by external *providers* are also used to calculate the *rating* of the component deriving from the operations of the former Banca Interprovinciale, with the application of conservative margins.

With reference to the LGD (*Loss Given Default*) risk parameter, applied to the calculation of collective write-downs, the estimates made at the consortium level by an external *provider* and based on the historical recovery rates observed on a sample of Italian banks are used.

Finally, a *roadmap* is planned for the evolution and consolidation of the aforementioned models (including external performance and calibration on internal data) and the development of an LGD model (*Loss Given Default* based on actual recoveries), which will be completed in 2020 and which will see the use of the innovative component previously described also during *origination*, both for the definition of decision-making powers, and as a tool for analysis and simulation by *business* units also for *the purpose of pricing*.

1.2 *Market risk*

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

Qualitative information

General aspects

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

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

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

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

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

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

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

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

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

For unlisted or illiquid financial instruments, the *fair value* is determined by applying valuation techniques aimed at determining the price that the instrument would have had on the market, in a free negotiation between the parties motivated by usual commercial considerations. The techniques include:

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

For mutual investment funds not traded on active markets, the *fair value* is determined on the basis of the published NAV (*Net Asset Value*).

Some complex financial products (structured or synthetic) can be valued on the basis of:

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

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

Quantitative information

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(EURO)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indeterminate duration
1. On-balance sheet assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. On-balance sheet liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreement liabilities	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Others								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	401	–	–	–	–	–	–
+ Short positions	–	178	–	–	–	–	–	–

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(OTHER CURRENCIES)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indeterminate duration
1. On-balance sheet assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. On-balance sheet liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreement liabilities	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Others								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	178	–	–	–	–	–	–
+ Short positions	–	399	–	–	–	–	–	–

2. Regulatory trading portfolio: distribution of exposures in equity instruments and share indices for the main stock market countries

The Group does not hold equity instruments and share indices in the trading portfolio, as of the reporting date.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

There are no internal models and other methods of sensitivity analysis, other than those previously specified. The methodology based on the risk value is applied to the whole securities portfolio regardless of the allocation on the accounts.

The total trading portfolio is extremely limited, as per company policy, as of the reporting date there is a small number of financial assets employed in trading operations, in particular, these are shares in UCIs.

1.2.2 Interest rate risk and price risk – banking book

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

Qualitative information

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

Banking portfolio interest rate risk consists of the risk that unexpected changes in interest rates will be negatively reflected on:

- the formation of the interest margin, and thus, the bank's profits (*cash flow risk*);
- the net present value of *assets* and *liabilities*, due to their impact on the present value of future*cash flows* (*fair value risk*);
- relative to the assets other than those allocated to the trading book, in relation to the non-timing between the maturity and the re-pricing of assets and liabilities and the short and long term off-balance sheet positions (*re-pricing risk*), the risk 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).

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

Exposure to interest rate risk is assessed from two different perspectives. In the short term view, the "profits perspective" approach is adopted, which focuses on the impact of changes in interest rates on the profits accrued or recognised (*cash flow risk*), with regard to 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 net equity to changes in rates *fair value risk*).

Interest rate risk management is intended to limit the impact of adverse changes to the rates curve, both in financial terms and in terms of the cash flow generated by the 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.

Fair value hedging activities

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

Cash flow hedging activity

There are no cash flow hedges (*Cash Flow Hedge*).

Hedges of foreign investments

There are no hedges of foreign investments.

Quantitative information

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

p.1

(EURO)

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indeterminate duration
1. Cash assets	**477,384**	**384,061**	**130,477**	**106,689**	**913,609**	**86,637**	**10,201**	**–**
1.1 Debt securities	–	285,321	224	–	141,637	50,686	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	285,321	224	–	141,637	50,686	–	–
1.2 Loans to banks	66,229	–	–	47,912	229,414	–	–	–
1.3 Loans to customers	411,155	98,740	130,253	58,777	542,558	35,951	10,201	–
– current account	39,123	–	546	404	15,837	211	–	–
– other loans	372,032	98,740	129,707	58,373	526,721	35,740	10,201	–
– with option of advance repayment	2,874	–	–	–	–	–	–	–
– others	369,158	98,740	129,707	58,373	526,721	35,740	10,201	–
2. On-balance sheet liabilities	**599,422**	**54,800**	**97,388**	**464,121**	**1,192,114**	**25,475**	**4,000**	**–**
2.1 Payables to customers	580,784	39,708	28,319	403,999	906,312	25,475	–	–
– current account	265,714	–	–	–	–	–	–	–
– other payables	315,070	39,708	28,319	403,999	906,312	25,475	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	315,070	39,708	28,319	403,999	906,312	25,475	–	–
2.2 Payables to banks	18,638	10,059	–	60,122	283,432	–	4,000	–
– current account	5	–	–	–	–	–	–	–
– other payables	18,633	10,059	–	60,122	283,432	–	4,000	–
2.3 Debt securities	–	5,033	7,956	–	2,370	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	5,033	7,956	–	2,370	–	–	–
2.4 Other liabilities	–	–	61,113	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	61,113	–	–	–	–	–

(cont'd)

(EURO)

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indeterminate duration
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. Other off-balance sheet transactions	**120,793**	**257**	**541**	**3,725**	**19,565**	**12,426**	**322**	**–**
+ Long positions	41,978	257	541	3,725	19,565	12,426	322	–
+ Short positions	78,815	–	–	–	–	–	–	–

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(OTHER CURRENCIES)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indeterminate duration
1. Cash assets	**1,302**	**476**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
1.2 Loans to banks	1,302	–	–	–	–	–	–	–
1.3 Loans to customers	–	476	–	–	–	–	–	–
– current account	–	–	–	–	–	–	–	–
– other loans	–	476	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	476	–	–	–	–	–	–
2. On-balance sheet liabilities	**549**	**497**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Payables to customers	549	–	–	–	–	–	–	–
– current account	549	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
2.2 Payables to banks	–	497	–	–	–	–	–	–
– current account	–	–	–	–	–	–	–	–
– other payables	–	497	–	–	–	–	–	–
2.3 Debt securities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–

(cont'd)

(OTHER CURRENCIES)

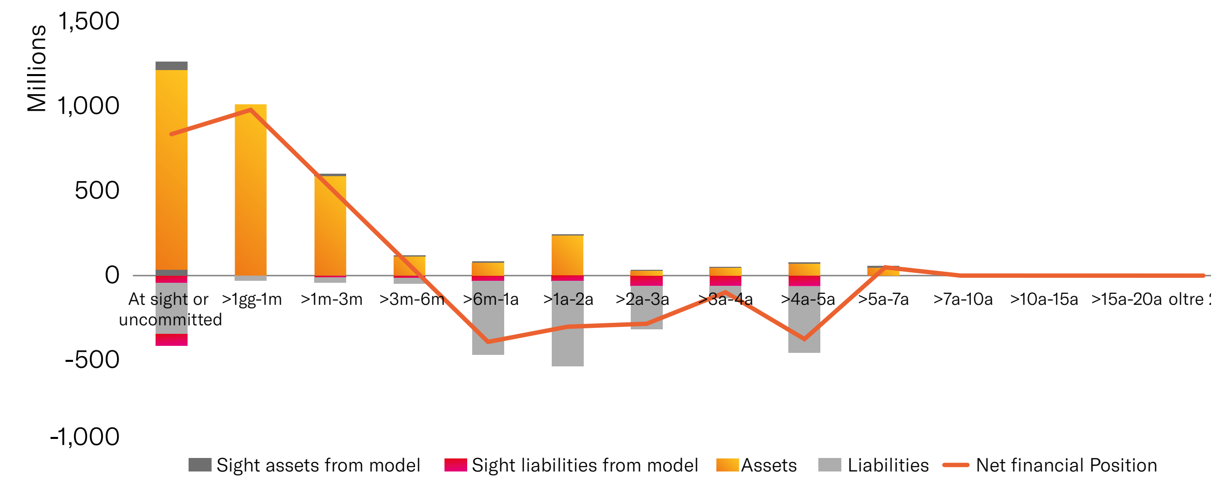
Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indeterminate duration
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. Other off-balance sheet transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–

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

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

To monitor compliance with the limit set in the RAF, and to ensure that risk is limited to 20% of the ratio between the change in economic value and own funds, a value analysis is periodically carried out on the *banking book* (simplified methodology referred to in Annex C of Circular no. 285 issued by the Banca d'Italia), both for a *stress* scenario with a parallel rate *shock* of +/- 200 bps, and in ordinary conditions using as a *shock* the 99th percentile (in the case of a rates rise) or the1st percentile (in the case of a rates reduction). The interest rate risk of the banking book is therefore quantified based on *gap analysis* and *sensitivity analysis* models that identify all assets and liabilities of the banking book and group them based on the *repricing period* of the interest rate.

The following graphic shows the distribution by maturity bands of net imbalances of assets and liabilities in the banking book on 31 December 2019, based on which the exposure to the interest rate risk was estimated.



On the reporting date, the measurements indicated a decrease in the value of equity equal to approximately 53 million euros in relation to a parallel *shock* of the interest rates curve of 200 basis points; banking book exposure to interest rate risk is, therefore, marginal in terms of the ratio compared to the value of own funds, amounting to a minor level of approximately 11%.

In addition to the *Sensitivity analysis*, an estimate of the change in interest income is also carried out. The *sensitivity* of the margin is measured using a methodology that estimates the expected change in the interest margin following a curve *shock*, produced by items that are sensitive to a change in the rate, within a *gapping period* set at 12 months from the date of the analysis. The analysis considers both the change in the margin of the exposed and term deposits. This measurement is carried out from a static balance sheet perspective (constant assets and liabilities), thus excluding potential effects from new operations or future changes in the *mix* of assets and liabilities. In the scenario of positive rate *shock* of +200 bps, the change in the margin would amount to approximately 44 million euros, while in the negative *shock* scenario of -200 bps with the restriction of non-negativity, the estimated change would be nil.

1.2.3 Exchange risk

Qualitative information

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

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

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

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

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

B. Exchange rate risk hedging

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

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	USD	GBP	JPY	CAD	CHF	OTHER CURRENCIES
A. Financial assets	**1,387**	**88**	**–**	**–**	**191**	**110**
A.1 Debt securities	–	–	–	–	–	–
A.2 Equity instruments	7	–	–	–	–	–
A.3 Loans to banks	904	88	–	–	191	110
A.4 Loans to customers	476	–	–	–	–	–
A.5 Other financial assets	–	–	–	–	–	–
B. Other assets	**14**	**6**	**–**	**–**	**4**	**1**
C. Financial liabilities	**1,046**	**–**	**–**	**–**	**–**	**–**
C.1 Payables to banks	497	–	–	–	–	–
C.2 Payables to customers	549	–	–	–	–	–
C.3 Debt securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. Other liabilities	**4**	**–**	**–**	**–**	**–**	**–**
E. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**
- Options	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–
+ Long positions	178	–	–	–	–	–
+ Short positions	399	–	–	–	–	–
Total assets	**1,579**	**94**	**–**	**–**	**195**	**111**
Total liabilities	**1,449**	**–**	**–**	**–**	**–**	**–**
Difference (+/-)	**130**	**94**	**–**	**–**	**195**	**111**

2. Internal models and other methods of sensitivity analysis

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

1.3 Derivatives instruments and hedging policies

On the reporting date no derivatives transactions have been carried out.

1.4 Liquidity risk

Qualitative information

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

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

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

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

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

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

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

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

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

The monitoring of structural balance is also pursued through the daily measurement and monitoring of the *Net Stable Funding Ratio* (NSFR) structural requirement, which will be introduced as a specific regulatory requirement in the regulatory supervisory framework from 2021, and which is aimed at promoting greater recourse to stable funding, preventing that medium and long-term operations give rise to excessive imbalances, to be funded in the short term. It establishes the minimum "acceptable" amount of funding longer than a year, in relation to the liquidity requirements and residual term of assets and off-balance sheet exposures.

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

Quantitative information

1. Time breakdown by contractual residual maturity of financial assets and liabilities

p.1

(EURO)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	In-determinate duration
Cash assets	**71,505**	**66,294**	**13,029**	**41,785**	**66,440**	**156,994**	**150,689**	**1,308,014**	**1,487,115**	**5,041**
A.1 Government Securities	–	–	–	–	–	40	73	–	10,000	–
A.2 Other debt securities	–	63	1	3,482	244	3,600	6,618	319,181	1,314,572	5,041
A.3 Units of UCIs	163	–	–	–	–	–	–	–	–	–
A.4 Loans	71,342	66,231	13,028	38,303	66,196	153,354	143,998	988,833	162,543	–
– Banks	27,117	58,972	–	–	–	–	47,943	238,633	–	–
– Customers	44,225	7,259	13,028	38,303	66,196	153,354	96,055	750,200	162,543	–
On-balance sheet liabilities	**401,802**	**15,341**	**6,312**	**53,015**	**92,888**	**38,497**	**457,274**	**1,317,846**	**55,313**	**–**
B.1 Deposits and current accounts	395,274	15,341	6,312	16,795	26,634	28,568	406,273	902,486	3,208	–
– Banks	5	15,000	–	–	10,059	–	–	–	–	–
– Customers	395,269	341	6,312	16,795	16,575	28,568	406,273	902,486	3,208	–
B.2 Debt securities	–	–	–	–	5,098	7,905	–	2,355	–	–
B.3 Other liabilities	6,528	–	–	36,220	61,156	2,024	51,001	413,005	52,105	–
"Off-balance sheet" operations										
C.1 Financial derivatives with exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	577	–	–	–	–	–	–	–	–
C.2 Financial derivatives without exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be collected										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds										
– Long positions	26,404	–	–	20	237	544	3,739	20,894	26,977	–
– Short positions	78,815	–	–	–	–	–	–	–	–	–

(cont'd)

(EURO)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	In-determinate duration
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Credit derivatives with exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–

1. Time breakdown by contractual residual maturity of financial assets and liabilities

(OTHER CURRENCIES)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	In-determinate duration
Cash assets	**1,308**	**–**	**–**	**–**	**497**	**–**	**–**	**–**	**–**	**–**
A.1 Government Securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Units of UCIs	–	–	–	–	–	–	–	–	–	–
A.4 Loans	1,308	–	–	–	497	–	–	–	–	–
– Banks	1,308	–	–	–	–	–	–	–	–	–
– Customers	–	–	–	–	497	–	–	–	–	–
On-balance sheet liabilities	**549**	**–**	**–**	**–**	**497**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	549	–	–	–	497	–	–	–	–	–
– Banks	–	–	–	–	497	–	–	–	–	–
– Customers	549	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
"Off-balance sheet" operations										
C.1 Financial derivatives with exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	399	–	–	–	–	–	–	–	–
C.2 Financial derivatives without exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be collected										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–

(cont'd)

(OTHER CURRENCIES)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	In-determinate duration
C.7 Credit derivatives with exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–

1.5 Operational risks

Qualitative information

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

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

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

The main sources of operational risk are, for example, unreliable or inefficient operational processes, of monitoring systems, internal and external fraud, operational error, the qualitative level of physical and logical security, inadequacy of the information technology system with respect to the volume of operations, outsourcing of business functions, strategy changes, the presence of inappropriate management or staff training policies, and finally, social and environmental impacts.

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

The primary objective of the *framework* is, in fact, the prevention and containment of the frequency and impact on business functions of such risk events through the *ex ante* implementation of organisational and *ex post* measures for targeted mitigation, which are inspired by the following guiding principles:

- improving overall operational efficiency;
- preventing or reducing the probability of the occurrence of events that could potentially generate operational losses by means of the appropriate regulatory or 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*.

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

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

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 international accounting standards. The amount of the provision is estimated on the basis of multiple factors, which mainly concern the predicted outcome of the dispute, and in particular the likelihood of losing the proceedings and an order being made against the Group, as well as the amount that the Group may be required to pay to the adverse party.

The key processes for the proper management of operational risk are also the collection of operational loss data (*Loss Data Collection, hereinafter LDC*) and the prospective self-assessment of operational risk exposure (*Risk Self Assessment*).

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

In this context, the progressive integration of the operational and IT risk control systems of the companies recently annexed to the Group (Neprix and IT Auction) into the Parent Company's risk management *framework* is important. To this end, a plan of actions has been prepared and is being implemented to allow the integration of risk management processes and the adaptation of internal regulation in line with the relevant regulatory provisions.

The 2019 operational risk data collection process benefited from the active contribution of the SME, DCIS, Direct Banking, Digital Operations Divisions and the ALM & Treasury, Administration & Accounting, Human Resources Areas (CFO & Central Functions Division), involved by the CRO Department in the classification and management survey processes.

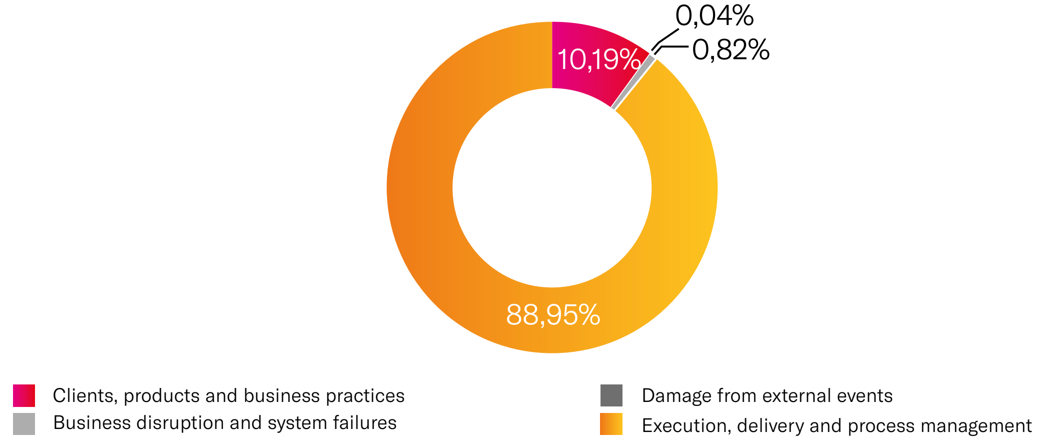
Operating loss data referring to the main risk events of the year shows a greater incidence, in terms of impact on the income statement and frequency of occurrence, of operational errors/deficiencies related to process management (ET7, according to the official taxonomy). These losses can be classified, to a significant extent, as operational risks typical of the "*start-up*" phase, or due to processes of *origination*, monitoring and control that are not yet fully operational and related to cases, such as errors in *pricing* models and in the definition of reimbursement plans, communication or internal procedural defects, failure to report to external bodies (e.g. Confidi) or operational failures related *to outsourced* activities.

However, no operational losses related to internal (ET1) and external (ET2) fraud and employment and safety at work (ET3) were detected during the same year; events related to non-compliance with professional obligations towards customers or by the nature or characteristics of the product or service provided (ET4), constituted 10% of the operational losses in 2019.

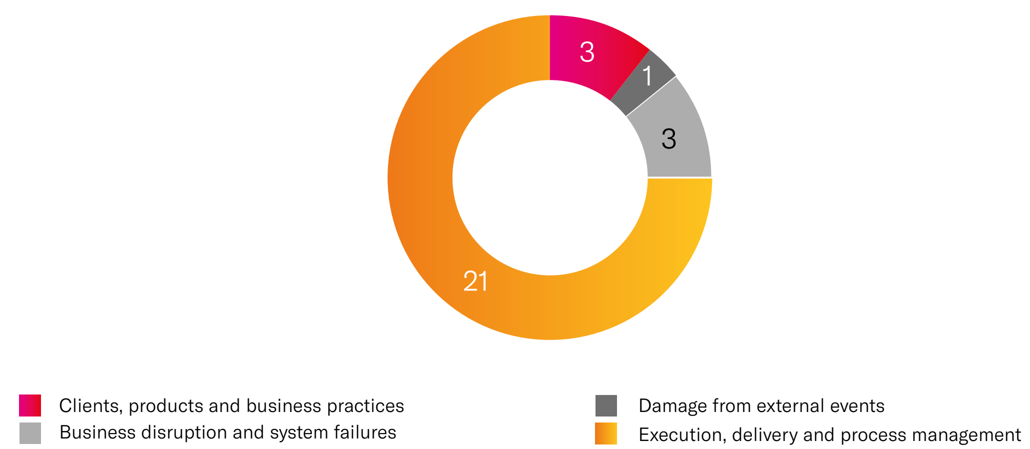
Quantitative information

The breakdown of the total operating losses recorded in the 2019 LDC process by the SME, DCIS, Direct Banking Divisions, and the ALM & Treasury, Administration & Accounting, Human Resources Areas (CFO & Central Functions Division) is as follows:

FY2019 Operational risk events by Basel event category – % of total risk events by value



FY2019 Operational risk events by Basel event category – % of total risk events by count



As the graphs show, risk events resulting from errors/deficiencies in process management (ET7, according to the official taxonomy) represent the Group's main source of operating loss, both in terms of incidence on the value of the total amount (89%) and in terms of frequency of events (75%). These percentages, therefore, place a particular focus on the risks typically related to the "*start-up*" phase, or to events related to the presence of organisational, operational and monitoring processes of *business* activities that are not yet fully operational. In prospective terms, a progressive reduction in risk events related to the traditional banking activity of the former Banca Interprovinciale is also expected, whose operations, although still present, are gradually being reduced in favour of the distinctive *business* of the illimity Group.

To calculate the requirement, the Group uses the BIA (*Basic Indicator Approach*) which calculates the capital requirement by applying a regulatory coefficient of 15% to an indicator of the volume of company business, identified over an average of three years for the relevant indicator, determined in accordance with article 316 of EU Regulation No. 575/2013.

On 31 December 2019, the capital requirement for operational risk amounted to approximately 4.44 million euros, compared to 55.52 million euros for *Risk Weighted Assets*.

OTHER IMPORTANT RISKS

Risk of over-leverage

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

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

The over-leverage risk relates to the 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.

Settlement risk

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

Counterparty risk

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

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

Transfer risk

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

Sovereign risk

Sovereign risk is the risk of a reduction in the value of Italian government bonds, almost all of which are included in the *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 company bodies.

Strategic and business risk

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

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

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

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

Compliance risk

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

Money laundering risk

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

Reputation risk

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

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

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

PART F - INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - consolidated shareholders' equity

A. Qualitative information

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

B. Quantitative information

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

Items in shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	43,408	–	–	–	43,408
2. Share premium reserve	480,156	–	–	–	480,156
3. Reserves	36,188	–	–	–	36,188
4. Equity instruments	–	–	–	–	–
5. (Treasury shares)	(96)	–	–	–	(96)
6. Valuation reserves:	939	–	–	–	939
– Equity instruments measured at fair value through other comprehensive income	7	–	–	–	7
- Hedging of equity instruments measured at fair value through comprehensive income		–	–	–	–
– Financial assets (other than equity instruments) measured at fair value through comprehensive income	1,051	–	–	–	1,051
– 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 designated at fair value through profit or loss (changes in creditworthiness)	–	–	–	–	–
– Actuarial gains (losses) relating to defined benefit plans	(118)	–	–	–	(118)
– Shares of valuation reserves for equity investments measured at equity	–	–	–	–	–
– Special revaluation laws	–	–	–	–	–
7. Profit (loss) (+/-) for the period attributable to the Group and minority interests	(16,140)	–	–	–	(16,140)
Total	**544,455**	**–**	**–**	**–**	**544,455**

(cont'd)

B.2 Valuation reserves of the financial assets measured at fair value through other comprehensive income: breakdown

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Eliminations and adjustments from consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,769	(392)	–	–	–	–	–	–	1,769	(392)
2. Equity securities	7	–	–	–	–	–	–	–	7	–
3. Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2019	**1,776**	**(392)**	**–**	**–**	**–**	**–**	**–**	**–**	**1,776**	**(392)**
Total 31/12/2018	**715**	**(1,613)**	**–**	**–**	**–**	**–**	**–**	**–**	**715**	**(1,613)**

B.3 Valuation reserves of the financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**(903)**	**5**	**–**
2. Positive changes	**3,573**	**2**	**–**
2.1 Increases in fair value	1,769	–	–
2.2 Value Adjustments for credit risk	196	X	–
2.3 Transfer to income statement of negative reserves following disposal	1,607	X	–
2.4 Transfers to other equity items	–	–	–
2.5 Other changes	1	–	–
3. Negative changes	**(1,619)**	**–**	**–**
3.1 Decreases in fair value	(392)	–	–
3.2 Adjustments in value for credit risk	–	–	–
3.3 Reclassification through profit or loss of positive reserves: following disposal	(60)	X	–
3.4 Transfers to other equity items	–	–	–
3.5 Other changes	(1,167)	–	–
4. Closing balance	**1,051**	**7**	**–**

B.4 Revaluation reserves on defined benefit plans: annual changes

	31/12/2019
1. Opening balance	**(63)**
2. Positive changes	
2.1 Increases in fair value Actuarial (Gains)/Losses	
2.2 Reclassification through profit or loss of negative reserves	
2.3 Other changes	24
3. Negative changes	
3.1 Decreases in fair value Actuarial (Gains)/Losses	(79)
3.2 Reclassification through profit or loss of positive reserves	
3.3 Other changes	
4. Closing balance	**(118)**

Section 2 – Own funds and regulatory ratios

Own funds, risk-weighted assets and solvency ratios are determined in accordance with the harmonised regulations for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013 and on the basis of Bank of Italy Circulars 285 and 286 (issued in 2013 and 2014) and the update to Circular 154.

The regulatory provisions on own funds provided for the gradual introduction of a new regulatory framework during a transitional period during which some of the elements that after full introduction would be completely included in Common Equity, would impact Common Equity Tier 1 only as a percentage (the Phase In).

1. Common Equity Tier 1 (CET1) capital

Common Equity Tier 1 mainly consists of capital, reserves and valuation reserves as well as the deducted elements and prudential filters.

2. Additional Tier 1 (AT1) capital

On the reporting date, the Bank did not have any such element.

3. Tier 2 (T2) capital

On 31 December 2019 the Bank had not issued any Tier 2 capital instruments.

B. Quantitative information

The components of the regulatory capital are detailed below:

		31/12/2019
A.	**Common Equity Tier 1 (CET1) pre-application of prudential filters**	**529,687**
	of which CET1 instruments subject to transitional provisions	
B.	Prudential CET1 filters (+/-)	(134)
C.	**CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)**	**529,552**
D.	Elements to be deducted from CET1	(67,853)
E.	Transitional rules – Impact on CET1 (+/-)	
F.	**Total Common Equity Tier 1 (Common Equity Tier 1 - CET1)(C – D +/-E)**	**461,699**
G.	**Tier 1 (Additional Tier 1 - AT1) inclusive of elements to be deducted and effects of transitional rules**	**–**
	of which AT1 instruments subject to transitional provisions	–
H.	Elements to be deducted from AT1	–
I.	Transitional rules – Impact on AT1 (+/-)	–
L.	**Total Additional Tier 1 (Additional Tier 1 - AT1) (G - H +/- I)**	**–**
M.	**Tier 2 (Tier 2 - T2) inclusive of elements to be deducted and effects of transitional rules**	**–**
	of which T2 instruments subject to transitional provisions	–
N.	Elements to be deducted from T2	–
O.	Transitional rules – Impact on T2 (+/-)	–
P.	**Total Tier 2 (Tier 2 - T2) (M - N +/- O)**	**–**
Q.	**Total own funds (F + L + P)**	**461,699**

The comparison is not provided since the Bank of Italy registered in the Register of Banking Groups with effect from 24 June 2019.

2.2 Capital adequacy

A. Qualitative information

As of 31 December 2019, the *Common Equity Ratio* – the ratio between Common Equity Tier 1 Capital and total weighted assets – stood at 21.35%.

B. Quantitative information

Categories/values	31/12/2019	
	Non-weighted amounts	Weighted amounts/ requirements
A. RISK ASSETS		
A.1 Credit and counterparty risk	**2,965,458**	**2,106,150**
1. Standardised methodology	**2,071,082**	**1,070,115**
2. Methodology based on internal ratings		
2.1 Basic		
2.2 Advanced		
3. Securitisations	**894,376**	**1,036,035**
B. REGULATORY CAPITAL REQUIREMENTS		
B.1 Credit and counterparty risk		**168,492**
B.2 Credit valuation adjustment risk		
B.3 Settlement risks		
B.4 Market risks		**65**
1. Standard methodology		*65*
2. Internal models		
3. Concentration risk		
B.5 Operational risk		**4,442**
1. Basic method		*4,442*
2. Standardised method		
3. Advanced method		
B.6 Other calculation factors		
B.7 Total prudential requirements		**172,999**
C. RISK ASSETS AND REGULATORY RATIOS		
C.1 Risk-weighted assets		2,162,485
C.2 CET 1/Risk-weighted assets (CET1 capital ratio)		21.35%
C.3 CET 1/Risk-weighted assets (Tier 1 capital ratio)		21.35%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)		21.35%

The comparison is not provided since the Bank of Italy registered in the Register of Banking Groups with effect from 24 June 2019.

PART G – BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

Section 1 - Transactions completed during the year

1.1 Transactions of business combinations

As mentioned in the Management Report ("*Significant events occurring over the course of the year*"), in the course of the year there was a *Business Combination between entities under common control*, which is excluded from the scope of application of IFRS 3 and therefore relevant in terms of continuity of values. The transaction involved the reverse merger of SPAXS into Banca Interprovinciale.

This transaction is part of the activities aimed at rationalising the Group's organisational and governance structure.

On 17 July 2019, notice was given by the Bank of Italy that there were no reasons preventing the acquisition of Neprix S.r.l. by illimity and to the connected intergroup outsourcing.

Neprix was consolidated from the date on which the Bank acquired control according to *the purchase method*, as required under IFRS 3. As part of the acquisition of the company Neprix, a *badwill* equal to 16 thousand euros was generated, determined from the comparison between the acquisition cost equal to 23 thousand euros and net equity (at IFRS 3 current values) equal to 39 thousand euros.

Section 2 – Operations after year end

2.1 Transactions of business combinations

Following the agreements reached during 2019, the acquisition by illimity of 70% of the share capital of IT Auction, for 10.5 million euros, by Neprix, an illimity Group company in which all the bank's*distressed* credit management activities are concentrated, was completed on 9 January 2020. The remaining 30% is held by current shareholders, including top management, who will remain in the company to implement the industrial plan.

See the section "Events after the reporting date" in the Report on Consolidated Management for further information on the transaction.

Section 3 – Retrospective adjustments

No retrospective adjustments were necessary.

PART H – TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are mainly governed by article 2391 bis of the Italian Civil Code, according to which the administrative 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 transactions 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.

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

Throughout 2019, there were no minor or material related party transactions, which significantly affected the Group's capital or profit and loss.

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

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 Group's activities, including the directors of the Group;
- 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 natural person related to the Group or be influenced , in their relations with the Group (i.e.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 for the management of transactions with entities covered by the Bank's Single Perimeter and of transactions*" which defines the internal policies of the Group on the control of risk activities and conflicts of interest with connected parties. That document is published on the bank's website in the section "*Corporate Governance*", in accordance with current regulations.

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

Atypical and/or unusual transactions are any transaction 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 6,764 thousand euros.

As required by the new IAS 24 paragraph 17, further information has been provided about the following categories of remuneration for directors (with strategic responsibilities) and employees, in 6,764 thousand euros:

a) short-term employee benefits	6,429
b) post-employment benefits	235
c) other long-term benefits	
d) benefits due to employees for termination of contract	
e) share-based payments	99

2. Information on related party transactions

With regard to the financial relations, and remembering that directors with strategic responsibilities also include the directors and statutory auditors of the Bank and of the companies of the Group, the situation on the reporting date is that shown in the following table, expressed in thousands of euros.

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

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

BALANCE SHEET					
Assets		Book value	of which with related parties		Impact of related parties
40.b)	Loans to customers	1,637,864		221	0.01%
	To subsidiaries		–		
	To parties subject to significant influence		–		
	To directors with strategic responsibilities		221		
	To other related parties		–		

Liabilities		Book value	of which with related parties		Impact of related parties
10.b)	Payables to customers	1,985,145		1,093	0.06%
	To subsidiaries		–		
	To parties subject to significant influence		–		
	To directors with strategic responsibilities		1,093		
	To other related parties		–		
90.	Provisions for termination indemnities	1,097		273	24.91%
	To subsidiaries				
	To parties subject to significant influence				
	To directors with strategic responsibilities		273		
	To other related parties				

INCOME STATEMENT				
Income Statement items		Book value	of which with related parties	Impact of related parties
160.	Administrative costs:	(86,028)	(6,764)	7.86%
	a) personnel cost	(30,864)	(6,764)	21.91%
	b) other administrative costs	(55,164)	-	0.00%

PART I – PAYMENT AGREEMENTS BASED ON OWN SHARES

Qualitative information

As to the variable component, the 2019 Remuneration Policy provides that this can be serviced by a long term "*Stock Option Plan*" (so-called SOP) for up to 40 employees of the Issuer and/or of its subsidiaries with the aim of bringing the interests of management and of employees in general in line with those of the long-term shareholders.

Quantitative information

Items/Number of options and exercise prices	31/12/2019			31/12/2018		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balance	–	–	–	–	–	–
B. Increases			X			X
B.1 New issues	1,530,837	7.13	30/04/2024	–	–	–
B.2 Other changes			X	–	–	X
C. Decreases			X			X
C.1 Cancelled	–	–	X	–	–	X
C.2 Exercised	–	–	X	–	–	X
C.3 Expired	–	–	X	–	–	X
C.4 Other changes	–	–	X	–	–	X
D. Closing balance	1,530,837	7.13	30/04/2024	–	–	
E. Options that may be exercised at the end of the year	–	–	X	–	–	X

Other information

SOP Plan

The SOP plan was classified, for the purpose of the application of the IFRS 2 principle, in the *equity-settled* category because the benefits are not cash settled, nor does the Bank have an obligation to buy back shares allocated to beneficiaries after options have been exercised.

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

a) the reaching of so-called *gate* objectives linked to, among other things, the maintenance of certain capital and liquidity ratios, profits, and the absence of any individual violations of laws or regulations;

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

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

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

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.

ESOP Plan

The ESOP Plan provides for the free allocation of up to 700,000 Ordinary Shares, which will be issued in execution of the decision pursuant to article 2443 of the Italian Civil Code for the free increase of share capital, article 2349 (1) of the Italian Civil Code up to a maximum of 498,890 euros, authorised by the Meeting on 18 January 2019. The Ordinary Shares will be allocated in five annual cycles.

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

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

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

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

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

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

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

On 10 May 2019, the shares allocated amounted to 43,022 for a value of 30.6 thousand euros for an increase in share capital and 355.2 thousand euros in Share premium with a total cost of 386 thousand euros.

PART L – SECTORIAL INFORMATION

The Group does not provide sectorial information as only a single *reporting segment* was identified for the purposes of preparing the 2019 consolidated financial statements.

PART M - INFORMATION ON LEASING

Section 1 – Lessee

QUALITATIVE INFORMATION

Contracts of the Group may be classified in the two following categories:

1. Rental of business and personal use properties;
2. Long-term rental of cars.

On 31 December 2019, there were 57 leasing contracts, of which 20 related to real estate *leasing*, with a total value of rights of use of 19.3 million euros, and of which 37 related to cars, with a total value of rights of use of 1.1 million euros.

Real estate leasing contracts include rental fees for buildings intended for instrumental use, such as offices and for personal use.

Contracts, as a rule, last longer than 12 months and typically have renewal and termination options that can be exercised by the lessor and the lessee according to the rules of law or specific contractual provisions.

Contracts relating to other *leases* relate to cars. These are long-term rental contracts available to employees. Generally, these contracts have a duration of four years, with monthly payments, without the option of renewal and do not include the option of purchasing the asset.

Sub lease transactions are of an amount attributable to properties intended for residential use.

As previously specified in the accounting policies, 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.

QUANTITATIVE INFORMATION

The following table provides a summary of the components of the Balance Sheet relating to *leasing* contracts; for further information, see Part B of the Explanatory Note:

TYPE OF CONTRACT	Right of use	Lease Liability
Property rental fees	19,334	20,745
Long Term Rental Cars	1,147	1,163
Total	**20,480**	**21,908**

The following table shows a summary of the components of the Income Statement relating to *leasing* contracts; for further information refer to the contents of Part C of the Explanatory Note:

TYPE OF CONTRACT	Interest expense	Net value adjustments to intangible assets
Property rental fees	1,228	1,363
Long Term Rental Cars	33	243
Total	**1,261**	**1,606**

On 31 December 2019 there were no material amounts relating to lease commitments not yet entered into.

Section 2 – Lessor

QUALITATIVE INFORMATION

As of the reporting date, the Group has no *leases* in the role of lessor with third parties.

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

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

Reclassified consolidated balance sheet

Assets	Balance as of 31/12/2019
Treasury portfolio - Securities at FV	**125,851**
Item 20 a) Financial assets held for trading	63
Item 30. Financial assets measured at fair value through other comprehensive income	125,788
Treasury portfolio - Securities at amortised cost	**-**
Financial assets mandatorily measured at fair value	**8,602**
Item 20 c) other financial assets mandatorily measured at fair value	8,602
Due from Banks	**344,858**
Item 40 a) Due from Banks	344,858
Loans to customers	**1,288,111**
Item 40 b) Loans to customers	1,637,864
To be deducted:	
Senior financing securities at amortised cost	(349,753)
Senior financing securities at amortised cost – SME	**50,363**
Item 40 b) Loans to customers	1,637,864
To be deducted:	
Loans to customers	(1,288,111)
Senior Financing securities	(299,390)
Senior financing securities at amortised cost – Senior Financing	**299,390**
Item 40 b) Loans to customers	1,637,864
To be deducted:	
Loans to customers	(1,288,111)
SME Securities	(50,363)
Property and equipment and intangible assets	**66,199**
Item 90. Property and equipment	25,395
Item 100. Intangible assets	40,804
Tax assets	**37,061**
Item 110. Tax assets	37,061
Other assets	**804,787**
Item 10. Cash and cash equivalents	772,125
Item 130. Other assets	32,662
Total assets	**3,025,222**

Liability items and net equity	Balance as of 31/12/2019
Amounts due to banks	**376,747**
Item 10 a) Due to banks	376,747
Amounts due to customers	**1,985,145**
Item 10 b) Due to customers	1,985,145
Securities issued	**15,358**
Item 10 c) Debt securities issued	15,358
Tax liabilities	**770**
Item 60. Tax liabilities	770
Other liabilities	**102,747**
Item 80. Other Liabilities	100,568
Item 90 Employee severance pay	1,097
Item 100. Allowances for risks and charges	1,082
Shareholders' equity	**544,455**
Capital and reserves:	
Item 120. Valuation reserves	939
Item 150. Reserves	36,188
Item 160. Share premium	480,156
Item 170. Share capital	43,408
Item 180. Treasury shares (-)	(96)
Item 200. Profit (loss) for financial year(+/-)	(16,140)
Total of liabilities and net equity	**3,025,222**

Reclassified consolidated income statement

Income Statement items	2019
Interest margin	**48,034**
Item 10. interest income and similar income	62,673
Item 20. interest expenses and similar charges	(14,639)
Net fee and commission income	**6,620**
Item 40. Fee and commission income	11,578
Item 50. Fee and commission expense	(4,957)
Gains/losses on financial assets and liabilities	**10,272**
Item 80. Profits (losses) on trading	111
Item 100. Profits (losses) from disposal or repurchase	10,673
Item 110. Profits (loss) on other financial assets and liabilities measured at fair value	(512)
Other operating expenses and income	**1,919**
Item 140. Profits (losses) on changes in contracts without derecognition	(1)
Item 230. Other operating income/expenses	2,952
To be deducted:	
Reclassification of recovery of other operating charges/income to Other administrative expenses	(1,033)
Item 280. Profits (losses) from disposal of investments	-
Total net operating income	**66,845**
Item 130. Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost, of which:	(6,672)
Net write-downs/write-backs for credit risk - HTC Banks	(189)
Net write-downs/write-backs for credit risk - HTC Clients	(6,483)
Net write-downs/write-backs for credit risk - HTCS	**4**
Item 130. Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through other comprehensive income	4
Net write-downs/write-backs for commitments and guarantees	**(480)**
Item 200. Net provisions for risks and charges: a) commitments and guarantees given	(480)
Total net write-downs/write-backs	**(7,148)**
Net result of banking operations	**59,697**
Personnel costs	**(31,067)**
Item 190. Administrative costs: a) Personnel expenses	(30,864)
Reclassification of HR expenses from other administrative costs	(203)
Other administrative costs	**(53,928)**
Item 190. Administrative costs: b) Other administrative expenses	(55,164)
Reclassification of HR expenses to personnel expenses	203
Reclassification of other operating charges/income to other charges/income	1,033
Net write-downs/write-backs on property and equipment and intangible assets	**(3,147)**
Item 210. Net value adjustments/write-backs on Property and equipment	(2,018)
Item 220. Net value adjustments/write-backs on intangible assets	(1,129)
Operating expenses	**(88,142)**
Other net provisions	(62)
Item 200. Net provisions for risks and charges: b) other net provisions	(62)
Profit (loss) from operations before taxes	**(28,507)**
Income taxes	12,367
Item 300. Income taxes for the financial year on current operations	12,367
Profit (Loss) for the financial year	**(16,140)**

Certificate of the Consolidated Financial Statements

pursuant to article 154 bis of the Italian Civil Code 58/1998
at 31 December 2019

Certificate of the consolidated financial statements pursuant to Article 154 bis of Legislative Decree 58/1998

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures used to draft the consolidated financial statements during financial year 2019.

2. The adequacy of the administrative and accounting procedures used to draft the consolidated financial statements as of 31 December 2019 is checked according to an internally defined model that refers to the principles of the "*Internal Control–Integrated Framework*" (CoSO) and the "*Control Objective for IT and related Technologies*" (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.

3. We can also certify that:

3.1 the consolidated financial statements:

a) a) was drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) N° 1606/2002 of the European Parliament and Council, of 19 July 2002;

b) corresponds to the accounting records;

c) is capable of providing a true and correct representation of the issuer's balance sheet, income statement and financial position.

3.2 The report on operations includes a reliable analysis of the progress and results of operations as well as the issuer's situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Milan, 05 March 2020

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

Report of the Independent Auditors

pursuant to article 154 bis of the Italian Civil
Code 58/1998
at 31 December 2019

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the illimity Bank Group (the "group"), which comprise the balance sheet as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the illimity Bank Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of illimity Bank S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets measured at amortised cost

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost" paragraph A.2.16 "Other information - Purchased or originated credit-impaired financial assets (POCI)"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet": Section 4 "Financial assets measured at amortised cost - Item 40"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 8 "Net losses/recoveries for credit risk - Item 130"

Notes to the consolidated financial statements "Part E - Information on risks andrelated hedging policies": paragraph 1.1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Loans and receivables with customers recognised under financial assets at amortised cost totalled €1,637.9 million at 31 December 2019, accounting for 54.1% of total assets. Loans and receivables with customers of the "*Distressed Credit Investment & Servicing* Division" include purchased *non-performing* exposures (€667.0 million) and *"Senior financing"* (€341.0 million). Loans and receivables with customers of the "SME Division" include amounts relating to *"Crossover and Acquisition Finance"* transactions (€177.8 million), *"Factoring"* transactions (€134.6 million), *"Turnaround"* transactions (€131.5 million) and the business previously carried out by Banca Interprovinciale S.p.A. (€186.1 million). Net impairment losses on loans and receivables with customers recognised during the year totalled €6.5 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement	Our audit procedures included: — gaining an understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (*staging*); analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures

Key audit matter	Audit procedures addressing the key audit matter
or purchase. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the business plans and related regular updates (especially in relation to the POCI exposures), the existence of any indicators of impairment, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the parent's and group companies' customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	with the assistance of experts of the KPMG network; — selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls in relation to the regular updating of the business plans on which basis the POCI exposures are measured; — for a sample of POCI exposures, checking the underlying business plans and the cash flow backtesting by tracing the business plan figures to the actual collections; — analysing the significant changes in the categories of loans and receivables with customers and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets measured at amortised cost.

Measurement of goodwill

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet": Section 10 "Intangible assets - Item 100"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 15 "Net adjustments/recoveries on intangible assets - Item 220"

Key audit matter	Audit procedures addressing the key audit matter
Following the acquisition of Banca Interprovinciale S.p.A., the SPAXS Group recorded goodwill of €21.6 million in its consolidated financial statements at 31 December 2018. As a result of the reverse merger between SPAXS S.p.A. and Banca Interprovinciale S.p.A. (which then changed its name to illimity Bank S.p.A.) that took place on 5 March 2019, the group's consolidated financial statements at 31 December 2019 show such goodwill. As disclosed in the notes, in accordance with IFRS 3, the directors allocated goodwill to the sole cash-generating unit ("CGU") they identified, which is the entire parent. The directors tested the reporting-date carrying amount of goodwill for *impairment* by comparing the carrying amount of the CGU to which goodwill is allocated to its recoverable amount. The directors estimated the recoverable amount based on value in use calculated using the discounted cash flow model. Testing goodwill for *impairment* requires complex valuations and a high level of judgement, especially in relation to: — the expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of group's sector and the directors' forecasts about its future performance;	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the parent's directors; — gaining an understanding of the process used to draft the group's long-term plan approved by the parent's directors; — assessing the key assumptions used by the parent's directors to determine the CGU's value in use. Our assessment included checking the consistency of the method adopted with that used in the previous year and comparing the key assumptions used to external information, where available; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for *impairment* testing; — assessing the appropriateness of the disclosures about goodwill and the related *impairment* test.

Key audit matter	Audit procedures addressing the key audit matter
— the financial parameters to be used to discount the cash flows. For the above reasons, we believe that the measurement of goodwill is a key audit matter.	

Sale of debt instruments classified at amortised cost

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet": Section 4 "Financial assets measured at amortised cost - Item 40"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 6 "Profits (Losses) on disposal/repurchase – Item 100"

Key audit matter	Audit procedures addressing the key audit matter
At 30 September 2019, the parent held Italian government bonds classified at amortised cost, which its treasury unit managed as part of a hold to collect (HTC) business model. They totalled €103.3 million and accounted for 5.3% of total assets at that date. During 2019, the parent's directors resolved to discontinue the treasury unit's HTC investment strategy and to sell the related securities. The parent realised a gross gain of €7.7 million on such sale. The directors have provided the disclosures about the discontinuance of the treasury unit's HTC investment strategy and related effects in the notes. For the above reasons, we believe that the sale of the debt securities classified at amortised cost is a key audit matter.	Our audit procedures included: — gaining an understanding of the process used to manage and monitor the securities portfolios by the different *business units* and, especially, by the parent's treasury unit; — reading the *governance* bodies' resolutions supporting the decision-making and authorisation process; — checking the consistency of accounting treatment applied to the sale of government bonds with IFRS 9; — checking the accuracy of the accounting entries; — assessing the appropriateness of the disclosures about the sale of debt instruments classified at amortised cost.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 17 December 2018, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 16 March 2020

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

Annual Report and Financial Statements for illimity Bank

Report on Operations

as of 31 December 2019

MANAGEMENT REPORT AS OF 31 DECEMBER 2019

This Management Report illustrates the performance and the related 2019 financial results of illimity Bank S.p.A. ("illimity" or the "Bank").

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 2019.

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 *Small/Medium Enterprises* ("SME"), *Distressed Credit Investment & Servicing* ("DCIS") and *Direct Banking & Digital Operations ("DDO")*divisions.

Each Operating Division has been extensively described in the Consolidated Management Report, to which reference is made.

BANK BRANCHES AND OFFICES

The Bank's branches and offices are as follows:

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

HUMAN RESOURCES

On 31 December 2019 the Bank's registered employees were 296 (138 on 31 December 2018). A breakdown of the workforce is given below, divided by job level:

Employees by job level			
Job level	No. of employees		Average
	Absolute values	in %	age
Other employees	88	30%	32
Middle managers	168	57%	37
Managers	40	13%	46
Total	**296**	**100%**	**38**

RELATIONS WITH SUBSIDIARIES

Equity investments: information on shareholdings				
Name	Head office	Operational headquarters	Shareholding %	Votes %
A. Subsidiaries held with sole control				
Soperga RE S.r.l.	Milan	Milan	100%	100%
Friuli LeaseCo S.r.l.	Milan	Milan	100%	100%
Doria LeaseCo S.r.l.	Milan	Milan	100%	100%
River LeaseCo S.r.l.	Milan	Milan	100%	100%
Neprix S.r.l.	Milan	Milan	100%	100%
illimity SGR S.p.A.	Milan	Milan	100%	100%
Pitti LeaseCo S.r.l.	Milan	Milan	100%	100%
B. Subsidiaries held with joint control				
N/A				
C. Companies under significant influence				
N/A				

(Amounts in thousands of euros)

Significant shareholdings: book values, fair values and dividends received			
Name	Book value	Fair value	Dividends received
A. Subsidiaries held with sole control			
Soperga RE S.r.l.	10	N/A	–
Friuli LeaseCo S.r.l.	10	N/A	–
Doria LeaseCo S.r.l.	10	N/A	–
River LeaseCo S.r.l.	10	N/A	–
Neprix S.r.l.	29	N/A	–
illimity SGR S.p.A.	1,000	N/A	–
Pitti LeaseCo S.r.l.	10	N/A	–
B. Subsidiaries held with joint control			
N/A			
C. Companies under significant influence			
N/A			
Total	**1,079**	**N/A**	**–**

Significant shareholdings: accounting information

(Amounts in thousands of euros)

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Value adjustments/write-backs on material and intangible assets	Profit (loss) from current operations (before taxes)	Profit (loss) from current operations (after taxes)	Profit (loss) (+/-) from assets held for sale (after taxes)	Profit (loss) for the period (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1) + (2)
A. Subsidiaries held with sole control														
Soperga RE S.r.l.	-	13	323	-	329	-	-	-	-	-	-	-	-	-
Friuli LeaseCo S.r.l.	-	277	52	-	323	-	-	-	(4)	(4)	-	(4)	-	(4)
Doria LeaseCo S.r.l.	-	396	472	-	860	-	-	-	(2)	(2)	-	(2)	-	(2)
River LeaseCo S.r.l.	-	440	79	-	511	-	-	-	(2)	(2)	-	(2)	-	(2)
Neprix S.r.l.	-	232	4,344	218	4,319	-	(2)	-	30	1	-	1	-	1
illimity SGR S.p.A.	-	988	34	-	34	-	-	-	(16)	(12)	-	(12)	-	(12)
Pitti LeaseCo S.r.l.	-	81	83	-	156	-	-	-	(2)	(2)	-	(2)	-	(2)
B. Subsidiaries held with joint control														
N/A														
C. Companies under significant influence														
N/A														

MACROECONOMIC SCENARIO

The macroeconomic scenario has been described in the Consolidated management report, to which reference is made.

SIGNIFICANT EVENTS IN 2019

The main significant events in 2019 were dealt with in the Consolidated Management Report, to which reference is made. A brief summary is given below:

- 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.
- 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 conditional share 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 Stock Exchange (CONSOB) granted authorisation for the publication of the Statement on 1 March 2019. In the process of completing the merger, all shares of Banca Interprovinciale S.p.A. were cancelled and replaced with newly issued shares of illimity.
- 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.
- 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.
- In May 2019, the IT migration process from the *dall'outsourcer* Consorzio Servizi Bancari (hereinafter "CSE") to the new *provider* Sella Technology Solutions S.p.A. ("STS"), recently renamed Centrico, was completed. Consequently, the agreement with CSE was terminated in advance.
- On 20 September 2019, holders of Conditional Share Rights were assigned 5,698,551 new-issue illimity conversion shares, having the same characteristics as the Ordinary Shares, for every five Conditional Share Rights held; at the same time, 28,492,827 Conditional Share Rights were cancelled.
- On 27 September 2019, illimity completed a "*Euro Medium Term Note*"(EMTN) issue programme for a maximum of 3 billion euros, exclusively for qualified investors and listed on the Dublin Stock Exchange (Ireland). illimity may issue debt instruments reserved for institutional customers, with this programme.
- On 16 October 2019, illimity was recognised by the *European Financial Management Association* ("Efma") as the best new bank and specialised *player* on a global scale. At one year from its foundation and a month from the launch of the digital direct bank, *illimitybank.com*, illimity has gained a reputation on the market as a new kind of bank, conceived to be a fully comprehensive bank for a latest-generation *user experience*, in line with the ease of use to which *tech players* from different sectors have accustomed users.

ALTERNATIVE PERFORMANCE INDICATORS AS OF 31 DECEMBER 2019

The main indicators of the Bank are presented below. The data of the previous year, referring to Banca Interprovinciale, is not reported, as it is not significant for comparison purposes.
These measures below, although not contemplated by IFRS/IAS, are provided in compliance with indications in CONSOB Communication no. 6064293 of 28 July 2006 and the ESMA Recommendation on alternative performance measures.

(Amounts in thousands of euros)

ECONOMIC INDICATORS	2019
Total net operating income	53,638
Total net write-downs/write-backs	158
Net result of banking operations	53,796
Operating expenses	(82,935)
Profit (loss) from operations before taxes	(29,201)
Profit (Loss) for the financial year	(16,840)

STRUCTURAL INDICATORS	31/12/2019
Shareholders' equity/Total Liability	18.0%
Interbank Funding/Total Funding	14.9%
Liquidity coverage ratio	>1000%
Net Stable Funding Ratio	130%
Net loans with customers/Total assets	42.8%
Customer funding/ Total Liability	68.1%

CAPITAL RATIOS	31/12/2019
Tier I capital ratio (Tier I capital/Total weighted assets)	21.54%
Total capital ratio [(Regulatory capital + Tier II)/Total weighted assets]	21.54%
Own Funds	462,136
of which: Tier I capital	462,136
Risk-weighted assets	2,145,729

For details on the construction logic of the alternative performance indicators shown in the tables above, please refer to the same section of the Consolidated Report on operations.

RECLASSIFIED STATEMENTS OF THE BANK

This Management Report has been prepared on the basis of tables in the Bank of Italy Circular No. 262 of 22 December 2005 as amended.

In this document, the mandatory financial statements have been reclassified according to a managerial approach better suited to representing the 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. Therefore, this Management Report includes a reconciliation between the financial statements presented and the mandatory financial reporting format laid down in Bank of Italy Circular No. 262, whose values converge in the items of the reclassified financial statements.

Reconciliation with the items of the mandatory financial statements aids in reclassification of the items in question, but above all facilitates the understanding of the criteria adopted in constructing the Management 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 material 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.

Reclassified balance sheet

(Amounts in thousands of euros)

Components of official items of the Balance Sheet	Assets	31/12/2019
20 a) + 30	Treasury portfolio - Securities at FV	125,852
20 b)	Treasury portfolio - Securities at amortised cost	–
20 c)	Financial assets mandatorily measured at fair value	8,602
40 a)	Due from Banks	344,858
40 b)	Loans to customers	704,476
40 b)	Securities at amortised cost – SPV	592,195
40 b)	Securities at amortised cost – SME	50,363
40 b)	*Senior Financing* securities at amortised cost	299,390
70	Shareholdings – subsidiaries	1,079
80 + 90	Property and equipment and intangible assets	63,358
100	Tax assets	36,955
10 + 120	Other assets	801,621
	of which: Cash and cash equivalents	*772,125*
	Total assets	**3,028,749**

(Amounts in thousands of euros)

Components of official items of the Balance Sheet	Liabilities	31/12/2019
10 a)	Amounts due to banks	364,694
10 b)	Amounts due to customers	2,068,846
10 c)	Debt securities issued	15,358
60	Tax liabilities	655
80 + 90 + 100	Other liabilities	34,628
110 + 140 + 150 + 160 + 170 + 180	Shareholders' equity	544,568
	Total liabilities and shareholders' equity	**3,028,749**

Reclassified income statement

(Amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	2019
10 + 20	Interest margin	30,495
40 + 50	Net fee and commission income	10,378
80 + 100 + 110	Gains/losses on financial assets and liabilities	10,273
140 + 200 + 250	Other operating expenses and income	2,492
	Operational total income	**53,638**
130 a)	Net write-downs/write-backs for credit risk - HTC Banks	(189)
130 a)	Net write-downs/write-backs for credit risk - HTC Clients	823
130 b)	Net write-downs/write-backs for credit risk - HTCS	4
170 a)	Net write-downs/write-backs for commitments and guarantees	(480)
	Total net write-downs/write-backs	**158**
	Net result of banking operations	**53,796**
160 a)	Personnel costs	(29,429)
160 b)	Other administrative costs	(50,394)
180 + 190	Net write-downs/write-backs on property and equipment and intangible assets	(3,112)
	Operating expenses	**(82,935)**
170 b)	Other net provisions	(62)
	Profit (loss) from operations (before taxes)	**(29,201)**
270	Income taxes on current operations	12,361
	Profit (loss) for the year	**(16,840)**

MAIN BALANCE SHEET ITEMS

Given the almost total contribution of the Bank to the consolidated financial statements of the Illimity Group, please refer to the Management Report of the consolidated financial statements for more information on the Key balance sheet aggregates.

CAPITAL ADEQUACY

On 1 January 2014, the new prudential requirements for banks and investment firms came into force, which are contained in Regulation (EU) no. 575/2013 (Capital Requirements Regulation, the so-called CRR) and in Directive 2013/36/EU (Capital Requirements Directive, the so-called CRD IV), which have transposed into the EU the standards set by the Basel Committee on Banking Supervision (Basel 3 Framework). The CRR entered into effect in the Member States directly, whereas the rules laid down in CRD IV were transposed into Italian law by Legislative Decree No. 72 of 12 May 2015, which entered into force on 27 June 2015. Following a public consultation process launched in November, on 17 December 2013 the Bank of Italy published Circular No. 285, "Prudential supervisory regulations for banks", implementing the new 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).

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

(Amounts in thousands of euros)

Capital ratios of illimity Bank	31/12/2019	31/12/2018
Common Equity Tier 1 (CET1) capital	**462,136**	**218,983**
Additional Tier 1 (AT1) capital	**–**	**–**
Tier 2 (T2) capital	**–**	**–**
Total own funds	**462,136**	**218,983**
Credit risk	*167,844*	*38,246*
Credit valuation adjustment risk	*–*	*7*
Settlement risks	*–*	*–*
Market risks	*65*	*1,322*
Operational risk	*3,749*	*2,370*
Other calculation factors	*–*	*–*
Total minimum requirements	**171,658**	**41,945**
Risk-weighted assets	**2,145,729**	**524,315**
Common Equity Tier 1 ratio	**21.54%**	**41.77%**
(Common Equity Tier 1 capital after filters and deductions/ Risk-weighted assets)		
Tier 1 ratio	**21.54%**	**41.77%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**21.54%**	**41.77%**
(Total own funds/Risk-weighted assets)		

CHANGES IN SHAREHOLDERS' EQUITY

On 31 December 2019, shareholders' equity, inclusive of the profit and loss for the period, amounted to approximately 544.6 million euros, an increase compared to the 227.9 million euros at the end of 2018 of Banca Interprovinciale, mainly due to the merger with SPAXS, with tax and accounting effect from 1 January 2019. The result for the year has a negative impact of approximately 16.8 million euros.

(Amounts in thousands of euros)

Items/Technical forms	31/12/2019
1. Share capital	43,408
2. Share premium	480,156
3. Reserves	36,994
4. Equity instruments	–
5. (Treasury shares)	(96)
6. Valuation reserves	945
7. Profit (loss) for the year	(16,840)
Total shareholders' equity	**544,568**

Share capital and ownership structure

As at 31 December 2019 the Bank's share capital amounted to 44,904,333.15 euros, of which 43,407,661.81 euros subscribed and paid in, divided into 65,164,434 ordinary shares and 1,440,000 special shares, without indication of the par value.

On 20 September 2019, in accordance with the provisions of the Regulation on "Conditional Share Rights of illimity S.p.A." (the "Conditional Share Rights") then in force, holders of 28,492,827 Conditional Share Rights outstanding on that date were assigned 5,698,551 new-issue illimity common stock shares (the "Converted Shares"), divided among all holders of Conditional Share Rights according to the ratio of 1 Converted share for every 5 Conditional Share Rights held, resulting in the cancellation of all Conditional Share Rights outstanding on that date.

In accordance with the aforementioned Regulation on Conditional Share Rights, the allocation of the Converted Shares took place without any expression of will on the part of the holders of the Conditional Share Rights and without any change in the size of the share capital.

The Ordinary Shares were admitted to trading on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. on 5 March 2019. Trading of Conditional Share Rights, admitted to trading on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. on 5 March 2019, ended on 17 September 2019, with allocation of the above shares.

The Bank's Special Shares are not traded.

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).

TREASURY SHARES

During the year, the Bank purchased from the Shareholders of Banca Interprovinciale, who did not adhere to the merger between SPAXS and BIP, pursuant to article 2505-bis of the Italian Civil Code, no. 10,554 "treasury shares" at the unit price of EUR 9.09 each, for a value of EUR 95,940, as per the resolution of the Shareholders' Meeting of 18 January 2019.

ECONOMIC RESULTS

Given the almost total contribution of the Bank in the Consolidated Financial Statements, please refer to the Management Report of the Consolidated Financial Statements for more information on the economic results.

Basic and diluted loss per share

The basic loss per share is calculated by dividing the Bank's net loss for the year by the weighted average number of ordinary shares in issue during the year. The diluted loss per share on 31 December 2019 coincides with the basic loss per share.

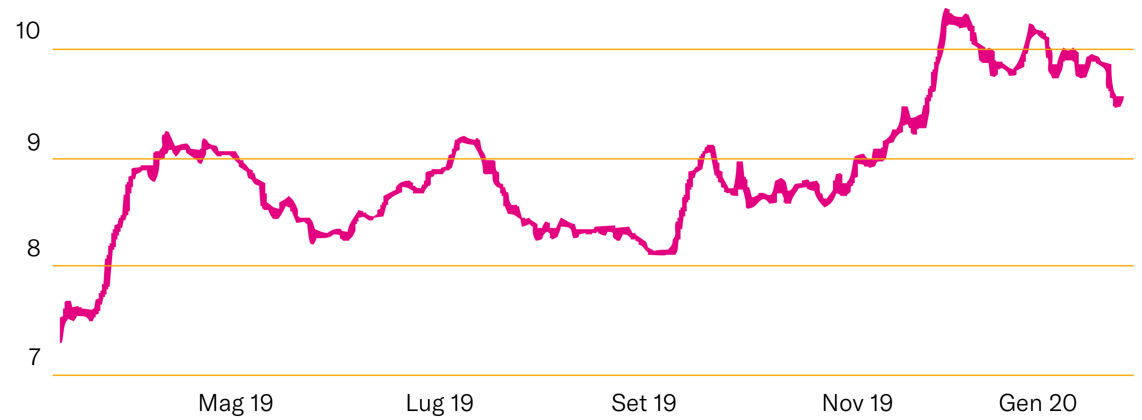
As described previously, on 20 September 2019, holders of the Conditional Share Rights were assigned 5,698,551 new-issue illimity converted shares, having the same characteristics as the Ordinary Shares, and at the same time, 28,492,827 Conditional Share Rights were cancelled. This increase in the number of shares, in keeping with IAS 33 requirements, was considered retroactively as if it had occurred at the start of 2018 (comparison period). Comparative data for the period ended 31 December 2018 were therefore restated.

(Amounts in thousands of euros)

Basic and diluted loss per share	Result for the year	Average number of shares	Basic and diluted loss per share
Period ended 31 December 2019	(16,840)	65,128,632	(0.26)
Period ended 31 December 2018	(29,124)	57,342,876	(0.51)

SHARE PERFORMANCE OF ILLIMITY BANK

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



Based on available information, published by CONSOB, updated on 01 March 2020, the main shareholders of the Bank are as follows:

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

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

MANAGEMENT OF BUSINESS RISKS

For information on the management of business risks, refer to the Management Report of the Consolidated Financial Statements.

MAIN RISKS AND UNCERTAINTIES

For information about the main risks and uncertainties, see the Management Report of the Consolidated Financial Statements.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are mainly governed by article 2391 bis of the Italian Civil Code, according to which the administrative 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 the substantial 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.

For more detail about the operations with related parties and for an examination of the impact of these operations on the financial situation, refer to Part H of the Notes.

ATYPICAL OR NON-ORDINARY TRANSACTIONS

In 2019 the Bank did not carry out any such transactions as defined in the Consob Communication no. 6064293 of 28 July 2006.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank has carried out research activity with a focus on technological innovation of its products and retail channels for customer service, and on optimising the retail network.

Specifically, preliminary research was completed in view of developing processes, competitiveness, the quality of products and services for SMEs, corporate NPLs and the Direct Bank.

With regard to new technologies, in 2019, solutions were considered for the management of *core banking*systems, *cloud* infrastructure and for the development of vertical applications in order to build a modular, open-architecture platform.

Systems based on artificial intelligence and *machine learning* were also evaluated and implemented, in order to provide private customers with a new way of interacting on digital channels, while for the NPLs and SMEs, semantic *big data* and *machine learning* models were developed to improve the efficiency of the documentary and credit process.

For marketing and business communications, research was carried out in various customer segments, in particular Retail, along with developments for the new multichannel Direct Bank strategy, with a simple and innovative *user experience*.

EVENTS AFTER THE REPORTING DATE

Following the agreements reached during 2019, the acquisition by illimity of 70% of the share capital of IT Auction, for 10.5 million euros, by Neprix, an illimity Group company in which all the bank's *distressed* credit management activities are concentrated, was completed on 9 January 2020. The remaining 30% is held by current shareholders, including *top management*, who will remain with the company to implement the industrial plan.

IT Auction, founded in 2011, has more than 100 employees and is specialised in managing and marketing property and capital goods through an innovative *business* model that aims at the transparent enhancement of assets through *online* auctions on its *network* of portals. IT Auction works with over 110 Italian courts and numerous *leasing* companies, and in 2019 managed approximately 17.3 million visits on its own platforms and over 50,000 auctions, for a value of sold goods of approximately 240 million euros, up about 25% compared to the previous year. With the acquisition of IT Auction, Netprix proposes itself as the first operator specialised in *distressed corporate* credit, with a distinctive *end-to-end* logic, thanks to the ability to cover the entire value chain in managing NPL, from acquisition to management and sale on the market of goods connected with these loans, thanks to *core* activities of IT Auction.

On 16 January 2020, illimity signed its first supplementary contract. The agreement reflects the values on which the Bank's mission is founded, based on a new paradigm, born to exploit the potential of companies and individuals by making their projects possible. In defining *welfare*policies, illimity therefore wanted to create an ecosystem that would allow each *illimiter* to express its potential by customising the measures envisaged by an extremely flexible system according to its needs and interests.

On 23 January 2020, illimity announced *partnerships* with two leading insurance market operators, the *Aon* Group (the first group in Italy and worldwide in risk and human resources consulting, insurance and reinsurance mediation) and the*Helvetia* Group (the leading Swiss insurance company in Italy for over 70 years), to expand the offer of the direct digital bank*illimitybank.com*, with value-added services for its customers and non-life insurance products.

In particular, the digital *Tsunami* platform by *Aon*has been integrated into *illimitybank.com*, through which contracts and insurance offers are made available to customers of the bank according to their needs. Moreover, since that date, the first products of *Helvetia* Group are also available on the *Tsunami*platform, which illimity has chosen as a priority *partner* for the digital distribution of non-life insurance products to its customers.

On 23 January 2020, illimity, a high-tech bank listed on the MTA of the Italian Stock Exchange, was recognised as a quality working environment, obtaining the *Great Place to Work*® certification, an organisational consulting company in the*HR*field, *leader* in Italy in the study and analysis of the business climate. This recognition was awarded following a survey, the *Trust Index*©, aimed at all bank employees for the purpose of measuring their perception of the working environment according to different criteria.

On 25 February 2020, the company illimity SGR S.p.A., controlled by illimity Bank, was authorised to provide the collective asset management service referred to in article 34 of Legislative Decree 58 of 24 February 1998.

On 5 March 2020, the Board of Directors of illimity approved an extraordinary transaction for the acquisition of the entire share capital of IT Auction – through the acquisition of the remaining 30%, a stake now held through the vehicle Core Srl essentially by the shareholders who sold 70% to the Bank on the basis of the agreement announced in June 2019, including the top management of the same company – aimed at acquiring total control of the company and proceeding with its full integration into the illimity Banking Group.

MANAGEMENT OUTLOOK, MAIN RISKS AND UNCERTAINTIES

In 2019, the bank's first year of operations, illimity achieved significant results, meeting all the deadlines and strategic objectives set out in the plan. In fact, during the year, the construction of illimity was completed with the launch of the digital direct bank, the establishment of the distressed credit servicing platform – which guaranteed it a distinctive position on the market – and the commissioning of credit activities for SMEs and investment and financing services in distressed loans. The team was also completed, and important business volumes were generated in all the areas in which the bank operates and strategic initiatives were launched in addition to those provided for in the plan. In the light of the objectives achieved, the results obtained and the investments made to complete the structure, the start-up phase that characterised the bank's first year of activity can essentially be said to be concluded.

The year 2020, therefore, opens with a solid starting asset and financial situation and a strong quarterly increase in revenues and profitability is expected.

In particular, interest income is expected to continue to grow quarter over quarter in 2020 thanks to the strong commercial drive in the latter part of 2019, which only partly contributed to revenues for the year just ended.

The success of the digital direct *illimitybank.com*, which in 2019 raised 731 million euro in deposits, mainly medium and long term, has enabled part of the long-term *retail* collection plan planned for 2020 to be brought forward to the fourth quarter; therefore, a modest quarterly increase in interest expense is expected in the future.

With the team, systems and operational resources already in place, operational execution is also expected to become progressively more visible over the course of 2020.

ALLOCATION OF LOSS FOR THE YEAR

The Board of Directors submits the following proposal for a resolution to the Meeting.

PROPOSAL

"The Meeting of illimity Bank S.p.A.,

- examined the draft financial statements for the year ended 31 December 2019 of the Company, accompanied by the annexes and documentation required by law, as well as assessed the consolidated financial statements of the Group as of 31 December 2019;
- having examined the results of said draft financial statements, which close with a loss for the year of 16,840,115 euros;
- having regard to the report of the Board of Directors on operations as of 31 December 2019;
- having taken note of the respective reports drawn up by the Board of Statutory Auditors and the Company responsible for the statutory audit of the accounts of KPMG S.p.A.,

RESOLVES

- to approve the financial statements of illimity Bank S.p.A., accompanied by the report of the Board of Directors on operations, which show a loss for the year of 16,840,115 euros;
- to approve the proposal to fully carry forward the loss, therefore for 16,840,115 euros."

Milan, 05 March 2020

On behalf of the Board of Directors
President, Rosalba Casiraghi
Signature

Financial Statements

as of 31 December 2019

BALANCE SHEET

Assets		31/12/2019	31/12/2018
10.	Cash and cash equivalents	772,124,903	68,087,699
20.	Financial assets measured at fair value through profit or loss	8,665,751	29,349,907
	a) financial assets held for trading	63,431	29,251,231
	b) financial assets designated at fair value	–	–
	c) other financial assets mandatorily measured at fair value	8,602,321	98,676
30.	Financial assets measured at fair value through other comprehensive income	125,788,333	107,804,683
40.	Financial assets measured at amortised cost	1,991,281,099	668,880,629
	a) due from banks	344,857,962	55,869,278
	b) loans to customers	1,646,423,138	613,011,351
50.	Hedging derivatives	–	–
60.	Fair value change of financial assets in hedged portfolios (+/-)	–	–
70.	Equity investments	1,079,269	10,000
80.	Property and equipment	22,846,340	2,463,521
90.	Intangible assets	40,511,239	270,283
	of which:		
	– goodwill	21,643,000	–
100.	Tax assets	36,955,140	15,724,112
	a) current	5,126,848	1,971,826
	b) deferred	31,828,292	13,752,286
110.	Non-current assets held for sale and discontinued operations	–	–
120.	Other assets	29,496,729	16,441,581
	Total assets	**3,028,748,805**	**909,032,415**

(cont'd) BALANCE SHEET

Liabilities and shareholders' equity		31/12/2019	31/12/2018
10.	Financial liabilities measured at amortised cost	2,448,897,845	648,733,013
	a) due to banks	364,693,692	93,062,999
	b) due to customers	2,068,845,905	474,257,088
	c) debt securities issued	15,358,248	81,412,926
20.	Financial liabilities held for trading	–	–
30.	Financial liabilities designated at fair value	–	–
40.	Hedging derivatives	–	–
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	–	–
60.	Tax liabilities	654,764	90,108
	a) current	–	–
	b) deferred	654,764	90,108
70.	Liabilities associated with non-current assets held for sale and discontinued operations	–	–
80.	Other liabilities	32,487,292	28,899,022
90.	Employee severance pay	1,058,971	574,930
100.	Allowances for risks and charges	1,082,093	2,855,147
	a) commitments and guarantees given	598,316	119,169
	b) post-employment benefits	–	–
	c) other allowances for risks and charges	483,777	2,735,978
110.	Valuation reserves	945,404	(961,377)
	of which related to terminated operations	–	–
120.	Redeemable shares	–	–
130.	Equity instruments	–	–
140.	Reserves	36,993,978	214,589,011
	of which interim dividends	–	–
150.	Share premium reserve	480,156,446	–
160.	Share capital	43,407,662	43,377,000
170.	Treasury shares (-)	(95,534)	–
180.	Net income (loss) (+/-)	(16,840,115)	(29,124,439)
	Total liabilities and shareholders' equity	**3,028,748,805**	**909,032,415**

INCOME STATEMENT

Items		31/12/2019	31/12/2018
10.	Interest income and similar income	44,006,967	16,528,929
	of which: interest income calculated according to the effective interest method	41,366,910	12,107,791
20.	Interest expenses and similar charges	(13,512,142)	(4,250,004)
30.	**Net interest margin**	**30,494,825**	**12,278,925**
40.	Fee and commission income	11,580,569	4,837,538
50.	Fee and commission expense	(1,203,269)	(643,438)
60.	**Net fee and commission income**	**10,377,301**	**4,194,100**
70.	Dividends and similar income	–	–
80.	Profits (losses) on trading	111,438	(821,747)
90.	Fair value adjustments in hedge accounting	–	–
100.	Profits (losses) on disposal or repurchase of	10,673,606	(14,802,063)
	a) financial assets measured at amortised cost	8,078,310	–
	b) financial assets measured at fair value through other comprehensive income	2,595,296	(14,802,057)
	c) financial liabilities	–	(6)
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	(511,517)	23,190
	a) financial assets and liabilities designated at fair value	–	–
	b) other financial assets mandatorily measured at fair value	(511,517)	23,190
120.	**Net interest and other banking income**	**51,145,654**	**872,405**
130.	Net losses/recoveries for credit risks associated with:	638,366	(7,533,120)
	a) financial assets measured at amortised cost	634,526	(7,424,245)
	b) financial assets measured at fair value through other comprehensive income	3,839	(108,875)
140.	Profits (losses) on changes in contracts without derecognition	(1,137)	–
150.	**Net result from banking activities**	**51,782,882**	**(6,660,715)**
160.	Administrative expenses	(80,856,256)	(31,143,440)
	a) personnel expenses	(29,226,130)	(10,009,868)
	b) other administrative expenses	(51,630,126)	(21,133,572)
170.	Net provisions for risks and charges	(541,579)	(2,648,691)
	a) commitments and guarantees given	(480,041)	(56,297)
	b) other net provisions	(61,538)	(2,592,394)
180.	Net adjustments/recoveries on property and equipment	(2,003,910)	(250,452)
190.	Net adjustments/recoveries on intangible assets	(1,108,263)	(4,969)
200.	Other operating income/expenses	3,525,939	604,014
210.	**Operating expenses**	**(80,984,068)**	**(33,443,538)**
220.	Profits (losses) on equity investments	–	–

(cont'd) INCOME STATEMENT

Items		31/12/2019	31/12/2018
230.	Profits (losses) of fair value valuation of Property and Equipment and intangible assets	–	–
240.	Goodwill impairment	–	–
250.	Profits (losses) on disposal of investments	(152)	(2,363)
260.	**Income (Loss) before tax from continuing operations**	**(29,201,337)**	**(40,106,616)**
270.	Income taxes for the financial year on current operations	12,361,222	10,982,177
280.	**Income (Loss) after tax from continuing operations**	**(16,840,115)**	**(29,124,439)**
290.	Net income (Loss) (+/-) from discontinued operations after taxes	–	–
300.	**Profit (Loss) for the financial year**	**(16,840,115)**	**(29,124,439)**

STATEMENT OF COMPREHENSIVE INCOME

Items		31/12/2019	31/12/2018
10.	**Net profit (loss) (+/-) for the period**	**(16,840,115)**	**(29,124,439)**
	Other comprehensive income, net of taxes, that may not be reclassified to the income statement		
20.	Equity instruments measured at fair through other comprehensive income	2,164	4,800
30.	Financial liabilities designated at fair value through profit or loss (changes in credit rating)	–	–
40.	Hedging of equity instruments measured at fair value through other comprehensive income	–	–
50.	Property and Equipment	–	–
60.	Intangible assets	–	–
70.	Defined-benefit plans	(49,000)	(17,987)
80.	Non-current assets classified as held for sale	–	–
90.	Share of valuation reserves for equity investments measured at equity	–	–
	Other comprehensive income (net of taxes) that may be reclassified to the income statement		
100.	Hedges of foreign investments	–	–
110.	Foreign exchange differences	–	–
120.	Cash flow hedges	–	–
130.	Hedging instruments (not designated elements)	–	–
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	967,081	(5,332,192)
150.	Non-current assets held for sale and discontinued operations	–	–
160.	Share of valuation reserves connected with investments carried at equity	–	–
170	**Total other comprehensive income (net of tax)**	**920,245**	**(5,345,379)**
180	**Total comprehensive income (Item 10+170)**	**(15,919,871)**	**(34,469,818)**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31/12/2019

	Balance on 31 December 2018	Merger deeds (before taxation and securities adjustment)	Balance on 01 January 2019	Allocation of result for the previous year		Changes in the period										Shareholders' equity at 31/12/2019
							Equity transactions									
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period		
Share capital:	**43,377,000**	-	**43,377,000**	-	-	-	**30,662**	-	-	-	-	-	-	-		**43,407,662**
a) ordinary shares	42,350,711	-	42,350,711	-	-	-	30,662	-	-	87,807	-	-	-	-		42,469,180
b) other shares	1,026,289	-	1,026,289	-	-	-	-	-	-	(87,807)	-	-	-	-		938,482
Share premium reserve	-	508,925,647	508,925,647	(29,124,439)	-	-	355,238									480,156,446
Reserves:	214,589,011	(179,742,569)	34,846,442	-	-	1,150,456	-	467,342	-	-	-	529,738	-	-		36,993,978
a) retained earnings	12,007,404	-	12,007,404	-	-	(467,342)	-	467,342	-	-	-	-	-	-		12,007,404
b) others	202,581,607	(179,742,569)	22,839,038	-	-	1,617,798	-	-	-	-	-	529,738	-	-		24,986,574
Valuation reserves	(961,377)	986,536	25,159	-	-	-	-	-	-	-	-	-	-	920,245		945,404
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
Treasury shares	-	-	-	-	-	-	-	(95,534)	-	-	-	-	-	-		(95,534)
Net profit (loss) (+/-) for the period	**(29,124,439)**	-	**(29,124,439)**	**29,124,439**	-	-	-	-	-	-	-	-	-	**(16,840,115)**		**(16,840,115)**
shareholders' equity	**227,880,195**	**330,169,614**	**558,049,809**	-	-	**1,150,456**	**385,900**	**371,808**	-	-	-	**529,738**	-	**(15,919,871)**		**544,567,840**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31/12/2018

	Balance on 31 December 2018	Merger deeds (before taxation and securities adjustment)	Balance on 01 January 2019	Allocation of result for the previous year		Changes in the period									Shareholders' equity at 31/12/2019
							Equity transactions								
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period	
Share capital:	**43,377,000**	**-**	**43,377,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**43,377,000**
a) ordinary shares	43,377,000	-	43,377,000	-	-	-	-	-	-	-	-	-	-	-	43,377,000
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	-	-	-	-	-	-	-								-
Reserves:	**10,662,284**	**530,113**	**11,192,397**	**3,399,333**	**-**	**200,000,000**	**(2,719)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	214,589,011
a) retained earnings	8,077,958	530,113	8,608,071	3,399,333	-	-	-	-	-	-	-	-	-	-	12,007,404
b) others	2,584,326	-	2,584,326	-	-	200,000,000	(2,719)	-	-	-	-	-	-	-	202,581,607
Valuation reserves	2,631,374	1,752,628	4,384,002	-	-	-	-	-	-	-	-	-	-	(5,345,379)	(961,377)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss) (+/-) for the period	**3,399,333**	**-**	**3,399,333**	**(3,399,333)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(29,124,439)**	**(29,124,439)**
shareholders' equity	**60,069,991**	**2,282,741**	**62,352,732**	**-**	**-**	**200,000,000**	**(2,719)**	**-**	**-**	**-**	**-**	**-**	**-**	**(34,469,818)**	**227,880,195**

STATEMENT OF CASH FLOWS

Indirect method

	Amount	
	31/12/2019	**31/12/2018**
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**(26,672,491)**	**(30,166,850)**
Profit/(Loss) for the period(+/-)	(16,840,115)	(29,124,439)
Gains/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (-/+)	–	821,747
Gains/losses on hedging activities (-/+)	–	–
Net losses/recoveries for credit risk (+/-)	7,936,776	7,533,120
Net value adjustments/write-backs on Property and Equipment and intangible assets(+/-)	3,112,172	311,718
Net allocations to allowances for risks and charges and other costs/income (+/-)	541,579	2,648,691
Taxes, duties and tax credits too be paid/collected (+/-)	(12,361,222)	(10,974,562)
Other adjustments (+/-)	(9,061,681)	(1,383,125)
2. Cash flow generated/absorbed by financial assets	**(1,321,135,351)**	**212,538,019**
Financial assets held for trading	29,187,800	(29,957,702)
Financial assets designated at fair value	–	–
Other financial assets mandatorily measured at fair value	(8,503,645)	–
Financial assets measured at fair value through other comprehensive income	(16,772,298)	445,597,209
Financial assets measured at amortised cost	(1,310,378,780)	(193,969,859)
Other assets	(14,668,428)	(9,131,629)
3. Cash flow generated/absorbed by financial liabilities	**1,764,730,792**	**(139,869,869)**
Financial liabilities measured at amortised cost	1,772,335,788	(350,868,465)
Financial liabilities held for trading	–	–
Financial liabilities measured at fair value	–	–
Other liabilities*	(7,604,996)	210,998,596
Net cash generated/absorbed by operating activities	**416,922,950**	**42,501,300**

(cont'd)

	Amount	
	31/12/2019	31/12/2018
B. INVESTING ACTIVITIES		
1. Cash flows from	**–**	**–**
Sales of equity investments	–	–
Dividends received on equity investments	–	–
Sales of property and equipment	–	–
Sales of intangible assets	–	–
Sales of subsidiaries and business branches	–	–
2. Cash flows used in	**(22,892,127)**	**(1,340,027)**
Purchases of equity investments	(1,063,000)	(10,000)
Purchases of property and equipment	(2,122,908)	(1,061,628)
Purchases of intangible assets	(19,706,219)	(268,399)
Purchases of subsidiaries and business branches	–	–
Net cash generated/absorbed by investing activities	**(22,892,127)**	**(1,340,027)**
C. FINANCING ACTIVITIES		
Issues / Purchases of treasury shares	(95,534)	–
Share capital increases	310,101,915	–
Dividend distribution and other	–	–
Net cash generated/absorbed by financing activities	**310,006,381**	**–**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**704,037,204**	**41,161,273**

Reconciliation

BALANCE SHEET ITEMS	Amount	
	31/12/2019	31/12/2018
Cash and cash equivalents at start of year	**68,087,699**	**26,926,426**
Total and cash equivalents generated/absorbed during the year	704,037,204	41,161,273
Cash and cash equivalents: foreign exchange effect	–	–
Cash and cash equivalents at end of year	**772,124,903**	**68,087,699**

KEY: (+) generated (–) absorbed

* As of 31/12/2018 the payment on account of future capital increase was included in “other liabilities” as it is not yet an effective “issue/purchase of equity instruments”.

Explanatory Notes

as of 31 December 2019

EXPLANATORY NOTES

PART A - ACCOUNTING POLICIES

A.1 GENERAL SECTION

Section 1 – Declaration of compliance with International Financial Reporting Standards

These financial statements have been drafted in application of Legislative Decree no. 38 of 28 February 2005, according to the accounting standards issued by the International Accounting Standards Board (IASB) approved by the European Commission and the interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC), as established by the Community Regulation no. 1606 of 19 July 2002.

In preparing these financial statements, the IAS/IFRS in force as at 31 December 2019 were applied, including the SIC and IFRIC interpretations as harmonised by the European Commission. The line items presented in this report have been valued and measured on the basis of the IAS/IFRS accounting standards issued by the *International Accounting Standards Board* (IASB) and the relevant interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC), as endorsed by the European Commission, in addition to the guidelines laid down in art. no. 9 of Legislative Decree no. 38/05 and article 43 of Legislative Decree no. 136/15.

There were no derogations from the IAS/IFRS.

The Bank of Italy, with reference to the financial statements of banks and financial companies subject to supervision, has established, by circular 262 of 22 December 2005, and successive updates, the financial statements and explanatory notes used for the drafting of these financial statements. The 6th update of the same circular was issued on 30 November 2018, which adjusted the financial statements and explanatory notes to reflect the innovations introduced by IFRS 16 – "*Leases*", homologated with Regulation (EU) 2017/1986 of 31 October 2017, which replaced IAS 17 for the purposes of the treatment of *leasing* transactions in the financial statements from 1 January 2019 (see the paragraph dedicated within Section 4 – Other aspects). The resulting amendments to other international accounting standards, including IAS 40 on investments in property, introduced to ensure the overall consistency of the accounting *framework* are also incorporated.

Except as stated herein – and more broadly described in Paragraph 4.5 below – there are no changes in the Accounting Standards adopted compared to the previous year.

It should be noted that, for comparative purposes, the data of the financial statements of Banca Interprovinciale, now illimity Bank, are shown.

Section 2 – General Drafting Principles

The Financial Statements comprises of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in shareholders' equity, the Cash Flow Statement (drafted with application of the "indirect" method) and the Explanatory Notes. The set of financial statements is also accompanied by the Report on Operations.

In accordance with art. 5 of Legislative Decree no. 38/2005, the financial statements has been drafted using the Euro as the functional currency. The amounts presented in the Bank's financial statements and the Explanatory Notes are stated in thousands of EUR, unless otherwise indicated. Any discrepancies between the figures presented are due solely to rounding.

These financial statements have been prepared with the assumption of business continuity, 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. The valuation criteria adopted are therefore consistent with the business continuity assumption and comply with the principles of competence, relevance and materiality of accounting information and the precedence of economic substance over legal form. These criteria remained unchanged from the previous year.

The financial statements are drafted in accordance with the general principles of IAS 1 and the specific accounting standards endorsed by the European Commission as illustrated in Part A.2 of these Explanatory Notes.

The financial statements have been drafted with clarity and provide a true and accurate picture of the financial situation and economic result of illimity Bank S.p.A.

The general principles used in the preparation of the financial statements are outlined below:

- business continuity: the valuations are made on a going-concern basis;
- matching principle: costs and revenues are recognised in the period in which they accrue in relation to the services received and supplied, regardless of the date of cash settlement;
- consistency of representation: to guarantee the comparability of the data and information in the balance sheet formats and tables, the representation and classification methods are kept the same over time unless they have to be changed to comply with international accounting standards or interpretations, or unless there is a need to make the presentation of data more significant and reliable.
- relevance and aggregation: each major class of items with a similar nature or function is shown separately in the balance sheet and income statement; items with different functions or of different types, if important, are highlighted separately;
- prohibition on set off: a prohibition on set off applies, unless a set-off is provided for or permitted by the international accounting standards or interpretations, or by the Bank of Italy Circular 262 of 22 December 2005 as amended;
- comparison with the previous year: the financial statements and formats show the amounts from the previous year, which may be adapted to ensure that they can be compared;
- the financial statements are prepared on the basis of substance over form and in accordance with the principle of relevance and materiality of information.

The consolidated financial statements to 31 December 2019, which were approved by the Board of Directors on 5 March 2020, are subject to audit by the auditing firm KPMG S.p.A.

Content of the financial statements

1. <u>Balance sheet and income statement</u>
   The balance sheet and income statement consist of items, sub-items and additional details. In the income statement, revenues have been presented without sign, whereas costs have been stated in parentheses.
2. <u>Other comprehensive income statement</u>
   The comprehensive income statement is made up of items that show the changes in value of assets recognised in the year as a contra-entry for the valuation reserves, net of the related tax effect. With Regulation No. 475/2012, the European Commission harmonised various changes to IAS 1, aimed at clarifying the statement of comprehensive income (Other Comprehensive Income - OCI), by grouping items that would not be recycled to the income statement in the future and those that may be recycled to the income statement under certain conditions.
3. <u>Statement of changes in shareholders' equity</u>
   The statement of changes in shareholders' equity shows the breakdown and changes of equity items, including share capital, capital reserves, earnings reserves and the valuation of assets or liabilities and the economic result.
4. <u>Cash flow statement</u>
   The cash flows statement during the reporting year was drafted on the basis of the indirect method, according to which the cash flows from operations are represented by the results for the period, adjusted by the effects of non-monetary operations

The cash flows are divided between those arising from operations, those generated by investment activity and those generated by funding activity.
In the statement, the cash flows generated during the year are indicated without sign, while those absorbed are indicated in brackets.

Content of the Explanatory Notes

The Explanatory Notes include the information required by the IAS and by the Circular of the Bank of Italy no. 262 issued on 22 December 2005, and successive updates applicable to the drafting of these financial statements.

Section 3 – Events subsequent to the balance sheet date

In detail, the Events subsequent to the reporting date are described in the relevant section of the Management Report; in this part of the Notes, it is indicated that in relation to the requirements of IAS 10, subsequent to 31 December 2019 (the reporting date), and until the financial statements were presented to the Board of Directors, no events occurred that would require any rectification of the information as presented.

Section 4 – Other aspects

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

The 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 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. The financial statement, therefore, in keeping with accounting theory and practice mainly reflect the activities of Banca Interprovinciale (hereinafter “BIP”) 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 have also been drafted 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 UCI according to which SPAXS drafted its financial statements as of 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 on 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 (*Business Model Hold to Collect & Sell*) and measured at amortised cost (*Business Model Hold to Collect*) 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 "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 was realigned at the end of the year on 31 December 2019, applying the tax deductibility rules governing impairment losses and losses on loans, for the purposes of IRES, 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.

4.2 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) for the management of property, its valuation and sale on the market, arising from enforcement procedures taken in the process to recover non-performing loans acquired by the DCIS 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 receivables 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 amortised 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.

4.3 Accounting policies applied to the accounting treatment of NPL leasing transactions

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.

In the case in which, instead, an agreement is reached with the debtor for its release from its obligations (for example full and final settlement, *datio in solutum*, etc.) the NPL *leasing* receivable is *derecognised* and the asset is recognised under Tangible Assets, 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.

4.4 Use of estimates and assumptions in drafting the financial statements

In compliance with the requirements of the IFRS framework, the preparation of the consolidated report requires the use of estimates and assumptions that may influence the values stated in the balance sheet and income statement and on the information 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 the preparation of the financial statements. The components in which the use of estimates and assumptions is substantially inherent in determining the book values 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 financial statement may differ, also to a significant degree, from current estimates. Any changes in the estimates are applied prospectively and therefore result in an impact on the income statement in the year which the change occurs as well as that for future years.

4.5 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 - Leasing	January 2016	1 January 2019	31 October 2017	(EU) No 2017/1986 09 November 2017
Prepayment Items 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 2019/237 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 financial report of 31 December 2019. Contracts may be classified in the three following categories:

1. Rental of business and personal use properties;
2. Long-term rental of cars.

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 transitional provisions of the standard, upon first-time adoption, the Bank 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 Bank 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 Bank has decided not to recognise RoU assets and *Lease Liability* 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 have been recognised to shareholders' equity during the first application of the standard; in particular, the first application of the standard according to the selected approach determined an increase:

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

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

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

Assets	31/12/2018 (a)	Impact of IFRS 16 (b)	01/01/2019 C=(a)+(b)
80 Property and Equipment	2,495	14,251	16,746
Total assets	**2,495**	**14,251**	**16,746**

Liability and equity items	31/12/2018 (a)	Impact of IFRS 16 (b)	01/01/2019 C=(a)+(b)
10 Financial liabilities measured at amortised cost	643,976	14,251	658,227
Total of liabilities and shareholders' equity	**643,976**	**14,251**	**658,227**

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.

Reconciliation of lease liabilities	Total
IAS 17 operating lease commitments not discounted on 31/12/2018	23,806
IFRS 16 exceptions to recognition	(142)
For short-term leases	(131)
For low value leases	(11)
Lease Liabilities to recognise in the balance sheet at 01/01/2019 not discounted	**22,429**
FTA RATE discounting effect[1]	(8,178)
IFRS 16 Lease Liabilities on 01/01/2019	**14,251**

1 Average rate 6%.

4.6 IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2019

Documents harmonised by the EU as at 31 December 2019

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date	Notes
Amendments to references to the Framework in IFRSs	March 2018	1 January 2020	29 November 2019	(EU) No 2019/2075 06 December 2019	Early application is permitted
Material Information - Amendments to IFRS 1 and IAS 8	October 2018	1 January 2020	29 November 2019	(EU) No 2019/2104 10 December 2019	Early application is permitted
Reform of the reference indices for determining interest rates - Amendments to IFRS 9, IAS 39 and IFRS 7	September 2019	1 January 2020	15 January 2020	(EU) No 2020/34 16 January 2020	Early application is permitted

4.7 IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2019

Documents NOT yet endorsed by the EU as of 31 December 2019

These documents will only apply after they have been harmonised by the EU.

Document title	Date issued by IASB	Date of entry into force of the IASB document	Date of expected approval by the EU
Standards			
IFRS 17 Insurance Contracts	May 2017	1 January 2021*	TBD
Amendments			
Definition of business (Amendments to IFRS 3)	October 2018	1 January 2020	Q1 2020

* It should be noted that in June 2019, the IASB published an exposure draft that includes some amendments to IFRS 17 and the deferral of the entry into force of the new accounting standard to 1 January 2022.

4.8 IFRS endorsed as of 31 December 2019 with application after 2019

In 2019, the following Regulations (applicable from 1 January 2020) were approved:

- Regulation no. 2075/2019: with the regulation of 29 November 2019, applicable as of 1 January 2020, some amendments to IFRS relating to the references to the "*Conceptual Framework*" have been implemented. The amendments aim to update the references to the previous frameworks in different Accounting Standards and interpretations, replacing them with references to the conceptual framework revised in March 2018. It should be noted that the *Conceptual Framework* is not an accounting standard and is therefore not subject to approval, while the document in question, precisely because it amends some IAS/IFRS, is subject to approval.
- Regulation no. 2104/2019: with the regulation of 29 November 2019, applicable as of 1 January 2020, certain amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Standards, changes in accounting estimates and errors were adopted with the aim of clarifying the definition of material information and improving understanding of it. It is pointed out that materiality depends on the nature and relevance of the information or both. The body also verifies whether information, both individually and in combination with other information, is material in the overall context of the financial statements. Some examples are then given in which the information is obscured, for example when dissimilar transactions and/or events are improperly aggregated or when, conversely, similar disaggregated facts are provided. Analogously, the comprehensibility of material information is reduced when it is "hidden" by immaterial information.

With Regulation (EU) No. 2020/34 of 15 January 2020, published in the Official Journal of the European Union of 16 January 2020, the document issued by the IASB on "Reform of reference indices for the determination of interest rates (amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures)" was adopted. This reform of interest rates, which is still ongoing worldwide, has created uncertainty about the timing and amount of future cash flows related to certain financial instruments, with the consequent risk of having to discontinue the hedging relationships designated in accordance with IAS 39 or IFRS 9. According to the IASB, discontinuing hedging relationships due to these uncertainties does not provide useful information to users of the financial statements, therefore it introduced specific amendments to IAS 39, IFRS 9 and IFRS 7, which provide for derogations during the period of uncertainty.

The IASB, therefore, amended IFRS 9, IAS 39 and IFRS 7 to allow entities not to interrupt hedging transactions until the reform of the indices for calculating interest rates has been completed. In particular, temporary derogations have been introduced to the application of the specific hedge accounting provisions of IFRS 9 and IAS 39, which are obliged to be applied to all hedge transactions directly affected by the reform of the interest rate indices.

Amendments shall apply retrospectively with effect from financial statements starting on or after 1 January 2020, and early application shall be permitted.

A.2 SECTION ON THE MAIN FINANCIAL STATEMENTS ITEMS

This section presents the accounting standards used for the drafting of the financial statements of 31 December 2019 with reference to the classification, recognition, valuation and derecognition of the various asset and liability items, and for the methods used for the recognition of costs and revenues.

1. Financial assets measured at fair value through profit or loss

This category of financial assets measured at fair value through profit or loss (FVTPL) includes Financial assets that cannot be qualified as Financial assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. This item therefore includes:

- financial assets held for trading, which are essentially debt and capital instruments, for which there is a short-term profit-making strategy;
- financial assets with obligatory *fair value* measurement, represented by the Financial assets which do not meet the requirements for valuation at amortised cost or *fair value* through other comprehensive income. These are assets for which the contractual terms do not provide only for reimbursement of capital and payment of interest on the amount of capital to be returned (failed "*SPPI test*"), or which are not held in the framework of a business model whose objective is the possession of assets for the purpose of collecting contractual cash flows (*Business model "Hold to Collect"*), or whose objective is achieved through the collection of contractual cash flows and the selling of financial assets ("Hold to Collect and Sell" business model);
- financial assets designated at fair value, namely financial assets which are thus defined at the time of first recognition, where the requirements are met. An entity can irrevocably designate, on recognition, a financial asset as being measured at fair value through profit or loss if, and only if, by so doing it would eliminate or significantly reduce an inconsistency in valuation.

This item also includes derivatives, which are recognised among financial assets held for trading, which are represented as assets if the fair value is positive, and as a liability if the fair value is negative. It is observed that it is possible to offset the current positive and negative values from transactions with the same counterparty only if there is currently a legal right to offset the recognised amounts, and where there is an intention to settle the offset positions on a net basis. Derivatives also include those incorporated in complex financial contracts – in which the primary contract is a financial liability – which have been recognised separately, as:

- their economic characteristics and risks are not closely correlated to the characteristics of the underlying contract;
- the incorporated instruments, even if separate, meet the definition of derivative;
- the hybrid instruments they belong to are not measured at *fair value* with the related changes recognised on the income statement.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be infrequent, the financial assets may be reclassified from the category of assets valued at fair value with impace on income statement to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets valued at *fair value* through other comprehensive income). The transfer value is represented by the *fair value* at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In this case, the effective interest rate of the reclassified asset is determined on the basis of its *fair value* on the reclassification date. That date is taken to be the date of first recognition, for the allocation in various stages of credit risk (*stage assignment*) for *impairment* purposes.

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives. On the date of first recognition, financial assets valued at *fair value* through profit or loss are recorded at *fair value* without considering the costs or income of settlement which are immediately accounted for even though they are directly attributable to the instrument itself.

Following first recognition, financial assets measured at fair value through profit or loss are measured at fair value and the effects of applying this valuation principle are charged to the income statement. To determine the fair value of financial instruments listed on an active market, market prices are used. Without an active market, the commonly-adopted estimation and valuation models are used, which take into account all the risk factors related to the instruments and are based on observable market data, such as: (i) methods based on the valuation of listed instruments with similar characteristics; (ii) discounted cash flow calculations, models for determining the option prices; (iii) recorded values of recent comparable transactions.

Financial assets are eliminated from the balance sheet when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised on the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Realised gains and losses on disposal or redemption and unrealised gains and losses arising from changes in the fair value of financial assets held for trading are recorded in the income statement under the item "Net trading result".

The accounting treatment of financial assets obligatorily measured at fair value or designated at fair value is similar to that of "Financial assets held for trading", with the recording of profits or losses, realised and measured, under the item "Net result of other financial assets and liabilities measured at fair value through profit or loss", respectively under the components "a) financial assets and liabilities designated at fair value" and "b) other financial assets that are compulsorily measured at fair value".

2. Financial assets measured at fair value through other comprehensive income

This category includes financial assets that meet both the following conditions:

- the asset is owned according to a "Hold to Collect and Sell" business model, and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

This item also includes equity instruments not held for trading for which, at the time of first recognition, the option for designation at fair value through other comprehensive income has been exercised.

In particular this item includes:

- debt instruments related to a Hold to Collect and Sell model which have passed the SPPI test;
- shareholder interests that cannot be qualified as controlling, connected or joint control, which are not held for trading purposes, and for which an option for designation at fair value through comprehensive income has been exercised;
- loans connected to a Hold to Collect and Sell model that have passed the SPPI test, including shares in syndicated loans or other types of loan that, from the origin, are destined for sale and which relate to a Hold to Collect and Sell business model.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets.

In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets valued at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In the case of reclassification from this category to the amortised cost category, the cumulative profit or loss recognised in the revaluation reserve is carried as an adjustment to the fair value of the financial asset on the date of reclassification. In the case of reclassification into the category of fair value through profit or loss, the profit or loss that was previously recognised in the revaluation reserve is reclassified from shareholders' equity to the profit or loss for the year.

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the debtor or can be classified under normal internal administration costs.

After initial recognition, assets classified at fair value through other comprehensive income other than equity instruments are valued at fair value and the impacts from application of amortised cost are recognised on the income statement together with the effects of impairment and any foreign exchange effect, while the other profits or losses deriving from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. At the time of total or partial disposal, the profit or loss in the revaluation reserve is reinstated, in full or in part, on the income statement. Subsequent to the initial recognition, therefore, with regard to accrued interest on interest-bearing instruments, they are recorded in the income statement according to the amortised cost criterion in item "Interest and similar income" where positive, or in the item "Interest payable and similar costs" if negative. Profits and losses deriving from changes in fair value are instead recognised in the Statement of comprehensive income and shown in the item "Valuation reserves" of shareholders' equity.

Equity instruments that were classified in this category are valued at fair value and the amounts recognised as a contra-entry of shareholders' equity (Statement of comprehensive income) must not then be transferred to the income statement, not even in the case of disposal (OCI exemption). The only item relating to the equity instruments in question that is recorded on the income statement is the related dividends.

The fair value is determined on the basis of the principles already illustrated, for the Financial assets designated at fair value through profit or loss.

For the equity instruments included in this category not listed on an active market, the cost criterion is used to estimate the fair value only on a secondary basis and limited to a small number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate.

Financial assets designated at fair value through other comprehensive income – in the form of debt or credit instruments – are subject to verification of the significant increase in credit risk (impairment) provided for in IFRS 9, like Assets at amortised cost, and therefore a value adjustment is recognised on the income statement to hedge the expected losses. These sustained losses are recorded in the income statement under the item "Net Adjustments/write-backs for credit risk relating to: b) financial assets measured at fair value through other comprehensive income", offset by the statement of comprehensive income and also shown under the item "Valuation reserves" of shareholders' equity.

Equity instruments are not recognised in the income statement as sustained losses in accordance with IFRS9. Only dividends will be shown in the income statement in the item "Dividends and similar income".

Financial assets are eliminated from the accounts when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits.

Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised on the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows and only those, without a significant delay, to other third parties.

In the case of disposal, profits and losses are recognised in the income statement under the item "Profits/losses on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income".

The amounts deriving from the adjustment made to the book value of financial assets, considered gross of the related adjustments in total value, in order to reflect changes made to contractual cash flows that do not give rise to derecognitions, are recorded in the income statement under the item "Profits/losses from contractual changes without derecognitions"; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised in the item "Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through other comprehensive income".

With regard to equity instruments, in the case of disposal, accumulated profits and losses are recorded under "Reserves".

3. Financial assets measured at amortised cost

This category includes financial assets (in particular, loans and debt instruments) that meet both the following conditions:

- the asset is owned according to a "Hold to Collect" business model, and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

Specifically, this item includes: customer and bank loans, disbursed directly or acquired from third parties, that provide for fixed or determinate payments, which are not listed on an active market and which have not been classified at origin among financial assets measured at *fair value* through other comprehensive income.

The receivables item also includes debt instruments, repos, credits originating from financial leasing operations and securities acquired through subscription or private placement with determinate or determinable payments, which are not listed on active markets.

This category also includes the business-related credits connected to the provision of financial services as defined in the T.U.B. and T.U.F. (for example, for the distribution of financial products and servicing activities).

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets valued at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. The profits or losses resulting from the difference between the amortised cost of the financial asset and its relative fair value are recognised on the income statement in the case of reclassification among Financial assets designated at fair value through profit or loss and Shareholders' equity, in the relevant revaluation reserve, in the case of reclassification among Financial assets designated at fair value through other comprehensive income.

The initial recognition of the financial assets takes place on the date of settlement for debt instruments and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

With particular reference to loans, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down. The loan will be recognised on the basis of its fair value, equal to the amount lent, or the subscription price including the costs or income directly linked to the individual loan and which can be determined from the outset of the operation, even if paid at a later date. This excludes costs that, despite meeting the above conditions, are the subject of reimbursement by the debtor or can be classified under normal internal administration costs.

After first recognition the loans are measured at the amortised cost which is equal to the value of first recognition, reduced or increased by the repayments of capital, the value adjustments and the amortisation – calculated according to the effective interest rate method – of the difference between the amount loaned and the amount repayable on maturity, which is typically linked to the costs and income directly attributable to the individual loan.

The effective interest rate is the rate that discounts the flow of estimated future payments for the expected duration of the loan in order to obtain an accurate net book value at the time of the first recognition, which includes both the transaction costs and revenues directly attributable and also all the payments made or received between the contracting parties. This method of accounting, which uses a financial logic, allows the economic effects of the costs and income to be distributed along the expected residual life of the loan. Accrued interest is shown in the item interest income and similar income where positive, or in the item Interest expenses and similar charges where negative. Any adjustments/write-backs are recorded in the income statement under the item "Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost". In the event of sale, profits and losses are recorded in the income statement under the item "Profits/losses on disposal or repurchase of: a) financial assets measured at amortised cost". The amounts deriving from the adjustment made to the book values of financial assets, considered gross of the related total adjustments, to reflect changes in contractual cash flows that do not give rise to derecognitions, are recorded in the income statement under the item "Profit/loss from contractual changes without derecognition"; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost".

The amortised cost method is not used for loans of a short term for which the effect of applying the discounting method is considered negligible. Those loans are valued at the historic cost. The same valuation principle is used for loans with no definite maturity date, or revolving credit.

The valuation criteria are closely connected to the inclusion of these instruments in one of the three *stages* of credit risk provided for in IFRS 9, the last of which (*stage* 3) includes impaired financial assets and the others (*stage* 1 and 2) include *performing* assets.

With reference to the presentation of these valuations, the value adjustments referring to this type of asset are recorded on the income statement:

- at the time of first recognition, for an amount equal to the loss expected at 12 months;
- at the time of subsequent valuation, if the credit risk has not increased significantly compared to the initial recognition, based on the amounts of the adjustments due to expected losses over the successive twelve months;

- at the time of subsequent valuation, if the credit risk has significantly increased compared to initial recognition, based on the recognition of write-downs for expected losses over the entire residual contractual life of the asset;
- at the time of subsequent valuation, if – after there has been a significant increase in the credit risk compared to initial recognition – the "materiality" of that increase no longer exists in relation to the change in cumulative adjustments to take into account the transition from a loss over the asset's *lifetime*, to one over twelve months.

If the financial assets in question are *performing*, they are subjected to a valuation intended to define the adjustments to be recognised in the financial statements for each loan account (or "*tranche*" of the security), based on the risk parameters: *probability of default* (PD), *loss given default* (LGD) and *exposure at default* (EAD), and are adjusted as necessary to reflect the provisions of IFRS 9.

If, together with a significant increase in the credit risk there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset – classified as impaired, in the same way as all the other relations with the same counterparty – and the current value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the loss recorded on the income statement is defined according to a detailed valuation process, or is determined for identical categories and therefore, is attributed in detail to each position, taking into account forward-looking information and potential alternative recovery scenarios.

Impaired assets include financial instruments that have been given non-performing status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and European regulation.

The expected cash flows take into account the expected recovery times and the presumed realisation value of any guarantees.

The effective original rate of each asset remains unchanged over time, even if there has been a restructuring of the account that led to the change in the contractual rate, and even if the account is not, in practice bearing contractual interest.

If the reasons for the impairment are removed following a subsequent event occurring after the recognition of the change in value, write-backs are made and allocated to the income statement. The writeback may not exceed the amortised cost that the financial instrument would have had without such adjustments having been made.

Write-backs connected to the passage of time are posted in the interest margin.

In some cases, during the life of the financial assets in question and of the loans in particular, the original contractual conditions are then modified by the parties to the contract. If the contractual terms are modified during the life of an instrument, there is a need to check whether the original asset is still to be recognised in the financial statement or needs to be *de-recognised*, and a new financial instrument recognised in its place.

In general, changes to a financial asset lead to its de-recognition and the entry of a new asset, if the changes are substantial. Considerations about whether the changes substantial are based on qualitative and quantitative factors. In some cases it may be clear, without using complex analyses, that the changes have substantially modified the characteristics and/or cash flows of a certain asset while in other cases, additional quantitative analysis has to be done to appreciate the effects of the changes, and to check whether or not to de-recognise the asset and enter a new one.

The quali-quantitative analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty;
  - commercial reasons, designed to "keep" the customer, involve a debtor that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the debtor, and relate to the onerousness off the debt resulting in an economic benefit to the debtor. In general, it is considered that whenever the Bank renegotiates in order to avoid losing the customer, the renegotiations must be considered as substantial because if they did not take place, the customer could obtain finance from another bank, and the Group would see a decline in its expected future revenue;
  - the second type of renegotiation, which is done for "credit risk reasons" (forbearance measures), relates to the Bank's attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits after the changes are not usually substantially transferred, and therefore, the accounting presentation that gives the most relevant information to the reader (apart from what is mentioned below about triggers) is "*modification accounting*" – which implies the recognition on the income statement of the difference between the book value and the discounted value of the modified cash flows, discounted at the original interest rate – and not through *derecognition*;
- the presence of objective elements or triggers that affect the characteristics and/or contractual flows of the financial instrument (including, for example, change of currency, or changes to the type of risk the Bank is exposed to, if it is correlated to equity and commodity criteria), which the *derecognition* is expected to involve considering their impact (expected to be significant) on the original contractual flows.

Financial assets are derecognised only if the disposal resulted in the substantial transfer of all the risks and benefits connected to the assets. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised on the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows and only those, without a significant delay, to other third parties.

As regards the recognition methods of purchased or originated *impaired* Financial assets (so-called POCI) refer to Section 15 – Other Information – Part A of these Explanatory Notes.

4. Hedging operations

As of 31 December 2019 the Group does not hold hedging instruments.

5. Equity investments

This item must include holdings in subsidiaries, affiliated companies and companies subject to joint control (joint ventures) by the Bank.

Companies are considered to be subject to joint control if their control is shared between the Bank and one or more other parties or when the unanimous consent of all the controlling parties is necessary for decisions about significant assets.

Companies are considered to be subject to significant influence (affiliates) if the Bank holds at least 20% of the voting rights (including potential voting rights) or if the Bank has a smaller share of the voting rights but can participate in determining the affiliate's financial and operational policies because of particular legal conditions such as participation in shareholder agreements.

Companies are considered to be subject to control if the Bank is exposed to variable returns or holds rights to such returns due to its relations with the companies, and can simultaneously affect the returns by exercising its power over them.

Control only exists if all the following elements are present simultaneously:

- the power to direct the subsidiary's main activities;
- exposure to, or rights to variable returns, deriving from the relation with the investee company;
- the capacity to exercise its power on the investee company, to influence the amount of its returns.

Investments in subsidiaries and companies subject to significant influence are valued at cost, adjusted as necessary to reflect long-term impairments of value.

For the purposes of the information on equity investments as given in Part B to these Notes, shareholdings are considered significant if their value represents at least 5% of the Equity investments item, or if they are held in fully-consolidated entities.

Equity investments are consolidated using the comprehensive method. Equity investments in affiliates and those in companies subject to joint control are valued using the shareholders' equity method. On each reporting date, any objective evidence that the investment has suffered a loss in value, is verified. The recoverable value will then be calculated by considering the discounted value of the future cash flows that the equity investment could generate, including the final disposal value. If the value thus determined is lower than the book value, it is charged to the income statement for the year in the item "240 Profit (Loss) of equity investments" (valued at net equity). This item also includes any future write-backs if the reasons that led to the previous write-downs no longer exist.

On each financial closing date, the Group assesses whether there are any indications of long-term loss of value of the equity investments.

These indications are external and internal factors such as:

- a decline in the equity investment's market value;
- a change in the environmental conditions in which the subsidiary operates;
- an increase in market rates;
- a decline in the expected performance of the equity investment.

If such indicators do emerge, an impairment test is carried out.

If the carrying value of the equity investments exceeds the recoverable value, they will be written down to reflect the recoverable value. The recoverable value is the higher of the *fair value* of an asset or cash generating unit (CGU) net of the cost of sale or value in use, and is determined for each individual asset, except where that asset generates cash flows that are not largely independent of those generated by other assets or asset groups, in which case the Group will estimate the recoverable value of the CGU to which the asset belongs.

In determining the value in use, the Group discounts at present value the estimated future cash flows using the discount rate that reflects the market valuations of the time value of money and the specific risks of the business.

If the loss of value recognised in previous years no longer exists or has been reduced, a write-back is made on the income statement up to the amount of the value of the cost prior to the write-down.

Equity investments are eliminated from the balance sheet when the contractual rights to the related cash flows expire, or when the investment is sold with a substantial transfer of all the related risks and benefits. The result of the disposal of equity investments valued at shareholders' equity is charged to the income statement in the item "Profit (Loss) of equity investments" (valued at net equity); the result of the disposal of equity investments other than those valued at net equity is charged to the income statement in the item "Profit (losses) on disposal of investments".

As of 31 December 2019, the Group does not hold interests in associated or *joint ventures*.

6. Property and equipment

This item includes Property and equipment for functional use (IAS 16), those held for investment (IAS 40) and inventories of tangible assets (IAS 2). Tangible assets also include leasehold rights of use relating to the use of tangible assets (for the lessee) and operating leasehold assets (for the lessor) under IFRS 16.

This item includes long-term assets held for the purpose of generating income, for leasing or for administration purposes such as land, instrumental real estate, property investments, technical installations, furniture and fittings, tools of any type, and works of art.

Tangible assets also include the costs of improvement to leasehold assets if they can be separated from the assets themselves. If these costs are not independently functional and usable but future benefits are expected, they are entered under "other assets" and are depreciated over the shortest of the foreseeable life of the improvements, and the residual term of the lease. The related depreciation is entered under "Other operating expenses/income". The value of Tangible assets also include any advances paid for acquisition, and the restructuring of any assets not yet included in the production process and therefore not yet the subject of depreciation.

Tangible assets held for the provision of services or for administration purposes are defined as "for use in the business" (IAS 16), while assets "for investment purposes" (IAS 40) are those held to collect leasing charges and/or for the appreciation of the invested capital. Tangible assets constitute inventories (IAS2) where they are held for sale in the normal course of business.

Tangible assets are recognised at the cost of acquisition, adjusted by the ancillary costs and any incremental expenses, and are presented on the financial statements net of any loss of value and depreciation on a straight line basis from the period in which they were input into the production process. Maintenance and repair costs that do not lead to an increase in the value of the assets are charged to the income statement for the period.

Subsequent to initial recognition, tangible assets are recognised at cost net of accumulated depreciation and impairment losses. In fact, tangible assets are systematically amortised, using the straight-line method as the amortisation criterion, over their useful life. The properties are depreciated for a portion deemed appropriate to represent the deterioration of the assets over time as a result of their use, taking into account extraordinary maintenance costs, which increase the value of the assets.

However, the following are not amortised:

- the land, whether acquired individually or incorporated into the value of the buildings, as it has an indefinite useful life;
- investment property that, as required by IAS 40, is valued at fair value with contra party on the income statement, must not be depreciated;

- inventories (IAS 2): these assets are measured at the lesser between cost and the net realisable value.

A tangible asset is eliminated from the balance sheet of the financial and capital situation at the time of disposal, or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any difference between the disposal value or recoverable amount and the book value is then recognised in the income statement respectively under the item "Profits (losses) on disposal of investments" or "Net adjustments/write-backs on tangible assets".

In application of IFRS 16, from the annual reporting period beginning from 1 January 2019 on, the item tangible assets also includes the right of use relating to *leases* on tangible assets. 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: IFRS 16, therefore, applies to all transactions that provide for a right to use the good, regardless of its contractual form. 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.

In accordance with IFRS 16, the Bank shall initially recognise an asset representing the *Right of use* ("ROU") of the leased asset, together with a liability represented by the present value of the expected future lease payments over the life of the *lease* contract (the "*Lease Liability*") discounted at the implicit rate of the transaction (if determinable); if the rate cannot be easily determined, the lessee shall instead use the incremental borrowing rate (*IBR*). The RoU is, therefore, initially determined by increasing the Lease Liability of the initial direct costs incurred by the lessee.

With regard to measurements following the initial recognition of *lease* contracts, the lessee must measure the RoU on the basis of a cost model; therefore:

- 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) and is subject to impairment;
- the liability was progressively reduced due to the effect of the lease payments and the relevant interest expenses have been recognised and attributed separately to the income statement.

For more information on the first application of IFRS 16, see the dedicated paragraph in Section 4 – Other aspects.

Please also refer to the above with reference to the recognition of property arising from enforcement procedures adopted in credit collection activities and the recognition of NPL lease operations.

7. Intangible assets

Non-monetary assets are those identifiable as non-physical assets held to be used over several years or for an indefinite period, are termed intangible. They are generally represented by the software and the rights to use intellectual property, trademarks and other intangible assets. They are recognised at the cost of purchase adjusted for any ancillary costs only if the future economic benefits attributable to the asset are likely to be realised and if the cost of the asset can be reliably determined. Otherwise the cost of the intangible asset is recognised on the income statement in the year in which it was incurred. Intangible assets also include leasehold rights of use relating to the use of intangible assets under IFRS 16.

They are only recognised if the assets can be identified and originate from legal or contractual rights. Otherwise the cost of the intangible asset is recognised on the income statement in the year in which it was incurred. An intangible asset is identifiable if:

- it is separable, in other words it can be separated or de-assembled and sold, transferred, given under licence, leased or exchanged;
- it derives from contractual or other legal rights regardless of whether those rights can be transferred or separated from other rights and obligations.

The asset can be controlled by the company as a result of past events on the assumption that through its use, the company will receive economic benefits. The company has control of an asset if it has the power to use the future economic benefits deriving from that asset and it can also limit access to those benefits by third parties. An intangible asset is recognised as such if:

- it is probable that the company will receive future economic benefits from that asset;
- the cost of the asset can be reliably measured.

The probability that there will be future economic benefits is assessed by representing the best estimate of all the economic conditions that will exist during the useful life of the asset, taking into account the available sources of information at the time of initial recognition.

For assets with a definite life, the cost is amortised on a straight line basis or in decreasing amounts, determined on the basis of the flow of expected future economic benefits from the asset. Assets with an indefinite useful life, if existing, are not systematically amortised but undergo a periodic test to check the adequacy of the recognition value.

If there is any indication that demonstrates that an asset may have suffered an impairment of value, its recovery value is estimated. The amount of the loss, recognised on the income statement in item "Net value adjustments/write-downs/write-backs on intangible assets", is equal to the difference between the asset's book value and its recovery value.

Intangible assets are categorised as goodwill, which is the positive difference between the cost of purchase and the *fair value* of the assets and liabilities belonging to an acquired entity. Whenever there is a loss in value, and in any case at least once a year, a check is carried out to ensure there are no long-term value impairments. For this purpose the CGU to which the goodwill should be allocated, will be identified. The aforementioned unit is the minimum level at which the goodwill is monitored for internal operational purposes, and must not be larger than the operative sector determined in compliance with IFRS 8.

Any reduction in value is determined on the basis of the difference between the recognition value of the goodwill and its recovery value, if lower. The recovery value is equal to the higher of the *fair value* of the CGU, net of any costs of sale, and the related value in use. The value in use is the current value of the future cash flows expected from the CGU to which the goodwill was attributed. Any write-downs are recognised under "Net adjustments/write-backs on intangible assets" in the income statement. The recognition of any subsequent write-backs is not allowed.

In order to verify the adequacy of goodwill value, the impairment test is carried out, governed by accounting standard IAS 36 – Impairment of Assets, which provides that, at least on an annual basis and, in any case, whenever events arise that suggest a potential impairment, a test must be carried out to verify the adequacy of the goodwill value subject to recognition. The impairment test is carried out identifying the units generating financial flows (CGU) to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as value in use), any losses in value must be recorded in the income statement, and are not susceptible to future value recoveries.

The value of limited duration intangible assets is systematically amortised starting from the assets' inclusion in the production process. tangible asset is eliminated from the balance sheet of the financial and capital situation at the time of disposal, or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any difference between the disposal value or recoverable amount and the book value is recognised in the income statement respectively under the item "Profits (losses) on disposal of investments" or "Net adjustments/recoveries on intangible assets".

With reference to the methods of recognition of leases pertaining to intangible assets in accordance with IFRS 16, see the paragraph referring to intangible assets.

8. Non-current assets held for sale and discontinued operations

As of 31 December 2019, the Bank does not hold non-current assets held for sale and discontinued operations, as of the reporting date.

9. Current and deferred taxes

Income taxes, calculated in accordance with current tax regulations, are recognised on the income statement according to the accruals principle, in line with the recognition of the costs and revenues that generated them, apart from those relating to entries debited or credited directly to net equity, for which the recognition of the related taxes is done in net equity, for the sake of consistency. Current and deferred taxes are recognised in the income statement under the item "Income taxes for the year of current operations", with the exception of those taxes that refer to items that are credited or debited, in the same or another year, directly to net equity, such as, for example, those relating to profits or losses on financial assets at fair value through other comprehensive income and those relating to changes in the fair value of financial derivative instruments hedging cash flows, whose changes in value are recognised, net of taxes, directly in the Statement of Comprehensive Income, among the Valuation Reserves.

Provisions for income taxes are determined on the basis of the provision of the current tax burden, the Advance taxes and the deferred taxes.

In general, deferred tax assets and liabilities arise in cases where the deductibility or taxability of the cost or income is deferred with respect to their accounting recognition. Tax assets and deferred tax liabilities are recognised according to the tax rates that, as of the reporting date, are expected to be applicable in the year in which the asset will be realised or the liability will be extinguished, based on current tax legislation and are periodically reviewed in order to take into account any regulatory changes.

Deferred tax assets are recognised only to the extent that they are expected to be recovered through the production of sufficient taxable income by the entity. In accordance with IAS 12, the likelihood of future taxable income sufficient for the use of deferred tax assets is subject to periodic review. If the aforementioned audit reveals that future taxable income is insufficient, the deferred tax assets are correspondingly reduced.

Current and deferred taxes are recognised on the balance sheet in open balances without set-offs, the former being included in “tax assets” and the latter in “tax liabilities”. Any deferred taxes payable on capital reserves under tax suspension are not recognised, as it can reasonably be considered that there will be no operations that will result in their being taxed.

10. Allowances for risks and charges

Commitments and guarantees given

Allowances for risks and charges against commitments and guarantees given are recognised against all commitments and guarantees, revocable and irrevocable, whether they fall within the scope of IFRS 9 or within the scope of IAS 37. For these cases, the same allocation methods are adopted, in principle, between the three *stages* (credit risk stages) and the calculation of expected losses exposed with reference to financial assets measured at amortised cost or *fair value* through other comprehensive income.

post-employment benefits and similar obligations

Pension funds are set up to reflect company agreements and are classified as defined benefit plans. The liabilities relating to these plans and the welfare cost of current workers are determined according to actuarial assumptions, applying the “Unit Credit Projection” method, which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. The contributions paid in each year are considered as separate units and are identified and valued individually for the purposes of determining the final obligation. The discounting rate used is determined according to the market returns recognised on the valuation date, for the obligations of leading companies taking into account the liability's average residual life. The current value of the obligation on the reporting date is also adjusted by the *fair value* of any assets servicing the plan.

Actuarial gains and losses (which are changes in the current value of the obligation deriving from changes in the actuarial assumptions are recognised as counterpart to net equity under the item "Valuation reserves” and shown on the statement of comprehensive income.

Other Allowances

Other provisions for risks and charges include provisions for legal obligations and those relating to employment relations or disputes, including tax disputes, originating from a past event, for which an outlay of financial resources is probable in order to fulfil the obligations, but for which a reliable estimate of the amount cannot be made.

Therefore an allowance is recognised if, and only if:

- there is a current legal or implied obligation resulting from a past event;
- it is probable that funds designated to produce economic benefits will have to be used to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision represents the best estimate of the cost required to fulfil the obligation on the reference date and reflects any risks and uncertainties that characterise multiple events and circumstances.

In cases where the time value of money is a relevant aspect, the amount of the allowance must be discounted at a rate, inclusive of the fiscal effects, which reflects the market valuations of the passage of time on the value of the liabilities and which takes into account the specific risks of the liability itself (IAS 37 - 45.47). The provision and the increases due to the time factor are recorded on the income statement.

The allowance is reversed if the use of funds designed to produce economic benefits is improbable, or when the obligation is discharged. A provision is used only for the charges for which it was originally recorded.

The allocation for the year, recorded under the item "Net allocations to provisions for risks and charges: b) other net provisions” of the income statement, includes increases in provisions due to the passage of time and is net of any adjustments.

This item also includes long-term employee benefits, the cost of which is determined using simplified actuarial criteria compared to those described for the pension funds. Actuarial gains and losses are immediately recognised on the income statement.

11. Financial liabilities measured at amortised cost

This item includes financial instruments, other than trading liabilities and those designated at fair value, representative of the various forms of supply of funds from third parties (loans, repurchase agreements, securities lending and bonds) and includes: (i) amounts due to banks (ii) amounts due to customers and (iii) Securities issued. They are included in the operational payables item, with the exception of those to providers of goods and services, and the *leasing* liabilities.

These financial liabilities are initially recognised on the contractual settlement date which is normally the time of receipt of the sums collected, or the issue of the debt instruments.

Initial recognition is based on the fair value of the liabilities, normally corresponding to the amount received or the issue price, adjusted for any additional costs/income directly attributable to the individual supply or issue transaction. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the debtor or can be classified under normal internal administration costs.

After initial recognition these financial liabilities are measured at the amortised cost using the effective interest rate method. Accrued interest is shown in the item Interest expenses and similar charges if negative, or in the item interest income and similar income if positive.

Debt securities in issue are measured at the amortised cost using the effective interest rate method and they are presented net of any repurchased share. In the case of operations in own shares, the difference between the cost of repurchasing the securities in issue and the value of the amortised cost is charged to the income statement. The subsequent sale of securities previously repurchased is, for accounting purposes, a new placement and therefore there is a change in the average carrying cost of the related liabilities and of the corresponding effective interest.

Liabilities are derecognised when they have expired or been discharged. They are also derecognised if there is a repurchase, even temporary, of previously issued securities.

Any difference between the book value of the discharged liability and the amount paid to buy it in is recognised in the income statement under the item "Profits (loss) on disposal or repurchase of: financial liabilities". If, after the repurchase, the own securities are returned to the market, this operation is considered as a new issue and the liability is recognised at the new placement price.

12. Financial liabilities held for trading

As of 31 December 2019 the Bank does not hold financial trading liabilities.

13. Financial liabilities designated at fair value

As of 31 December 2019 the Bank does not hold financial liabilities measured at fair value.

14. Foreign currency transactions

Foreign currency transactions are recognised at the time of settlement, at the exchange rate for the transaction at the amount in the original currency. Foreign currency assets and liabilities are converted at the spot exchange rates in force on the closing date (ECB official average).

“Off balance sheet” transactions are valued:

- at the spot exchange rate on the closing date if they are cash transactions not yet settled;
- at the forward exchange rate on the above date, for maturities corresponding to those of the valued operations, if they are forward transactions.

The Exchange differences deriving from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of the previous financial statements, are recognised on the income statement in the period in which they arise.

15. Other information

Impairment of financial instruments

According to IFRS 9, the following assets are subject to impairment provisions:

a) Financial assets valued at amortised cost;

b) financial assets valued at *fair value* through other comprehensive income other than equity instruments;

c) commitments to lend funds and guarantees issued that are not valued at *fair value* with through profit or loss;

d) contractual activities resulting from operations covered by the scope of application of IFRS 15.

The quantification of “*Expected Credit Losses*” (ECL), which are expected losses to be recorded as value adjustments on the income statement, is determined according to whether or not there is a significant increase in the credit risk of a financial instrument compared to the risk determined on the date of initial recognition.

For that purpose, instruments subject to impairment rules are usually associated to different stages, which have different criteria to quantify the value adjustments.

a) if there is no significant increase in the credit risk compared to the initial recognition, the financial instrument is kept in stage 1 and is written down by the amount of the loss expected over 12 months (or the expected loss resulting from a default on the asset considered possible within 12 months from the date of the reference period);

b) in the case of a significant increase in the credit risk compared to the initial recognition, the financial instrument is associated with stage 2 or stage 3 if the financial instrument is impaired, and is adjusted for value by the amount of the expected *lifetime* loss (or the expected loss resulting from a default on the asset considered possible for its entire life).

An exception to this are the “Purchased or originated *impaired* financial assets” so called POCI, dealt with in the next point of this paragraph.

Any significant increase in credit risk is identified on a case by case basis, using quali-quantitative criteria. The criteria adopted by the Bank to understand the significant increase in credit risk are shown below.

- Quantitative criteria
  a) Negative change in the *rating* class (so-called *delta notch*).
- Qualitative criteria
  a) *Rebuttable presumption – 30 days past due;*
  b) *Forbearance;*
  c) POCI;
  d) Watchlist.

For more detailed information on the criteria adopted by the Bank to understand the significant increase in credit risk, see Part E of the Explanatory Notes to the Consolidated Financial Statements.

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

For more detailed information on the criteria adopted by the Bank for the calculation of expected losses on loans classified in *stage* 1 and *stage* 2, refer to Part E of the Explanatory Notes to the Consolidated Financial Statements.

Estimate of expected losses on impaired positions (stage 3)

Non-performing positions are usually evaluated using analytical techniques. The criteria for estimating the adjustments to be made to impaired loans are based on the discounting of expected cash flows taking into account any supporting guarantees, and any advances received. The fundamental elements in determining the current value of the cash flows are the identification of the estimated receipts, the related due dates, and the discounting rate to be applied. The amount of the adjustment is equal to the difference between the book value of the asset and the current value of the expected future cash flows, discounted at the original effective interest rate, which is updated as necessary in the case of a variable-rate instrument or, for positions classified as non-performing, at the effective interest rate in force on the date of transition to non-performing.

Depending on the seriousness of the impairment and the materiality of the exposure, estimates of the recovery value will be based on a going concern approach which assumes that the counterparty's business will continue and will continue to generate cash flows, or alternatively on a gone-concern approach. The gone-concern approach is based on the assumption that the business that leads to the only source of cash available to recover the debt, will cease trading and that the underlying guarantees will be called on.

With particular regard to non-performing positions, the analytical assessment rules include forward-looking elements:

- in estimating the percentage of reduction in value of the real estate given as guarantee (estimated on the basis of the updated valuation reports or the report of the Court-appointed Expert);
- by introducing recovery scenarios for specific exposures, considering that they are expected to be sold within a reasonable period of time to a third party in order to maximise the cash flow and also based on a specific strategy for managing impaired loans. Therefore, the estimated expected losses of such positions reflects not only recovery of the debt through ordinary management of the loan but also the presence of a suitably adjusted sale scenario and therefore, of the cash flows deriving from this operation.

For more information on the criteria adopted by the Bank for the calculation of expected losses on positions classified in *stage* 3, refer to Part E of the Explanatory Notes of the Consolidated Financial Statements.

Purchased or originated impaired financial assets (POCI)

Under IFRS 9, loans already considered to be impaired right from initial recognition due to the high level of associated credit risk, are termed *Purchased or Originated Credit Impaired Asset* (POCI). POCI also include loans acquired as part of sale operations (individual or portfolio sales) and business combinations.

Such loans, when included in the impairment perimeter for the purposes of IFRS 9, are valued by posting, from the initial recognition date, provisions to cover the losses along the entire lifetime of the loan (*Expected Credit Loss lifetime*). As these are impaired loans, the initial recognition takes place in stage 3, but they may be moved during their lifetime to stage 2 if they are no longer impaired, based on an analysis of the credit risk.

These assets are not identified under a specific balance-sheet item but are classified according to the business model in which the asset is managed, under the following headings:

- "Financial assets measured at *fair value* through other comprehensive income";
- "Financial assets measured at amortised cost".

In terms of the initial recognition, valuation and derecognition criteria, refer to the criteria mentioned in the respective items.

Interest income must be calculated by applying the effective interest rate on the net value of the instrument (therefore also considering expected losses on loans) for POCI.

As for POCI, in some cases the financial asset is considered to be impaired at the time of initial recognition because the credit risk is very high and in the case of acquisition, it has been acquired at a significant discount. In this case it is necessary to include in the cash flow estimates the expected losses on initial receivables for the purpose of calculating the credit-adjusted effective interest rate (also called "*adjusted credit*") for financial assets that are considered impaired financial assets purchased or originated at the time of initial recognition.

Treasury shares

Treasury shares are recognised as a direct reduction of net equity.

Accruals and deferrals

Items that include costs and income pertaining to the period, accruing on assets and liabilities, are recognised as an adjustment to the assets and liabilities to which they refer.

Costs of leasehold improvements

The costs of refurbishing non-proprietary real estate are capitalised in consideration of the fact that the lessee has control of the property throughout the term of the rental agreement, and can derive future economic benefits from it. The aforementioned costs, classified under Other assets as they are not included in the scope of IFRS 16, as required by the Bank of Italy Instructions, are amortised over a period that never exceeds the duration of the rental agreement.

Employee benefits

Employee benefits are any type of remuneration paid by the company in exchange for work done by employees. Employee benefits are classified as:

1. short-term benefits (other than those due to employees the termination of employment contract, and share ownership benefits), which are expected to be paid in full within twelve months from the end of the year in which the employees did the work, and are recognised entirely on the income statement at the time of accrual (this category includes wages and salaries, and overtime);
2. post-employment benefits due after termination of the working relationship, which require the company to make future payments to staff. This type of benefit includes severance pay and pension fund which in turn can be divided into defined-contribution plans and defined-benefit plans or company pension schemes;
3. early retirement benefits, which are payments made by the company to employees in return for termination of the employment contract following the employee's decision to retire earlier than the normal retirement date
4. long-term benefits other than the above, which are not expected to be paid in full within twelve months after the end of the year in which the employees did the work.

Provisions for termination indemnities

Severance pay ("TFR") is defined, under IAS 19 "Employee benefits" as a "post-employment benefit".

Following the entry into force of the 2007 Finance Act, which brought forward to 1 January 2007 the supplementary pension reforms in legislative decree no. 252 of 5 December 2005, amounts accruing from 1 January 2007 must be allocated, at the discretion of the employee, either to a supplementary pension fund or be kept within the company. For companies with at least 50 staff, the benefits must be transferred by the company to a fund managed by INPS. The obligation towards employees is considered a:

1. "defined contribution plan" for employee severance pay accruing from 1 January 2007 (the date of entry into force of the supplementary pension reforms in legislative decree no. 25 252 of 5 December 2005) whether the employee opts for a supplementary pension fund or whether the provision is allocated to the INPS Treasury fund. For these amounts, the amount recognised under personnel costs is determined on the basis of the contributions due, without applying actuarial calculation methods;
2. "defined benefit plan" recognised according to the actuarial value determined according to the unitary credit projection method, for the amount of employee severance pay accruing up until 31 December 2006.

According to this method, the amount already accrued must be increased by the current service cost, which is projected into the future until the expected date of termination of the contract, and therefore discounted to the reference date. The current service cost is also determined on the basis of the employee's expected working life.

However in this specific case, the past liability is valued without applying the pro rata of the services rendered, as the service cost of the TFR is already accrued in full. The annual provision thus only includes the "*interest cost*" pertaining to the revaluation of the service expected, as a result of the passage of time.

For discounting purposes, the rate used is determined on the basis of the market yield of the bonds of leading companies taking into account the average residual life of the liabilities, weighted according to the percentage of the amount paid and advanced, for each due date, compared to the total to be paid and advanced until the whole bond is completely discharged.

The costs of servicing the plan are recognised under personnel costs, while the actuarial gains and losses are recognised on the statement of comprehensive income.

Share-based payments

Share-based personnel remuneration plans are recorded in the income statement, with a corresponding increase in net equity, based on the fair value of the financial instruments attributed on the assignment date, dividing the burden over the period provided for by the plan. In the presence of options, the fair value of the same is calculated using a model that considers, in addition to information such as the exercise price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, as well as the specific characteristics of the existing plan. In the valuation model, the option and the probability of realisation of the conditions under which the options were assigned are assessed separately. The combination of the two values provides the fair value of the allocated instrument. Any reduction in the number of financial instruments allocated shall be accounted for as derecognition of part of them.

Recognition of revenues for commission income

The basic principle of IFRS 15 provides for the recognition of revenues when the transfer of control over the contractual goods or services takes place, at an amount that reflects the price that the company receives or expects to receive from the sale (IFRS15 – 31).

For the purposes of recognising these revenues on the accounts, there is a five-step process:

- Identification of the contract: contract for the sale of goods or services (or a combination of contracts);
- Identification of the "*performance obligations*" in the contract: identification of the performance obligations set out by the contract;
- Determination of the transaction price: the transaction price of the contract is defined by taking into account its various components;
- Allocation of transaction price to the "*performance obligations*" of the contract;
- Recognition of income when (or to the extent to which) the "*performance obligation*" has been fulfilled.

Business combinations

The accounting standard applicable to business combinations is IFRS 3.

The transfer of control of a company (or of a group of integrated assets and goods, which are managed as a single unit) constitutes a business combination.

Control is considered to have been transferred when the investor is exposed to variable returns or holds rights to such returns due to its relations with the investee company, and can simultaneously affect the returns by exercising its power over the investee.

<u>Identifying the acquirer</u>
IFRS 3 requires that for all business combinations an acquirer is identified. This is the person who obtains the control of another entity, in the sense of the power to determine that entity's financial and operational policies in order to receive benefits from its activities. If there are business combinations that determine the exchange of shareholdings, the acquirer's identification will be based on factors such as:

1. the number of new ordinary voting shares that will make up the capital of the existing company, post-combination;
2. the *fair value* of the businesses that participate in the combination;
3. the composition of the new corporate bodies;
4. the entity that issues the new shares.

<u>Determining the cost of the combination</u>
The price transferred in a business combination operation must be determined as a sum of the fair value, on the date of the exchange, of the assets transferred, the liabilities incurred or accepted and the equity instruments issued by the acquirer in exchange for control.

The price transferred by the acquirer in exchange for the acquired entity includes any asset or liability resulting from an agreement on the potential price, to be recorded on the acquisition date based on the fair value. The transferred price may be modified if additional information arises, about facts and events existing on the acquisition date and which can be recognised during the measurement period of the business combination (twelve months from the date of acquisition, as specified below). Any other change deriving from any events or circumstances after the acquisition, such as a change for the vendor, linked to the achievement of certain income targets, must be recognised on the income statement.

The costs of the acquisition, including intermediation fees, advisory, legal, accounting and professional expenses, and general administration costs, are recorded on the income statement when they are incurred.

The fair value of financial instruments

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.

Open-end mutual 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. Likewise, 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.3 DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

There were no such transfers during the current year.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

For a description of the valuation techniques and inputs, refer to the contents of Part A.2 of the Notes.

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, equity instruments and units in UCIs.

In the portfolios held on the reporting date, there was only minor use of financial estimation methods in relation to the bank's total assets. In particular, it is considered that the input data considered for the valuation of the equity instruments are those used by normal market practices and that a change in them does not have a significant impact for the explanatory notes.

A.4.3 *Fair value* hierarchy

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

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

For securities held at fair value level 2:

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

For securities held at fair value level 3:

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

Summarising the characteristics of the different *fair value* levels (so-called *fair value* hierarchy):

Level 1:
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 used 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

Financial Assets/Financial Liabilities at fair value	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	106	–	8,559	–	29,350	–
a) Financial assets held for trading	7	–	56	–	29,251	–
b) Financial assets measured at fair value	–	–	–	–	–	–
c) other financial assets mandatorily measured at fair value	99	–	8,503	–	99	–
2. Financial assets measured at fair value through other comprehensive income	125,773	–	15	86,275	21,517	13
3. Hedging derivatives	–	–	–	–	–	–
4. Property and Equipment	–	–	–	–	–	–
5. Intangible assets	–	–	–	–	–	–
Total	**125,879**	**–**	**8,574**	**86,275**	**50,867**	**13**
1. Financial liabilities held for trading	–	–	–	–	–	–
2. Financial liabilities 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 (6.34%) of the total financial assets measured at *fair value*, and on the reporting date are mainly represented by investments classified in the portfolio of *"Financial assets mandatorily measured at fair value valuation"*, mainly due to the *Turnaround* Area. 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)

	Financial assets measured at fair value through profit or loss: Total	of which a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value fair-value valuation	Financial assets valued at fair value affecting overall profitability	Hedging derivatives	Tangible assets	Intangible assets
1 Starting balances	–	–	–	–	13	–	–	–
2. Increases	8,559	56	–	8,503	2	–	–	–
2.1 Purchases	8,559	56	–	8,503	–	–	–	–
2.2 Profits charged to:	–	–	–	–	–	–	–	–
2.2.1 Income Statement	–	–	–	–	–	–	–	–
– of which gains	–	–	–	–	–	–	–	–
2.2.2 Net equity	–	X	X	X	–	–	–	–
2.3 Transfers from other levels	–	–	–	–	–	–	–	–
2.4 Other increases	–	–	–	–	2	–	–	–
3. Decreases	–	–	–	–	–	–	–	–
3.1 Sales	–	–	–	–	–	–	–	–
3.2 Repayments	–	–	–	–	–	–	–	–
3.3 Losses charged to:	–	–	–	–	–	–	–	–
3.3.1 Income Statement	–	–	–	–	–	–	–	–
– of which losses	–	–	–	–	–	–	–	–
3.3.2 Net equity	–	X	X	X	–	–	–	–
3.4 Transfers from other levels	–	–	–	–	–	–	–	–
3.5 Other decreases	–	–	–	–	–	–	–	–
4. Closing balances	8,559	56	–	8,503	15	–	–	–

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

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

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

Assets and liabilities not valued at fair value or valued at fair value on a non-recurring basis	31/12/2019				31/12/2018			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets measured at amortised cost	1,991,282			2,021,489	668,881	113,916	88,610	488,644
2. Property, and equipment held for investment								
3. Non-current assets and groups of assets held for disposal								
Total	**1,991,282**	**–**	**–**	**2,021,489**	**668,881**	**113,916**	**88,610**	**488,644**
1. Financial liabilities measured at amortised cost	2,448,898		15,381	2,217,765	648,733		22,459	629,013
2. Liabilities linked to assets held for sale								
Total	**2,448,898**	**–**	**15,381**	**2,217,765**	**648,733**	**–**	**22,459**	**629,013**

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

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

A.5 INFORMATION ON THE "DAY ONE PROFIT/LOSS"

According to paragraph 28 of IFRS 7, it is necessary to provide evidence of the "day one profit or loss" to be recognised on the income statement at year end, together with a reconciliation compared to the initial balance. "*Day one profit or loss*" refers to the difference between the *fair value* of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined on that date using a valuation technique. There are no cases that require reporting in this section.

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2019	Total 31/12/2018
a) Cash	70	815
b) On demand deposits with Central banks	772,055	67,273
Total	**772,125**	**68,088**

The sub-item "b) On demand deposits with Central Banks" records the liquidity deposited with the Bank of Italy.

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

2.1 Financial assets held for trading: breakdown

Items/values	Total 31/12/2019			Total 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 securities	–	–	–	–	–	–
2. Equity securities	–	–	–	–	–	–
3. Units of UCIs	7	–	56	–	29,251	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Others	–	–	–	–	–	–
Total (A)	**7**	**–**	**56**	**–**	**29,251**	**–**
B. Derivatives						
1. Financial derivatives	–	–	–	–	–	–
1.1 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)	**7**	**–**	**56**	**–**	**29,251**	**–**

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

In 2019, the investment in UCITs relating to the Soprarno fund in the previous year was completely disposed of.

2.2 Financial assets held for trading: borrower/issuer breakdown

Items/values	Total 31/12/2019	Total 31/12/2018
A. On-balance-sheets assets		
1. Debt securities	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
2. Equity securities	–	–
a) Banks	–	–
b) Other financial companies	–	–
of which: insurance companies	–	–
c) Non-financial companies	–	–
d) Other issuers	–	–
3. Units of UCIs	63	29,251
4. Loans	–	–
a) Central Banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**63**	**29,251**
B. DERIVATIVES	**–**	**–**
a) Central counterparties	–	–
b) Others	–	–
Total (B)	**–**	**–**
Total (A+B)	**63**	**29,251**

2.3 Financial assets at fair value: breakdown by product type

The Bank does not hold financial Assets at fair value.

2.4 Financial assets at fair value: breakdown by debtor/issuer

The Bank does not hold financial assets at *fair value.*

2.5 Other financial assets mandatorily measured at fair value: breakdown

Items/values	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**–**	**–**	**2,342**	**–**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other debt securities	–	–	2,342	–	–	–
2. Equity securities	**–**	**–**	**6,161**	**–**	**–**	**–**
3. Units of UCIs	**99**	**–**	**–**	**–**	**99**	**–**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Others	–	–	–	–	–	–
Total	**99**	**–**	**8,503**	**–**	**99**	**–**

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

Debt securities include junior securities related to securitisation transactions for a total amount of approximately 2,342 thousand euros.

An investment in equity instruments attributable to a transaction concluded by the SME division is recognised for a total amount of approximately 6,161 thousand euros.

2.6 *Other financial assets mandatorily measured at fair value fair-value valuation: breakdown by debtor/issuer*

	Total 31/12/2019	Total 31/12/2018
1. Equity securities	**6,161**	**–**
of which: banks	–	–
of which: other financial companies	–	–
of which: other non-financial companies	6,161	–
2. Debt securities	**2,342**	**–**
a) Central Banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	2,342	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
3. Units of UCIs	**99**	**99**
4. Loans	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**8,603**	**99**

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

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

Items/values	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**125,773**	**–**	**–**	**86,275**	**21,517**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other debt securities	125,773	–	–	86,275	21,517	–
2. Equity securities	**–**	**–**	**15**	**–**	**–**	**13**
3. Loans	**–**	**–**	**–**	**–**	**–**	**–**
Total	**125,773**	**–**	**15**	**86,275**	**21,517**	**13**

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

The debt securities in the balance sheet item are represented by Government Bonds (approximately 11 million euros), securities of credit institutions (approximately 74 million euros) and securities of Financial and *Corporate* companies (approximately 41 million euros).

Equity instruments classified as "Financial assets measured at *fair value* through other comprehensive income" are represented by shareholdings not qualified as control, connection or joint control.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by borrower/issuer

Items/values	Total 31/12/2019	Total 31/12/2018
1. Debt securities	**125,773**	**107,791**
a) Central Banks	–	–
b) Public administrations	10,736	80,707
c) Banks	73,624	27,084
d) Other financial companies	22,245	–
of which: insurance companies	–	–
e) Non-financial companies	19,168	–
2. Equity securities	**15**	**13**
a) Banks	–	8
b) Other issuers:	15	5
– other financial companies	7	–
of which: insurance companies	–	–
– non-financial companies	–	5
– others	8	–
3. Loans	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**125,788**	**107,804**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total adjustments

	Gross amount				Total adjustments			Total partial write-offs
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
Debt securities	125,984	81,541	–	–	196	–	–	–
Loans	–	–	–	–	–	–	–	–
Total 31/12/2019	**125,984**	**81,541**	**–**	**–**	**196**	**–**	**–**	**–**
Total 31/12/2018	**107,992**	**–**	**–**	**–**	**200**	**–**	**–**	**–**
of which: acquired or originated impaired credits	X	X	–	–	X	–	–	–

With regard to the approach used in the representation of the gross amount and total value adjustments of *impaired* financial assets, refer to Part A - Accounting policies.

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

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

Type of operations/Values	Total 31/12/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired	L1	L2	L3
A. Due from 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 from banks	**344,858**	**–**	**–**	**–**	**–**	**344,831**	**55,869**	**–**	**–**	**–**	**–**	**55,869**
1. Loans	344,858	–	–	–	–	344,831	55,869	–	–	–	–	55,869
1.1 Current accounts and on-demand deposits	9,791	–	–	X	X	X	41,842	–	–	X	X	X
1.2. Time deposits	59,042	–	–	X	X	X	14,027	–	–	X	X	X
1.3. Other loans:	276,025	–	–	X	X	X	–	–	–	X	X	X
- Reverse Repurchase Agreements	276,025	–	–	X	X	X	–	–	–	X	X	X
- Finance leases	–	–	–	X	X	X	–	–	–	X	X	X
- Others	–	–	–	X	X	X	–	–	–	X	X	X
2. Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–	–	–	–	–	–	–
2.2 Other debt securities	–	–	–	–	–	–	–	–	–	–	–	–
Total	**344,858**	**–**	**–**	**–**	**–**	**344,831**	**55,869**	**–**	**–**	**–**	**–**	**55,869**

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

The *fair value* of the items is assumed to be equal to the book value as these are short-term assets.

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

As can be seen from the above table, the balance sheet item largely consists of a large extent of Reverse Repurchase Agreements.

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

Type of operations/Values	Total 31/12/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired	L1	L2	L3
1. Loans	**566,379**	**138,097**	**118,674**	**–**	**–**	**736,973**	**380,018**	**17,278**	**3**	**–**	**–**	**432,775**
1.1. Current accounts	39,122	17,998	13,725	X	X	X	102,506	10,110	3	X	X	X
1.2. Reverse Repurchase agreements	–	–	–	X	X	X	–	–	–	X	X	X
1.3. Mortgages	372,391	79,071	69,313	X	X	X	267,548	5,366	–	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	961	38	–	X	X	X	1,355	35	–	X	X	X
1.5 Finance leases	–	–	–	X	X	X	–	–	–	X	X	X
1.6. Factoring	126,434	11	–	X	X	X	–	–	–	X	X	X
1.7. Other loans	27,471	40,979	35,636	X	X	X	8,610	1,768	–	X	X	X
2. Debt securities	**300,538**	**641,410**	**641,410**	**–**	**–**	**939,685**	**124,575**	**91,140**	**91,140**	**113,916**	**–**	**88,610**
2.1. Structured securities	–	50,363	50,363	–	–	50,363	–	–	–	–	–	–
2.2. Other debt securities	300,538	591,047	591,047	–	–	889,322	124,575	91,140	91,140	113,916	–	88,610
Total	**866,917**	**779,507**	**760,084**	**–**	**–**	**1,676,658**	**504,593**	**108,418**	**91,143**	**113,916**	**–**	**521,385**

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

"Other debt securities" include securities related to securitisation transactions for a total amount of 891 million euros, of which 299 million euros are *senior financing notes* and 592 million euros are notes issued by vehicles belonging to the Banking Group.

Under "Structured Securities" there is a POCI security attributable to a transaction concluded by the SME Division during the year.

During the fourth quarter of 2019, the Bank redefined its investment strategy in the securities portfolio by selling all securities managed through a Held *to Collect* business model in order to meet the needs for flexibility of liquidity management functional to the financing of disbursements and investments of the Bank which - particularly in the sector of investments in distressed loan portfolios - show high volatility with seasonal peaks.
The sale of this portfolio brought the net profits on disposal as of 31.12.2019 to approximately € 8 million.

4.3 *Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers*

Type of operations/Values	Total 31/12/2019			Total 31/12/2018		
	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired
1. Debt securities	**300,538**	**641,410**	**641,410**	**124,575**	**91,140**	**91,140**
a) Public administrations	–	–	–	124,403	–	–
b) Other financial companies	300,538	591,047	591,047	172	91,140	91,140
of which: insurance companies	–	–	–	–	–	–
c) Non-financial companies	–	50,363	50,363	–	–	–
2. Loans to:	**566,379**	**138,097**	**118,674**	**380,018**	**17,278**	**3**
a) Public administrations	13,805	–	–	3,614	–	–
b) Other financial companies	52,624	8,841	8,819	21,652	15	–
of which: insurance companies	565	–	–	–	–	–
c) Non-financial companies	449,917	103,482	86,963	290,038	14,915	–
d) Households	50,033	25,774	22,892	64,715	2,348	3
Total	**866,917**	**779,507**	**760,084**	**504,593**	**108,418**	**91,143**

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

	Gross amount				Total adjustments		
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three
Debt securities	301,108	301,108	–	641,859	571	–	450
Loans	897,845	138,394	19,119	156,559	5,133	594	18,461
Total 31/12/2019	**1,198,954**	**439,503**	**19,119**	**798,418**	**5,704**	**594**	**18,911**
Total 31/12/2018	**539,912**	**–**	**24,600**	**121,994**	**2,496**	**1,554**	**13,576**
of which: purchased or originated credit impaired financial assets	X	X	–	760,787	X	–	703

With regard to the approach used in the representation of the gross value and total value adjustments of *impaired* financial assets, refer to Part A - Accounting policies.

Section 5 – Hedging derivatives – Item 50

The Bank has no Hedging operations.

Section 6 – Value adjustment financial assets subject to generic hedging – Item 60

The Bank has no Hedging operations.

Section 7 – Equity investments – Item 70

7.1 *Equity investments: information on shareholding relationships*

Name	Head office	Operational headquarters	Shareholding %	Votes %
A. Companies held with sole control				
Soperga RE S.r.l.	Milan	Milan	100%	100%
Friuli LeaseCo S.r.l.	Milan	Milan	100%	100%
Doria LeaseCo S.r.l.	Milan	Milan	100%	100%
River LeaseCo S.r.l.	Milan	Milan	100%	100%
Neprix S.r.l.	Milan	Milan	100%	100%
illimity SGR S.p.A.	Milan	Milan	100%	100%
Pitti LeaseCo S.r.l.	Milan	Milan	100%	100%
B. Companies held with joint control				
N/A				
C. Companies under significant influence				
N/A				

7.2 *Significant shareholdings: book values, fair values and dividends received*

Name	Book value	Fair value	Dividends received
A. Companies held with sole control			
Soperga RE S.r.l.	10	N/A	–
Friuli LeaseCo S.r.l.	10	N/A	–
Doria LeaseCo S.r.l.	10	N/A	–
River LeaseCo S.r.l.	10	N/A	–
Neprix S.r.l.	29	N/A	–
illimity SGR S.p.A.	1,000	N/A	–
Pitti LeaseCo S.r.l.	10	N/A	–
B. Companies held with joint control			
N/A			
C. Companies under significant influence			
N/A			
Total	**1,079**	**N/A**	**–**

7.3 Significant shareholdings: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Value adjustments/write-backs on material and intangible assets	Profit(loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Net profit (loss) (+/-) from assets held for sale (net of taxes)	Profit (loss) for the period (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1) + (2)
A. Companies held with sole control														
Soperga RE S.r.l.	–	13	323	–	329	–	–	–	–	–	–	–	–	–
Friuli LeaseCo S.r.l.	–	277	52	–	323	–	–	–	(4)	(4)	–	(4)	–	(4)
Doria LeaseCo S.r.l.	–	396	472	–	860	–	–	–	(2)	(2)	–	(2)	–	(2)
River LeaseCo S.r.l.	–	440	79	–	511	–	–	–	(2)	(2)	–	(2)	–	(2)
Neprix S.r.l.	–	232	4,344	218	4,319	–	(2)	–	30	1	–	1	–	1
illimity SGR S.p.A.	–	988	34	–	34	–	–	–	(16)	(12)	–	(12)	–	(12)
Pitti LeaseCo S.r.l.	–	81	83	–	156	–	–	–	(2)	(2)	–	(2)	–	(2)
B. Companies held with joint control														
N/A														
C. Companies under significant influence														
N/A														

For more information about the nature of the relationships with the investees, refer to the Notes.

7.4 Non-significant shareholdings: accounting information

The Bank does not hold such shareholdings as of the reporting date.

7.5 Equity investments: annual changes

	Total 31/12/2019	Total 31/12/2018
A. Opening balances	**10**	**–**
B. Increases	**1,069**	**10**
B.1 Purchases	1,069	10
– of which operations of business combinations	–	–
B.2 Write-backs	–	–
B.3 Revaluations	–	–
B.4 Other changes	–	–
C. Decreases	**–**	**–**
C.1 Sales	–	–
– of which operations of business combinations	–	–
C.2 Value adjustments	–	–
C.3 Depreciation	–	–
C.4 Other changes	–	–
D. Closing balance	**1,079**	**10**
E. Total revaluations	**–**	**–**
F. Total adjustments	**–**	**–**

Section 8 – Property and equipment – Item 80

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

Assets/Values	Total 31/12/2019	Total 31/12/2018
1. Proprietary assets	**2,583**	**2,463**
a) land	–	–
b) buildings	994	1,045
c) furniture and fittings	667	522
d) electronic systems	828	149
e) others	94	747
2. Rights of use acquired through leases	**20,263**	**–**
a) land	–	–
b) buildings	19,116	–
c) furniture and fittings	–	–
d) electronic systems	–	–
e) others	1,147	–
Total	**22,846**	**2,463**
of which: obtained by enforcement of guarantees received	–	–

The item includes the initial recognition of *Right of Use Asset* assets acquired under *leasing* in accordance with IFRS 16, for a total amount of 20.3 million euros, net of amortisation provision.

8.2 *Property and equipment held for investment: breakdown of assets valued at cost*

The Bank does not hold such assets as of the reporting date.

8.3 *Property and equipment with functional use: breakdown of revalued assets*

The Bank does not hold such assets as of the reporting date.

8.4 *Property and equipment held for investment: breakdown of assets valued at fair value*

The Bank does not hold Property and Equipment held for investment designated at fair value as of the reporting date.

8.5 *Inventories of property and equipment governed by IAS 2: breakdown*

The Bank does not hold these items as of the reporting date.

8.6 *Property and equipment with functional use: annual changes*

	Land	Buildings	Furnishings	Electronic equipment	Others	Total
A. Opening balance	**–**	**1,695**	**1,174**	**353**	**1,521**	**4,743**
A.1 Total net adjustments	–	650	652	204	774	2,280
A.2 Opening net balances	–	1,045	522	149	747	2,463
B. Increases:	**–**	**20,461**	**278**	**747**	**1,491**	**22,977**
B.1 Purchases	–	–	278	85	101	464
– of which operations of business combinations	–	–	–	–	–	–
B.2 Capitalised expenditure on improvements	–	–	–	–	–	–
B.3 Adjustments	–	–	–	–	–	–
B.4 Positive changes in fair value charged to	–	–	–	–	–	–
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange differences	–	–	–	–	–	–
B.6 Transfers from properties held for investment	–	–	X	X	X	–
B.7 Other changes	–	20,461	–	662	1,390	22,513
C. Decreases:	**–**	**1,396**	**133**	**68**	**997**	**2,594**
C.1 Sales	–	–	–	–	–	–
– of which operations of business combinations	–	–	–	–	–	–
C.2 Depreciation	–	1,396	133	68	407	2,004
C.3 Impairment losses charged to	–	–	–	–	–	–
a) net equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value charged to	–	–	–	–	–	–
a) net equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange differences	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) tangible assets held for investment	–	–	X	X	X	–
b) non-current assets and groups of assets held for disposal	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	590	590
D. Closing net balance	**–**	**20,110**	**667**	**828**	**1,241**	**22,846**
D.1 Total net adjustments	–	–	–	–	–	–
D.2 Closing gross balance	–	20,110	667	828	1,241	22,846
E. Valuation at cost	**–**	**–**	**–**	**–**	**–**	**–**

Among tangible assets, under other "Other Changes - Increases, there was an initial recognition of *Right-of-Use Assets* acquired through *leasing* in accordance with IFRS 16, amounting to approximately 21.8 million euros, while the respective amortisation provision of 1.5 million euros was recognised under "Amortisation - Decreases". For more information on the first application of IFRS16, refer to Part A - Accounting Policies and Part M - *Leasing* Information.

8.7 Property and equipment held for investment: annual changes

The Bank does not hold such assets as of the reporting date.

8.8 Inventories of Property and equipment governed by IAS 2: annual changes

The Bank does not hold these items as of the reporting date.

8.9 Commitments to purchase Property and equipment

The Bank does not hold such commitments as of the reporting date.

Section 9 - Intangible assets – Item 90

9.1 Intangible assets: breakdown by type of asset

Assets/Values	Total 31/12/2019		Total 31/12/2018	
	finite useful life	indefinite useful life	finite useful life	indefinite useful life
A.1 Goodwill	**X**	**21,643**	**X**	**–**
A.2 Other intangible assets	**18,869**	**–**	**270**	**–**
A.2.1 Assets measured at cost:	18,869	–	270	–
a) internally generated intangible assets	2,947	–	–	–
b) Other assets	15,922	–	270	–
A.2.2 Assets measured at fair value:	–	–	–	–
a) internally generated intangible assets	–	–	–	–
b) Other assets	–	–	–	–
Total	**18,869**	**21,643**	**270**	**–**

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**–**	**–**	**–**	**288**	**–**	**288**
A.1 Total net adjustments	–	–	–	18	–	18
A.2 Opening net balances	–	–	–	270	–	270
B. Increases	**21,643**	**3,057**	–	**16,650**	**–**	**41,350**
B.1 Purchases	21,643	3,057	–	16,650	–	41,350
– of which operations of business combinations	21,643	–	–	–	–	21,643
B.2 Increases in internal intangible assets	X	–	–	–	–	–
B.3 Adjustments	X	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
– to net equity	X	–	–	–	–	–
– to income statement	X	–	–	–	–	–
B.5 Positive exchange differences	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. Decreases	**–**	**110**	**–**	**998**	**–**	**1,108**
C.1 Sales	–	–	–	–	–	–
– of which operations of business combinations	–	–	–	–	–	–
C.2 Value adjustments	–	110	–	998	–	1,108
– Amortisation	X	110	–	998	–	1,108
– Depreciation	–	–	–	–	–	–
+ shareholders' equity	X	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value:	–	–	–	–	–	–
– to net equity	X	–	–	–	–	–
– to income statement	X	–	–	–	–	–
C.4 Transfer to non current assets held for sale	–	–	–	–	–	–
C.5 Negative exchange differences	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. Closing net balance	**21,643**	**2,947**	–	**15,922**	**–**	**40,512**
D.1 Total net value adjustments	–	–	–	–	–	–
E. Closing Gross balances	**21,643**	**2,947**	–	**15,922**	**–**	**40,512**
F. Valuation at cost	**–**	**–**	**–**	**–**	**–**	**–**

Key
DEF: finite useful life
INDEF: indefinite useful life

Purchase price allocation

The goodwill recognised in the Bank's financial statements, amounting to 21.6 million euros, was estimated, in accordance with IFRS 3, at the time of the *purchase price allocation* ("PPA") of the purchase price of Banca Interprovinciale by SPAXS, a company merged in illimity on 5 March 2019. According to IFRS 3, goodwill is the surplus cost paid for the acquisition compared to the *fair value* of the assets (including identifiable intangible assets) acquired and the liabilities and potential liabilities accepted.

To determine goodwill, the shareholders' equity of Banca Interprovinciale as at 30 September 2018 was utilised. This was the closest date to the date relevant for the purposes of applying IFRS 3 (20 September 2018). That was then adjusted after significant accounting effects of those transactions between the acquisition date of 20 September 2018 and the reporting date of 30 September 2018, were identified.

Impairment Tests

The *impairment test* is governed by accounting standard IAS 36 – *Impairment of Assets*, which requires that, at least annually and, in any case, whenever events arise suggesting a potential impairment, a test must be carried out to verify the adequacy of the value of goodwill subject to recognition. The *impairment test* is carried out identifying the units generating financial flows (CGU) to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any losses in value must be recorded in the income statement, they are not susceptible to future value recoveries.

As required by IAS 36, the goodwill was subjected to the *impairment* test to check whether there is objective evidence that its recognition value may not be fully recoverable. The *impairment test policy*was approved by the Board of Directors on 15 November 2019. For the purpose of closing the 2019 financial statements, *management* has not identified any need to modify and/or supplement this *policy*.

The process of recognising *impairments* requires checking of *impairment* indicators and the determination of any depreciation. There are essentially two categories of *impairment* indicators: qualitative indicators such as a negative economic result or a significant deviation from *budget* targets or the targets in long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans; quantitative indicators are represented by a book value of the entity's net assets being higher than its market capitalisation, or a book value of the equity investment on the separate accounts which is higher than the net assets and goodwill of the subsidiary on the consolidated accounts, or the distribution by the subsidiary of a dividend that is higher than its total income.

For the purposes of the Bank's 2019 financial statements, for the purposes of *impairment*, an updated 2020 *budget* has therefore been developed that takes into account the time lag of the full entry into operation of all the Bank's *businesses*. However, the results for subsequent years are confirmed.

<u>*Criteria for the determination of Value in Use*</u>

The value in use was determined using the *Discounted Dividend Model*, in the "*Excess Capital*" variant, commonly used in valuation practices in the financial industry, on the basis of which the economic value is equal to the sum of the following elements:

- the current value of the dividends potentially available for distribution over a certain period of time, maintaining a minimum level of capitalisation consistent with the growth of the business and with the regulatory requirements;
- the current value of a perpetual yield defined on the basis of a sustainable dividend for the years following the planning period.

The cash flows were elaborated on the basis of the information in the 2018-2023 business plan approved by the Board of Directors of Banca Interprovinciale (now illimity Bank) on 30 November 2018, whose forecasts are confirmed for the period 2021-2023; with reference to the year 2020, however, as previously indicated, an updated *budget* was developed in the light of the final results for the year 2019, which takes into account a time delay of the full entry into operation of the Bank's *business*.

<u>*Estimates of cash flows*</u>

To extrapolate the cash flows beyond the analytical forecasting period, consideration was given to the market context in which the forward-looking scenario is defined. With regard to the *impairment test* of 31 December 2019 (consistent with the methodology adopted in the previous financial year), in order to determine the *terminal value*, the cash flows for 2023, the last year of the analytical forecast, were projected in perpetuity based on a growth factor g determined as the average rate of growth of Italy's nominal GDP, which is 1.34%.

The business plan was developed on the basis of an analysis of the economic context, by elaborating the forecast data on the economic outlook and the outlook for the financial services sector, adjusted as necessary to reflect the context and dynamics in which illimity bases its operations. The plan considers a scenario characterised by the evolution of the following main macroeconomic variables:

- growth in Italy's GDP in the reference period;
- the 3-month Euribor rate, rising from 2018 up to 1.2% in 2023;
- the rate of inflation up by 1.5% in 2019 to 1.7% at the end of the plan.

The 2018-2023 focuses, as mentioned, on the following main strategies:

- Development, from the final quarter of 2018 onwards, of assets invested for high-potential businesses with a suboptimal financial structure and/or with a low *rating* or no *rating*, including the segment of *non-performing* SMEs (UTP) through the SME Division;
- Entry, from the final quarter of 2018, into the Italian market for the acquisition and management of secured and unsecured corporate NPL portfolios through the DCIS Division;
- Development of illimitybank.com, a latest-generation, fully digital *online* bank, aimed at households and businesses also in order to achieve stable funding through term deposit accounts.

With regard to the prudential regulatory provisions, in the development of the volumes of *business* for the various Divisions, the Bank assumed a capitalisation profile with a CET1 ratio equal to or greater than 15% throughout the Plan period.

<u>*Cash flow discounting rate*</u>

In determining the value in use, cash flows have to be discounted at a rate that reflects the current market valuations, the current value of money, and the specific risks of the business. In the case of a banking business, it is estimated using the "*equity side*" approach, which means considering only the cost of own capital (Ke), in line with the method used to determine the cash flows which, as mentioned, include the cash flows from the financial assets and liabilities.

The cost of capital was determined by using the "*Capital Asset Pricing Model*" (CAPM). According to that model the cost of capital is determined as the sum of the return on risk-free investments and of a risk premium, which in turn depends on the specific risk of the activity (which means the risk level of the operating unit and the geographical risk level, which is the "country risk"). Taking into account the current stage of the illimity development project, an additional risk factor was also incorporated to give a better representation of the risk of illimity in the current *start-up* phase of the new *businesses*.

The cost of capital is determined net of taxes, to be consistent with the discounted cash flows. As the cash flows have been determined in nominal terms, the discounted rates have also been determined in the same way, in other words by incorporating the expectations on inflation.

Looking in detail at the various components that go towards determining the discounting rate, the following decisions were made:

1. with regard the *risk free* rate, the average monthly yield (average of the preceding 12 months) on 30-year Italian government bonds (BTP) was used;
2. with regard to the *market risk premium*, which represents the premium that an investor would require when investing in the equities market compared to the risk-free rate, the data in the international *databases* generally used for such valuations, were utilised (source Damodaran);
3. with regard to the beta coefficient, which measures the specific risk of an individual company, this was determined by identifying a sample of comparable businesses (in terms of *business*), and the average beta recorded was then utilised by means of weekly observations over a five-year period;
4. with regard to the alpha coefficient, which expresses a share's aptitude to vary regardless of the market (specific risk), a percentage equal to 20% of Ke was used (the "*execution risk*").

The Ke discounting rate used for the *impairment test* for the year ending 31 December 2019 was 10.07%.

Book value of the CGUs

For the purposes of the 2019 financial statements, in continuity with the analyses carried out for the 2018 financial statements, *management* has identified a single *reporting segment*, as the operating segments have similar economic characteristics and the information given to management in 2019, representing the highest operational level of decision-making to assess the *performance* of the *business* and take the related decisions, is prepared in aggregate form.

As of 31 December 2019, the book value of the CGU corresponds to the recognised shareholders' equity; in particular, it corresponds to the shareholders' equity value deducted from the consolidated financial statements on 31 December 2019, or 544.5 million euros.

Results of the impairment tests

The results of the *impairment test* showed that the value in use of the CGU is higher than its book value, represented by the net assets recorded in the financial statements. Therefore no depreciation for the purposes of the financial statements for the year ended 31 December 2019 was necessary.

The criteria and information used for the *impairment tests* are significantly influenced by the macroeconomic scenario and by the trends on the financial markets, which could show changes that are not currently foreseeable. If the macroeconomic scenario does deteriorate compared to the current forecast, this would impact the estimates of cash flows and the main assumptions, which could lead to results other than those prospected in these accounts, over the coming years.

Sensitivity tests

As the value in use is determined by using estimates and assumptions that may contain uncertainties, sensitivity tests were carried out as required by IAS/IFRS, aimed at verifying the sensitivity of the results obtained, if certain parameters or underlying assumptions should vary.

In particular, an impact was verified on the value in use of a change of up to 50 bps for the discounting rates and a change of 25 bps in the *g* growth coefficient used to determine cash flows for the purposes of *terminal value*. None of the scenarios considered revealed any cases of *impairment*, even considering an increase of 50 bps in the discounting rates combined with a reduction of 25 bps in the *g* rate.

The table below shows the *sensitivity analysis* of the value in use of the CGU, to a change in the rate of growth g or in the discounting rate.

		Ke				
		9.57%	9.82%	10.07%	10.32%	10.57%
	1.09%	2,310	2,226	2,147	2,072	2,002
g	1.34%	2,363	2,275	**2,192**	2,115	2,041
	1.39%	2,419	2,327	2,241	2,159	2,083

Again, from a *stress test* perspective, analyses were done in order to highlight the limit values of the main *input*, beyond which the *impairment tests* would require an *impairment* to be recognised; in this regard, the rate of growth g and the discounting rate that would, assuming the same flows to be discounted, lead to values in use aligned with the recognition values in the balance sheet. This analysis showed that the value in use would be reduced to the book values with a consequent need for *impairment* only if there was a significant deterioration in the discounting rate (Ke) and in the rate of growth g.

9.3 Intangible assets: other information

The following information is provided in accordance with IAS 38:

1. there are no revalued intangible assets nor impediments to the distribution of the related gains to shareholders;
2. there are no intangible assets acquired through government concession;
3. there are no intangible assets provided as a guarantee to secure own liabilities nor commitments to buy such assets;
4. there are no leases pertaining to intangible assets.

Section 10 – Tax assets and tax liabilities – Item 110 of assets and Item 60 of liabilities

10.1 Deferred tax assets: breakdown

	Total 31/12/2019	Total 31/12/2018
– As a contra entry to the income statement	29,480	13,097
– As a contra entry to shareholders' equity	2,348	655
Total	**31,828**	**13,752**

Main deductible temporary differences: IRES	31/12/2019	31/12/2018
Depreciation of loans and receivables with customers	1,622	1,829
Tax losses	23,586	8,556
ACE	3,429	156
Write-down of HTCS securities	108	442
Others	2,477	2,413
Total	**31,222**	**13,396**

Main deductible temporary differences: IRAP	31/12/2019	31/12/2018
Depreciation of loans and receivables with customers	200	225
Write-down of HTCS securities	22	89
Others	384	42
Total	**606**	**356**

Deferred tax assets other than those convertible into tax credits (Article 2 paras. 55 et seq 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.

In support of the reasonable certainty of the future recovery of the deferred tax assets that justifies their recognition in the balance sheet pursuant to IAS 12, a so-called «*probability test*» was conducted. 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 business plan yielded positive results, indicating that deferred tax assets would be reabsorbed in 2021.

10.2 Deferred tax liabilities: breakdown

Main taxable temporary differences: IRES	31/12/2019	31/12/2018
Revaluation of HTCS securities	488	18
Others	57	57
Total	**545**	**75**

Main taxable temporary differences: IRAP	31/12/2019	31/12/2018
Revaluation of HTCS securities	99	4
Others	11	11
Total	**110**	**15**

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.

10.3 Changes in deferred tax assets (through profit or loss)

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**13,098**	**2,484**
2. Increases	**22,064**	**10,899**
2.1 Deferred taxes recognised during the year	17,539	10,899
a) relating to previous years	3,784	–
b) due to changes in accounting criteria	–	–
c) value write-backs	–	–
d) others	13,755	10,899
2.2 New taxes or increases in tax rates	–	–
2.3 Other Increases	4,525	–
– of which operations of business combinations	4,292	–
3. Decreases	**5,682**	**285**
3.1 Deferred taxes cancelled during the year	1,157	285
a) reversals	1,157	285
b) depreciations of non-recoverable items	–	–
c) due to changes in accounting criteria	–	–
d) others	–	–
3.2 Reductions in tax rates	–	–
3.3 Other reductions:	4,525	–
a) conversion into tax credits pursuant to Law no. 214/2011	233	–
b) others	4,292	–
– of which operations of business combinations	4,292	–
4. Final amount	**29,480**	**13,098**

Deferred tax assets are recognised on the basis of the probability of their recovery or the possibility of there being sufficient future taxable income. The temporary differences arising during the year with greatest impact are specifically attributable to the tax loss.

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

10.3 bis Changes in deferred taxes pursuant to Law no. 214/2011

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**2,054**	**2,054**
2. Increases	**–**	**–**
– of which operations of business combinations	–	–
3. Decreases	**233**	**–**
3.1 Reversals	–	–
3.2 Transformation into tax credits	233	–
a) deriving from loss for the year	233	–
b) deriving from tax losses	–	–
3.3 Other reductions	–	–
4. Final amount	**1,821**	**2,054**

10.4 Changes in deferred tax liabilities (through profit or loss)

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**2**	**2**
2. Increases	**744**	**–**
2.1 Deferred taxes recognised during the year	–	–
a) relating to previous years	–	–
b) due to changes in accounting criteria	–	–
c) others	–	–
2.2 New taxes or increases in tax rates	–	–
2.3 Other Increases	744	–
– of which operations of business combinations	744	–
3. Decreases	**744**	**–**
3.1 Deferred taxes cancelled during the year	–	–
a) reversals	–	–
b) due to changes in accounting criteria	–	–
c) others	–	–
3.2 Reductions in tax rates	–	–
3.3 Other reductions	744	–
– of which operations of business combinations	–	–
4. Final amount	**2**	**2**

With the approval of the financial statements closed on 31 December 2018 by the shareholders' meeting, the conversion into a tax credit of the prepaid taxes recorded, for IRES and IRAP purposes, on the portion of value adjustments on loans for a total amount of 233 thousand euros, as provided for in paragraphs 55-58 of art. 2 of Legislative Decree No. 225 of 29 December 2010 (converted, with amendments, by Law no. 10 of 26 February 2011), and amended by art. 9 of Legislative Decree no. 201 of 6 December 2011 (converted, with amendments, by Law no. 214 of 22 December 2011).

10.5 Changes in deferred tax assets (recorded in equity)

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**655**	**806**
2. Increases	**2,107**	**586**
2.1 Deferred taxes recognised during the year	2,107	586
a) relating to previous years	–	–
b) due to changes in accounting criteria	–	–
c) others	2,107	484
2.2 New taxes or increases in tax rates	–	–
2.3 Other Increases	–	102
– of which operations of business combinations	–	–
3. Decreases	**414**	**737**
3.1 Deferred taxes cancelled during the year	414	737
a) reversals	–	737
b) depreciations of non-recoverable items	–	–
c) due to changes in accounting criteria	–	–
d) others	414	–
3.2 Reductions in tax rates	–	–
3.3 Other reductions	–	–
– of which operations of business combinations	–	–
4. Final amount	**2,348**	**655**

10.6 Changes in deferred tax liabilities (recorded in equity)

	Total 31/12/2019	Total 31/12/2018
1. Initial amount	**88**	**2,108**
2. Increases	**1,310**	**141**
2.1 Deferred taxes recognised during the year	1,310	141
a) relating to previous years	-	-
b) due to changes in accounting criteria	-	-
c) others	1,310	141
2.2 New taxes or increases in tax rates	-	-
2.3 Other Increases	-	-
– of which operations of business combinations	-	-
3. Decreases	**(745)**	**(2,161)**
3.1 Deferred taxes cancelled during the year	(745)	(2,161)
a) reversals	-	(2,161)
b) due to changes in accounting criteria	-	-
c) others	(745)	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
– of which operations of business combinations	-	-
4. Final amount	**653**	**88**

10.7 Other information

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

Current fiscal assets: breakdown

Type of operations/Values	31/12/2019	31/12/2018
Deferred taxes paid to tax authority	4,237	1,601
Withholding taxes	193	183
Other receivables from the Treasury	697	187
Total	**5,127**	**1,971**

Current fiscal liabilities: breakdown

Type of operations/Values	31/12/2019	31/12/2018
Balance for the previous year	–	1,607
Provision for taxes	–	–
Withdrawals to pay taxes	–	(1,607)
Other changes	–	–
Total	**–**	**–**

Section 11 – Non-current assets and groups of assets held for disposal and associated liabilities - Item 110 of assets and Item 70 of liabilities

The Group does not hold such assets or groups of assets, as of the reporting date.

Section 12 – Other assets – Item 120

12.1 Other assets: composition

Items	
Checks and cash equivalents on hand	130
Various debtors	12,864
Leasehold improvements	854
Items in processing	12,555
Miscellaneous items	3,094
Total 31/12/2019	**29,497**
Total 31/12/2018	**16,442**

The item is largely composed of “Miscellaneous items", which mainly includes items in processing, linked to normal banking operations, which see their physiological accounting arrangement in the days following their generation.

LIABILITIES

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

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

Type of operations/Values	Total 31/12/2019				Total 31/12/2018			
	VB	Fair Value			VB	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central Banks	**52,409**	**X**	**X**	**X**	**52,622**	**X**	**X**	**X**
2. Due to banks	**312,285**	**X**	**X**	**X**	**40,441**	**X**	**X**	**X**
2.1 Current accounts and on-demand deposits	5	X	X	X	4,011	X	X	X
2.2 Time deposits	25,556	X	X	X	1,370	X	X	X
2.3 Loans	283,091	X	X	X	35,061	X	X	X
2.3.1 Repurchase agreements - payables	279,091	X	X	X	35,061	X	X	X
2.3.2 Others	4,000	X	X	X	–	X	X	X
2.4 Debts for commitments to repurchase equity instruments	–	X	X	X	–	X	X	X
2.5 Payables for leasing	–	X	X	X	–	X	X	X
2.6 Other Payables	3,633	X	X	X	–	X	X	X
Total	**364,694**	**–**	**–**	**364,694**	**93,063**	**–**	**–**	**93,063**

The explanation of the criteria for determining *fair value* is reported in Part A - Accounting policies. Repurchase agreements payables against financial assets sold and not derecognised are detailed in Part E - Section E of the Explanatory Notes

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

Type of operations/Values	Total 31/12/2019				Total 31/12/2018			
	VB	Fair Value			VB	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	445,001	X	X	X	419,231	X	X	X
2. Time deposits	1,384,394	X	X	X	41,692	X	X	X
3. Loans	215,774	X	X	X	9,802	X	X	X
3.1 Repurchase agreements - payables	–	X	X	X	–	X	X	X
3.2 Others	215,774	X	X	X	9,802	X	X	X
4. Debt for commitments to repurchase equity instruments	–	X	X	X	–	X	X	X
5. Payables for leasing	21,690	X	X	X	–	X	X	X
6. Other payables	1,987	X	X	X	3,532	X	X	X
Total	**2,068,846**	**–**	**–**	**1,853,071**	**474,257**	**–**	**–**	**475,580**

Repurchase agreements payables against financial assets sold and not derecognised are detailed in Part E – Section E of the Explanatory note

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

Type of securities/Values	Total 31/12/2019				Total 31/12/2018			
	VB	Fair Value			VB	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	15,358	–	15,381	–	22,498	–	22,459	–
1.1 structured	–	–	–	–	–	–	–	–
1.2 others	15,358	–	15,381	–	22,498	–	22,459	–
2. other securities	–	–	–	–	58,915	–	–	60,368
2.1 structured	–	–	–	–	–	–	–	–
2.2 others	–	–	–	–	58,915	–	–	60,368
Total	**15,358**	**–**	**15,381**	**–**	**81,413**	**–**	**22,459**	**60,368**

1.4 Breakdown of subordinated debts/securities

The Group does not hold such debts/securities on the reporting date.

1.5 Breakdown of structured debts

The Group does not hold such structured debts on the reporting date.

1.6 *Payables for leasing*

At the reporting date, the Group has outstanding payables for *leasing* equal to 21,690 thousand euros, divided between 20,527 thousand euros relating to the rental component of Properties for personal and business use, and 1,163 thousand euros relating to the component of long-term rental of automobiles.

Section 2 – Financial liabilities held for trading – Item 20

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

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

The Group does not hold such financial liabilities measured at *fair value* on the reporting date.

Section 4 – Hedging derivatives – Item 40

The Group does not hold such hedging derivatives on the reporting date.

Section 5 – Adjustment in value of generic hedging financial liabilities – Item 50

The Bank does not hold such generic hedging financial liabilities as of the reporting date.

Section 6 – Tax liabilities – Item 60

Refer to Section 10 of Assets.

Section 7 – Liabilities linked to assets held for sale – Item 70

The Group does not hold liabilities linked to assets held for sale on the reporting date.

Section 8 – Other liabilities – Item 80

8.1 *Other liabilities: breakdown*

Items	
Due to to employees	1,921
Due to social security and welfare bodies	378
Due to suppliers	17,259
Due to the Treasury	5,284
Miscellaneous items	7,645
Total 31/12/2019	**32,487**
Total 31/12/2018	**28,899**

The item consists mainly of trade payables to suppliers; this item also includes tax payables.

Section 9 – Employee severance pay – Item 90

Following the reforms to supplementary pensions in legislative decree no. 252 of 5 December 2005, post-employment benefits accruing from 1 January 2007 can be allocated either to supplementary pension schemes or transferred to the INPS pension fund, at the employee's discretion. The provisions take into account the actuarial valuations.

9.1 *Employee severance pay: annual changes*

	Total 31/12/2019	Total 31/12/2018
A. Opening balance	**575**	**586**
B. Increases	**598**	**88**
B.1 Provisions for the year	588	80
B.2 Other changes	10	8
– of which operations of business combinations	–	–
C. Decreases	**114**	**99**
C.1 Payments made	114	99
C.2 Other changes	–	–
– of which operations of business combinations	–	–
D. Closing balance	**1,059**	**575**
Total	**1,059**	**575**

The following criteria were used to calculate the TFR for IAS purposes:

SUMMARY OF TECHNICAL ECONOMIC ASSUMPTIONS

	31/12/2019	31/12/2018
Annual discount rate	1.04%	1.97%
Annual inflation rate	1.20%	1.50%
Annual rate of TFR increase	2.40%	2.63%
Annual rate of salary increase	1.00%	1.00%

It should be noted that:

- the annual discounting rate used to determine the current value of the obligation is taken, in accordance with paragraph 83 of IAS 19, from the *Iboxx Corporate* A index with *a duration of* 10+ as recorded on the valuation date. The yield with a comparable *duration* to that of the collective body of workers being valued was chosen for this purpose;
- the annual rate of increase in TFR as provided for in Article 2120 civil code is 75% of inflation +1.5 percentage points;
- the annual salary increase rate applied exclusively to companies with on average fewer than 50 staff during 2006, and in any case to identify the amounts payable for length of service bonuses, was determined in accordance with the information provided by the Bank's managers.

The technical demographic assumptions used are illustrated below.

SUMMARY OF TECHNICAL DEMOGRAPHIC ASSUMPTIONS

Death	RG 48 mortality tables published by the State General Accounting Office
Incapacity	INPS tables by age and gender
Retirement	100% on reaching the AGO requirements

9.2 Other information

The new IAS 19 for *post-employment* defined benefit plans requires a series of additional information which must be included in the Explanatory Notes to the financial statements, such as:

- a sensitivity test for each actuarial scenario at year-end, highlighting the effect that would arise if there were changes to the actuarial scenarios that were reasonably possible on that date, in absolute terms;
- an indication of the contribution for the following year;
- an indication of the average financial duration of the obligation for defined-benefit plans;
- the payments provided for in the plan.

That information is detailed below.

Sensitivity test for the main valuation criteria	31/12/2019
Turnover rate +1.00%	1,042,648
Turnover rate -1.00%	1,078,427
Inflation rate +0.25%	1,089,571
Inflation rate -0.25%	1,029,639
Discount rate +0.25%	1,021,378
Discount rate -0.25%	1,098,807

Estimated future payments	31/12/2019
Payments scheduled for 1st year	86,820
Payments scheduled for 2nd year	112,102
Payments scheduled for 3rd year	87,416
Payments scheduled for 4th year	106,544
Payments scheduled for 5th year	124,970

Reconciliation of IAS 19 valuations for the period	31/12/2019
Defined Benefit Obligation as of 01/01/2019	574,930
Service Cost	513,916
Interest Cost	9,435
Benefits paid	(114,161)
Transfers in/(out)	3,542
Expected DBO as at 31/12/2019	987,662
Actuarial (Gains)/ Losses	71,309
Defined Benefit Obligation as of 31/12/2019	1,058,971

Reconciliation of TFR IAS 19 and statutory TFR	31/12/2019
Defined Benefit Obligation as at 31/12/2019	1,058,971
Statutory TFR as at 31/12/2019	901,176
Surplus/(Deficit)	(157,795)

Service Cost and Duration	31/12/2019
Service Cost per future year	645,423
Duration of plan (years)	24.4

The book values, relating to the interval between the previous valuation and the current one are represented by the following components:

- the **initial DBO**, namely the current expected value of benefits payable in the future for work done in the past, already available at the start of the period;
- the ***Service Cost* (SC)**, which is the current expected value of benefits payable in the future in relation to work done in the current period, which in conceptual terms is assimilated to the accruing quota of statutory severance package (obviously, if the methodology described in preceding point 3. B is used, this amount will be nil);
- the ***Interest Cost* (IC)**, which is the interest on what was set aside at the start of the period and on the corresponding changes in the same period; this element is conceptually similar to the net legal revaluation of the severance package;
- the ***Benefits paid and Transfers in/(out)*** which represent all the payments and any incoming or outgoing transfers in relation to the period in question, elements that result in the utilisation of the provision set aside.

The sum of the above elements gives the *Expected DBO* for the end of the period of observation. When this is compared with the DBO recalculated at the end of the period based on the actual collective, as of that date and based on the new valuation scenarios, this identifies the *Actuarial Gains/Losses* (AGL).

Section 10 – Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: composition

Items/values	Total 31/12/2019	Total 31/12/2018
1. Allowances for credit risk relating to commitments and financial guarantees given	598	63
2. Allowance for other commitments and guarantees issued	–	56
3. Pension funds	–	–
4. Other allowances for risks and charges	484	2,736
4.1 legal and tax disputes	70	120
4.2 personnel costs	295	316
4.3 others	119	2,300
Total	**1,082**	**2,855**

The “Legal disputes” provision was set up in order to cover any losses deriving from litigation in which the cost can be reliably estimated on the basis of IAS 37. This relates to proceedings in which the Bank is the defendant, and revocation proceedings for which the future cost and duration of the dispute has been estimated. The discounting of future commitments has not been done, as this is not significant.

The “Personnel costs” provision relates to:

- long-term payments relating to the productivity bonus and incentive schemes;
- other long term service bonuses.

10.2 Allowances for risks and charges: annual changes

	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other Provisions for risks and charges	Total
A. Opening balance	**56**	**–**	**2,735**	**2,791**
B. Increases	**–**	**–**	**384**	**384**
B.1 Provision for the year	–	–	384	384
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	–	–	–
B.4 Other changes	–	–	–	–
– of which operations of business combinations	–	–	–	–
C. Decreases	**56**	**–**	**2,635**	**2,691**
C.1 Utilisation for the year	56	–	2,635	2,691
C.2 Changes due to variations in the discount rate	–	–	–	–
C.3 Other changes	–	–	–	–
– of which operations of business combinations	–	–	–	–
D. Closing balance	**–**	**–**	**484**	**484**

During the year, the costs of early termination of the *outsourcing* contract for the accounting and reporting systems used by the Bank, set aside in the previous year, were settled.

10.3 Allowances for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to commitments and financial guarantees given			
	Stage one	Stage two	Stage three	Total
1. Commitments to disburse funds	424	8	–	432
2. Financial guarantees	55	31	80	166
Total	**479**	**39**	**80**	**598**

10.4 Allowances for other commitments and guarantees issued

The Bank does not make any provision for other commitments and guarantees issued as of the reporting date.

10.5 Defined-benefit pension funds

The Bank does not present any corporate pension funds as of the reporting date.

10.6 Allowances for risks and charges– other provisions

During the year, the costs of early termination of the outsourcing contract for the accounting and reporting systems used by the Bank, set aside in the previous year, were settled.

Section 11 - Redeemable shares - Item 120

The Bank does not hold redeemable shares as of the reporting date.

Section 12 - Bank’s equity - Items 110, 130, 140, 150, 160, 170 and 180

12.1 “Share capital” and “Treasury shares”: breakdown

As of 31 December 2019, the Bank's subscribed and paid up share capital amounted to 43,407,662 euros, divided into 65,164,434 ordinary shares (equivalent to 42,469,180.25 euros) and 1,440,000 special shares (equivalent to 938,481.56 euros), without par value.

12.2 Capital - Number of shares: annual changes

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**59,422,861**	**1,440,000**
– fully paid	59,422,861	1,440,000
– not fully paid	–	–
A.1 Treasury shares (-)	–	–
A.2 Shares outstanding: initial balance	**59,422,861**	**1,440,000**
B. Increases	**5,741,573**	**–**
B.1 New issues	5,741,573	–
– for cash:	–	–
– operation of business combinations	–	–
– conversion of bonds	–	–
– exercise of warrants	–	–
– other	–	–
– free:	5,741,573	–
– in favour of employees	43,022	–
– in favour of Directors	–	–
– other	5,698,551	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. Decreases	**(10,554)**	**–**
C.1 Cancellation	–	–
C.2 Purchase of treasury shares	(10,554)	–
C.3 Disposal of companies	–	–
C.4 Other changes	–	–
D. Shares outstanding: closing balance	**65,153,880**	**1,440,000**
D.1 Treasury shares (+)	10,554	–
D.2 Shares existing at the end of the year	65,164,434	1,440,000
– fully paid	65,164,434	1,440,000
– not fully paid	–	–

The number of shares existing at the beginning of the year takes into account the extraordinary reverse merger, which took place with accounting backdating on 1 January 2019 in accordance with the principle of continuity of values, as required by international accounting standards.

12.3 Capital - other information

On 18 January 2019 the Bank's extraordinary meeting of shareholders authorised the following capital increases for the purposes of the Bank's remuneration and bonus plans, subject to the effect of the Merger, and from the merger date:

- paid and separable, by 31 December 2027, with a maximum nominal value of EUR 1,496,671.34 excluding the right of option (Article 2441(8) civil code), by issuing a maximum of 2,100,000 new ordinary shares in illimity S.p.A. with the same characteristics as the ordinary illimity S.p.A. shares already in circulation on the date of issue of the new ordinary shares, with normal dividend rights at a price to be determined as equal to the arithmetical average of the official prices of the ordinary SPAXS shares recorded on AIM Italia and/or the ordinary illimity shares on the MTA on the trading days between the date prior to the date of allocation of the Options mentioned above and the day in the previous calendar month having the same date as the day of allocation of the Options (or failing that, the day immediately prior). The increase is intended to implement the "*Stock Option Plan*";
- through a proxy, for a maximum of five years from the effective date of the Meeting resolution, to be exercised on one or more occasions, and separable, with a maximum nominal value of 498,890.45 euros, through the issue of a maximum of 700,000 new ordinary illimity shares with no indication of nominal value, having the same characteristics as the ordinary illimity shares already issued on the date of issue of the new ordinary shares, with normal dividend rights, at an issue value equal to the implicit nominal value of the illimity shares on the date of execution of this proxy, through the allocation of a corresponding amount of profits and/or profit reserves (article 2349 Italian Civil Code) to be allocated free of charge to the beneficiaries of the "*Employee Stock Ownership Plan*"; On 7 June 2019, the resolution of the Board of Directors dated 10 May 2019 was implemented, partially implementing the aforementioned proxy to increase share capital - with an increase in share capital of 30,661.81 euros through the issue of 43,022 new ordinary shares;
- through a proxy, for a maximum of five years from the effective date of the related Meeting resolution to be exercised on one or more occasions, and separable, for a free increase in share capital up to a maximum nominal value of 85,524.08 euros through the issue of a maximum of 120,000 new ordinary illimity shares with no indication of nominal value, having the same characteristics as the ordinary illimity shares already in circulation on the date of issue of the new ordinary shares, with normal dividends, at an issue value equal to the implicit nominal value of the illimity shares on the date of execution of the authority, to be allocated in full to capital, through the allocation of the corresponding amount of profits and/or profit reserves (article 2349 Italian Civil Code), to be allocated free of charge to the employees of illimity and its direct or indirect subsidiaries who are beneficiaries (i) of the "MBO 2019 *Plan*", (ii) of any payments recognised at the time of the early termination of the contract of employment in line with the contents of the remuneration policies in (i) and (iii) of the remuneration policies approved from time to time by illimity during the maximum period of duration of this authority, taking into account the relevant pro tempore regulatory provisions.

On 20 September 2019, in accordance with the provisions of the Regulation on "Conditional Share Rights of illimity S.p.A." (the "Conditional Share Rights") then in force, holders of 28,492,827 Conditional Share Rights outstanding on that date were assigned 5,698,551 new-issue illimity common stock shares (the "Converted Shares"), divided among all holders of Conditional Share Rights according to the ratio of 1 Converted Share for every 5 Conditional Share Rights held, resulting in the cancellation of all Conditional Share Rights outstanding on that date.

In accordance with the aforementioned Regulation on Conditional Share Rights, the allocation of the Converted Shares took place without any expression of will on the part of the holders of the Conditional Share Rights and without any change in the size of the share capital.

12.4 *Profit reserves: other information*

Items/values	31/12/2019	31/12/2018
A. Profit reserves	12,007	12,007
1. Legal reserve	804	804
2. Reserve for purchase of treasury shares	–	–
3. Extraordinary reserve	10,228	10,695
4. Losses carried forward	–	(21)
5. First-time reserves	508	529
6. Other reserves	467	–
B. Capital reserves	24,987	202,582
1. Reserve on account of future capital increase	–	200,000
2. Other reserves	24,987	2,582
Total	**36,994**	**214,589**

The profit reserves on 31 December 2019 amount to EUR 12,007,405.

As required by article 2427, para. 1, no. 7 bis) Italian Civil Code, below is a report summarising the shareholders' equity items, distinguished by origin, with details of the possibility of use and distribution.

Nature/Description	Amount	Possible use	Available Share	Summary of the amounts used in the past three years	
				to cover losses	for other reasons
Share capital	**43,408**				
Share premium reserve	**480,156**	**ABC[1]**	**480,156**	**(29,124)**	
Valuation reserves	**945**				
Financial assets at fair value through other comprehensive income	1,057	[3]	–		
Actuarial profits (losses) relating to defined benefit plans	(112)				
Reserves	**36,994**		**35,722**		
Legal reserve	804	B[2]	–		
Reserve for purchase of treasury shares	467	ABC	–		
Extraordinary reserve	10,228	ABC	10,228		
Other reserves	25,495	ABC	25,494		
Treasury shares	**(96)**				
Net profit (loss) (+/-) for the period	**(16,840)**			**(29,124)**	
Total	**544,568**		**515,878**	**(29,124)**	**–**

Key:
A = for capital increases
B = to cover losses
C = for distribution to shareholders

1 According to Article 2431 Italian Civil Code, the issue premium reserve can be fully utilised, as the legal reserve has reached the limit of one-fifth of the share capital as required by Article 2430 Italian Civil Code.

2 The legal reserve is available for a capital increase and distribution only for the portion exceeding one-fifth of the share capital, according to article 2430 (1) civil code.

3 The revaluation reserve is not available pursuant to Article 6 of Legislative Decree no. 38/2005.

12.5 *Equity instruments: breakdown and annual changes*

The Bank does not hold equity instruments.

12.6 *Other information*

On 5 March 2019, illimity Bank S.p.A. completed the reverse merger with SPAXS S.p.A. ("SPAXS") with the completion of the translisting after obtaining admission for passage from the AIM market to the MTA market by Borsa Italiana S.p.A. and obtaining clearance by Consob for publication of the report.

The accounting and tax effective date of the reverse merger of SPAXS into BIP was 1 January 2019. The reverse merger represents the arrival point of the business combination process that allowed SPAXS to take control of Banca Interprovinciale at the end of the third quarter of 2018.

Basic and diluted loss per share

The basic loss per share is calculated by dividing the Bank's net loss for the year by the weighted average number of ordinary shares in issue during the year. The diluted loss per share on 31 December 2019 coincides with the basic loss per share.

As described previously, on 20 September 2019, holders of Conditional Share Rights were assigned 5,698,551 new-issue illimity converted shares, having the same characteristics as the Ordinary Shares, and at the same time, 28,492,827 Conditional Share Rights were cancelled. This increase in the number of shares, in keeping with IAS 33 requirements, was considered retroactively as if it had occurred at the start of 2018 (comparison period). Comparative data for the period ended 31 December 2018 were therefore restated.

Basic and diluted loss per share	Net profit/loss for the year	Average number of shares	Basic and diluted loss per share
Period ended 31 December 2019	(16,840)	65,128,632	(0.26)
Period ended 31 December 2018	(29,124)	57,342,876	(0.51)

Other information

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given			Total 31/12/2019	Total 31/12/2018
	Stage one	Stage two	Stage three		
1. Commitments to disburse funds	**167,941**	**7,991**	**25,549**	**201,481**	**152,382**
a) Central banks	–	–	–	–	–
b) Public administrations	–	–	–	–	–
c) Banks	–	–	–	–	–
d) Other financial companies	30,126	–	–	30,126	25,849
e) Non-financial companies	134,256	7,716	25,498	167,470	119,283
f) Households	3,559	275	51	3,885	7,250
2. Financial guarantees	**6,786**	**5,119**	**827**	**12,732**	**1,750**
a) Central banks	–	–	–	–	–
b) Public administrations	–	–	–	–	–
c) Banks	–	–	–	–	141
d) Other financial companies	1,948	–	–	1,948	–
e) Non-financial companies	4,701	5,102	827	10,630	1,609
f) Households	137	17	–	154	–

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2019	Nominal value Total 31/12/2018
1. Other guarantees issued		**19,734**
of which: impaired	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	1,977
e) Non-financial companies	–	16,954
f) Households	–	804
2. Other commitments	**5,961**	**233**
of which: impaired	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	913	–
e) Non-financial companies	4,778	233
f) Households	–	–

3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	100	–
2. Financial assets measured at fair value through other comprehensive income	42,362	32,481
3. Financial assets measured at amortised cost	279,845	124,402
4. Property and equipment assets	–	–
of which: Property and Equipment held as inventories	–	–

4. Administration and brokerage for third parties

Type of service	Amount 31/12/2019
1. Execution of orders for customers	**–**
a) purchases	–
1. settled	–
2. not settled	–
b) sales	–
1. settled	–
2. not settled	–
2. Individual portfolio management	**–**
3. Custody and administration of securities	**1,891,194**
a) third-party securities deposited: related to depositary bank activities (excluding portfolio management)	–
1. securities issued by reporting bank	–
2. other securities	–
b) third party securities deposited (excluding portfolio management): others	280,645
1. securities issued by reporting bank	524
2. other securities	280,121
c) third party securities deposited with third parties	280,604
d) proprietary securities deposited with third parties	1,329,945
4. Other transactions	**–**

5. Assets subject to offsetting in financial statement, or subject to master netting agreements or similar agreements

Technical formats	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Related amounts not offset in the financial statements		Net amount (f=c-d-e) 31/12/2019	Net amount 31/12/2018
				Financial instruments (d)	Cash deposits received as garantees		
1. Derivatives	–	–	–	–	–	–	–
2. Repurchase agreements	–	–	–	276,200	163,740	439,940	–
3. Loan of securities	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
Total 31/12/2019	**–**	**–**	**–**	**276,200**	**163,740**	**439,940**	**X**
Total 31/12/2018	**–**	**–**	**–**	**–**	**–**	**X**	**–**

6. Financial liabilities subject to offsetting in financial statements, or subject to master netting agreements or similar agreements

Technical formats	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Related amounts not offset in the financial statements		Net amount (f=c-d-e) 31/12/2019	Net amount 31/12/2018
				Financial instruments (d)	Cash deposits as guarantees		
1. Derivatives	–	–	–	–	–	–	–
2. Repurchase agreements	–	–	–	278,512	161,428	(439,940)	–
3. Loan of securities	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2019	**–**	**–**	**–**	**278,512**	**161,428**	**(439,940)**	**X**
Total 31/12/2018	**–**	**–**	**–**	**–**	**–**	**X**	**–**

As described in the paragraph “New accounting standards or changes to existing standards approved by the European Commission” contained in Part A – accounting policies, from 1 January 2013 the changes to IFRS 7 concerning disclosures on set-off agreements, as approved with Regulation no. 1256 of 13 December 2012, came into mandatory application.

Following these approved changes, IFRS 7 requires specific disclosures to be given about financial instruments that have been offset on the balance sheet under IAS 32, and which can potentially be offset under certain conditions, but presented on the balance sheet with opening balances as they are regulated by “master netting agreements or similar” which do not however meet the criteria of IAS 32 to make the set off on the financial statements.

In providing *disclosures* of these agreements, the standard also requires that consideration be given to the effects of the real financial guarantees (including guarantees in cash) received and given.

7. Securities lending transactions

There are no securities lending transactions at the reference date.

8. Disclosure on joint control activities

There are no joint control activities at the reference date.

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2019	Total 31/12/2018
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 fair-value valuation	–	–	–	–	–
2. Financial assets measured at fair value through other comprehensive income	**1,723**	**–**	**X**	**1,723**	**2,861**
3. Financial assets measured at amortised cost:	**23,474**	**18,491**	**X**	**41,965**	**13,118**
3.1 Due from banks	–	407	X	407	326
3.2 Loans to customers	23,474	18,084	X	41,558	12,792
4 Hedging derivatives	**X**	**X**	**–**	**–**	**–**
5. Other assets	**X**	**X**	**70**	**70**	**–**
6. Financial liabilities	**X**	**X**	**X**	**249**	**550**
Total	**25,197**	**18,491**	**70**	**44,007**	**16,529**
of which: interest income on impaired assets	*15,076*	*2,369*	–	*17,445*	*4,006*
of which: interest income on finance leasing	–	–	–	–	–

1.2 Interest income and similar income: other information

1.2.1 Interest income on foreign currency financial assets

Items/values	31/12/2019	31/12/2018
Interest income on foreign currency financial assets	475	93

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debt	Securities	Other transactions	Total 31/12/2019	Total 31/12/2018
1. Financial liabilities measured at amortised cost	(11,879)	(545)	X	(12,424)	(3,979)
1.1 Amounts due to central banks	(123)	X	X	(123)	(43)
1.2 Amounts due to banks	(2,188)	X	X	(2,188)	(136)
1.3 Amounts due to customers	(9,568)	X	X	(9,568)	(1,755)
1.4 Debt securities issued	X	(545)	X	(545)	(2,045)
2. Financial liabilities held for trading	–	–	–	–	–
3. Financial liabilities designated at fair value	–	–	–	–	–
4. Other liabilities and provisions	X	X	(1)	(1)	–
5. Hedging derivatives	X	X	–	–	–
6. Financial assets	X	X	X	(1,087)	(271)
Total	**(11,879)**	**(545)**	**(1)**	**(13,512)**	**(4,250)**
of which: interest expense relative to leasing liabilities	*(1,258)*	–	–	*(1,258)*	–

1.4 Interest expense and similar charges: other information

1.4.1 Interest expenses on liabilities denominated in currency

Items/values	31/12/2019	31/12/2018
Interest expenses on liabilities denominated in currency	(5)	(52)

1.5 Hedging differentials

The Bank has no *Hedge Accounting* operations.

Section 2 – Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 31/12/2019	Total 31/12/2018
a) guarantees given	209	262
b) credit derivatives	–	–
c) management, brokerage and advisory services:	391	399
1. securities trading	-	-
2. currency trading	12	1
3. individual portfolio management	–	–
4. custody and administration of securities	5	11
5. custodian bank	–	–
6. placement of securities	83	278
7. reception and transmission of orders	12	85
8. advisory services	–	–
8.1 related to investments	–	–
8.2 related to financial structure	–	–
9. distribution of third-party services	279	24
9.1 portfolio management	–	–
9.1.1 individual	–	–
9.1.2 collective	–	–
9.2 insurance products	259	3
9.3 other products	20	21
d) collection and payment services	411	925
e) servicing of securitisation transactions	–	–
f) factoring services	420	-
g) tax collection services	–	–
h) management of multilateral trading systems	–	–
i) maintenance and management of current accounts	549	3,125
j) other services	9,601	127
Total	**11,581**	**4,838**

Sub-item "j) other services" includes *structuring fees* related to new finance transactions within the DCIS Division (*Senior Financing*) and the EMS Division.

2.2 Fee and commission income: distribution channels of products and services

Channel/Amount	Total 31/12/2019	Total 31/12/2018
a) at own branches:	103	302
1. portfolio management	–	–
2. placement of securities	83	278
3. third-party services and products	20	24
b) off-site offer:	–	–
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party services and products	–	–
c) other distribution channels:	259	–
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party services and products	259	–

2.3 Fee and commission expense: breakdown

Service/Amount	Total 31/12/2019	Total 31/12/2018
a) guarantees received	(15)	(41)
b) credit derivatives	–	–
c) management and brokerage services:	(279)	(47)
1. securities trading	(210)	(17)
2. currency trading	–	–
3. portfolio management:	–	–
3.1. own	–	–
3.2 delegated to third parties	–	–
4. custody and administration of securities	(69)	(30)
5. placement of financial instruments	–	–
6. off-site offer of financial instruments, products and services	–	–
d) collection and payment services	(257)	(205)
e) other services	(652)	(350)
Total	**(1,203)**	**(643)**

Section 3 – Dividends and similar income – Item 70

No dividends were collected during the year.

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

4.1 Profits (losses) on trading: composition

Transaction/Income item	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) – (C+D)]
1. Financial assets held for trading	**33**	**1**	**(35)**	**(11)**	**(12)**
1.1 Debt securities	–	–	–	(1)	(1)
1.2 Equity instruments	–	–	–	–	–
1.3 Units of UCIs	33	1	(35)	(10)	(11)
1.4 Loans	–	–	–	–	–
1.5 Others	–	–	–	–	–
2. Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**
2.1 Debt securities	–	–	–	–	–
2.2 Debts	–	–	–	–	–
2.3 Others	–	–	–	–	–
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**123**
4. Derivatives	**–**	**–**	**–**	**–**	**–**
4.1 Financial derivatives:	–	–	–	–	–
– On debt securities and interest rates	–	–	–	–	–
– On equity securities and share indices	–	–	–	–	–
– On currency and gold	X	X	X	X	–
– Others	–	–	–	–	–
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedging related to the fair value option	*X*	*X*	*X*	*X*	–
Total	**33**	**1**	**(35)**	**(11)**	**111**

Section 5 – Profit (losses) on hedge accounting – Item 90

The Bank has no *Hedge Accounting* operations.

Section 6 - Profits (losses) on disposals/repurchases – item 100

6.1 Profits (Losses) on disposals/repurchases: breakdown

Item/Income item	Total 31/12/2019			Total 31/12/2018		
	Profit	Loss	Net profit/loss	Profit	Loss	Net profit/loss
A. Financial assets						
1. Financial assets measured at amortised cost	8,788	(710)	8,078	–	–	–
1.1 Loans to banks	–	–	–	–	–	–
1.2 Loans to customers	8,788	(710)	8,078	–	–	–
2. Financial assets measured at fair value through other comprehensive income	2,759	(164)	2,595	2,485	(17,287)	(14,802)
2.1 Debt securities	2,759	(164)	2,595	2,485	(17,287)	(14,802)
2.2 Loans	–	–	–	–	–	–
Total assets (A)	**11,547**	**(874)**	**10,673**	**2,485**	**(17,287)**	**(14,802)**
B. Financial liabilities measured at amortised cost						
1. Amounts due to banks	–	–	–	–	–	–
2. Payables to customers	–	–	–	–	–	–
3. Debt securities issued	–	–	–	–	–	–
Total liabilities (B)	**–**	**–**	**–**	**–**	**–**	**–**

During the fourth quarter of 2019, the Bank redefined the investment strategy of the securities portfolio by selling all securities managed through a *business Held to Collect* model. The disposal of this portfolio (approximately EUR 103 million in September 2019) led to the accounting of approximately EUR 8 million of trading profits.

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

7.1 Net change in the value of other financial assets and liabilities measured at fair value through income statement: breakdown of financial assets and liabilities designated at fair value

Bank did not record any profits or losses from such assets or liabilities measured at *fair value* in 2019.

7.2 Net change in the value of other financial assets and liabilities measured at fair value through income statement: breakdown of other financial assets mandatorily measured at fair value fair-value valuation

Transaction/Income item	Capital gains (A)	Realised profits (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**18**	**–**	**(530)**	**–**	**(512)**
1.1 Debt securities	–	–	–	–	–
1.2 Equity instruments	–	–	(530)	–	(530)
1.3 Units of UCIs	18	–	–	–	18
1.4 Loans	–	–	–	–	–
2. Financial assets in currency: exchange differences	**X**	**X**	**X**	**X**	**–**
Total	**18**	**–**	**(530)**	**–**	**(512)**

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

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

Transaction/Income item	Value adjustments (1)			Value write-backs (2)		Total 31/12/2019	Total 31/12/2018
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
A. Loans to banks	**(283)**	**–**	**–**	**94**	**–**	**(189)**	**28**
– Loans	(283)	–	–	94	–	(189)	28
– Debt securities	–	–	–	–	–	–	–
of which: credit impaired purchased or originated	–	–	–	–	–	–	–
B. Loans to customers	**(5,677)**	**–**	**(7,621)**	**2,272**	**11,849**	**823**	**(7,643)**
– Loans	(5,086)	–	(7,171)	2,020	11,849	1,612	(7,452)
– Debt securities	(591)	–	(450)	252	–	(789)	(191)
of which: credit impaired purchased or originated	–	–	*(147)*	–	*8,990*	*8,844*	–
Total	**(5,960)**	**–**	**(7,621)**	**2,366**	**11,849**	**634**	**(7,615)**

The sub-item "*impaired* credits acquired or originated" recognises the amount of adjustments/reversals of *impaired* credits acquired or originated as a result of income or revisions of business plans.

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

Transaction/Income item	Value adjustments (1)			Value write-backs (2)		Total 31/12/2019	Total 31/12/2018
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Debt securities	**(404)**	**–**	**–**	**408**	**–**	**4**	**(109)**
B. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– To customers	–	–	–	–	–	–	–
– To banks	–	–	–	–	–	–	–
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
Total	**(404)**	**–**	**–**	**408**	**–**	**4**	**(109)**

Section 9 - Profits (losses) on changes in contracts without derecognition – item 140

The Bank did not achieve any profits or losses from contract amendments of a significant amount in 2019.

Section 10 – Administrative expenses – Item 160

10.1 Personnel costs: breakdown

Type of expense/Amount	Total 31/12/2019	Total 31/12/2018
1) Employees	(26,942)	(8,392)
a) wages and salaries	(17,809)	(6,192)
b) social security contributions	(3,858)	(1,720)
c) provision for employee severance pay	–	(1)
d) pension costs	–	–
e) provision for employee severance pay	(529)	(80)
f) provision for retirements and similar provisions:	–	–
– defined contribution	–	–
– defined benefits	–	–
g) payments to external complementary pension funds:	(596)	(169)
– defined contribution	(596)	(169)
– defined benefits	–	–
h) costs deriving from payment agreements based on own equity instruments	–	–
i) other employee benefits	(4,150)	(230)
2) Other personnel in service	(970)	(299)
3) Directors and statutory auditors	(1,314)	(1,319)
4) Expenses for retired personnel	–	–
5) Recoveries of payments for employees seconded to other companies	–	–
6) Refund of expenses for third-party employees seconded to the company	–	–
Total	**(29,226)**	**(10,010)**

10.2 Average number of employees per category

Job level	No. of employees	Average age
a) senior managers	40	46
b) management supervisors	168	37
c) other employees	88	32
Total employees	**296**	**38**
Other personnel	**21**	**34**

10.3 Defined-benefit pension funds: costs and revenues

There are no company defined-benefit pension funds.

10.4 Other employee benefits

The other benefits to employees mainly relate to remunerated benefits, canteen *vouchers* and various insurance policies.

10.5 Other administrative expenses: breakdown

Type of expense/Amount	Total 31/12/2019
Rental of premises	(500)
Insurance	(474)
Various payments	(4,581)
Various consulting services	(10,859)
Membership fees	(263)
DGS, SRF contribution and voluntary scheme	(873)
Cost of services	(2,403)
Financial information	(933)
Adverts and advertising	(4,713)
Financial statement review	(186)
Maintenance and repair costs	(443)
Representation expenses	(317)
IT and software expenses	(9,312)
Legal and notary's fees	(7,760)
Postal and stationery expenses	(230)
Utilities	(1,237)
Other indirect taxes and duties	(1,530)
Others	(5,016)
Total 31/12/2019	**(51,630)**
Total 31/12/2018	**(21,134)**

The item "Sundry fees" mainly includes fees related to the use of the accounting system. The sub-item "Miscellaneous consultancy" mainly includes consultancy that the Bank used during 2019 as part of the start-up phase in order to implement its business models. The "IT and software expenses" component includes costs related to the use of the Bank's application systems. The "Legal and notary fees" component is mainly related to legal costs related to due diligence activities related to NPL credit acquisitions.

Section 11 – Net provisions for risks and charges – Item 170

11.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

Income item/Amount	value adjustments		Value write-backs		31/12/2019	31/12/2018
	Stage one and Stage two	Stage three	Stage one and Stage two	Stage three		
Guarantees issued	(167)	(18)	135	–	(50)	(57)
Irrevocable commitments to disburse funds	(498)	–	69	–	(430)	1
Total	**(665)**	**(18)**	**204**	**–**	**(480)**	**(56)**

11.2 Net provisions relating to other commitments and guarantees issued: breakdown

In 2019 the Bank did not make any net provisions relating to other commitments and guarantees issued.

11.3 Net provisions for other funds for risks and charges: breakdown

The item Net Provisions to other funds for risks and charges, the balance of which amounts to EUR 62 thousand, includes allocations and releases for the year that mainly related to passive causes and provisions for personnel costs, see Part B of the Explanatory Notes for more details.

Section 12 - Net adjustments/recoveries on property and equipment - Item 180

12.1 Net value adjustments on property and equipment: breakdown

Asset/Income items	Amortisation	Value adjustments for impairment	Value Write-backs	Net result
	(a)	(b)	(c)	(a + b – c)
A. Tangible assets				
1 For business use	(2,004)	–	–	(2,004)
– Owned	(410)	–	–	(410)
– Lease rights of use	(1,594)	–	–	(1,594)
2 Held for investment	–	–	–	–
– Owned	–	–	–	–
– Lease rights of use	–	–	–	–
3 Inventories	X	–	–	–
Total	**(2,004)**	**–**	**–**	**(2,004)**

Section 13 - Net adjustments/recoveries on intangible assets – Item 190

13.1 Net adjustments/recoveries to intangible assets: breakdown

Asset/Income item	Amortisation	Value adjustments for impairment	Value write-backs	Net profit/loss
	(a)	(b)	(c)	(a + b – c)
A. Intangible assets				
A.1 Owned	(1,108)	–	–	(1,108)
– Generated internally by the company	(110)	–	–	(110)
– Other	(998)	–	–	(998)
A.2 Lease rights of use	–	–	–	–
Total	**(1,108)**	**–**	**–**	**(1,108)**

Section 14 – Other operating expenses/income – Item 200

14.1 Other operating expenses: breakdown

Income item/Amount		31/12/2019
Other operating costs - real estate costs of third parties		(50)
Other operating costs		(136)
Total	**Other operating costs 31/12/2019**	**(186)**
Total	**Other operating costs 31/12/2018**	**(404)**

14.2 Other operating income: breakdown

Items/Values		31/12/2019
Recovery of expenses		1,987
Other income		1,725
Total	**Other operating income 31/12/2019**	**3,712**
Total	**Other operating income 31/12/2018**	**1,008**

The item "Other operating income" includes compensation of EUR 1.3 million related to the acquisition of Banca Interprovinciale as of 31.12.2019.

Section 15 – Profit (loss) from equity investments – Item 220

The Bank did not earn profits (losses) from equity investments.

Section 16 – Profits (losses) of fair value valuation of Property and Equipment and intangible assets - item 230

The Bank did not hold tangible and intangible assets measured at *fair value* over the course of the year.

Section 17 – Goodwill impairment – Item 240

The Bank made no start-up value adjustments in 2019.

Section 18 – Profits (losses) on disposal of investments – Item 250

There are no profits (losses) from disposal of investments of significant amount during 2019.

Section 19 – Income taxes for the year on current operations – Item 270

19.1 Income taxes for the year on current operations: breakdown

Income items/Amounts	Total 31/12/2019	Total 31/12/2018
1. Current tax (-)	–	361
2. Adjustment to current tax of prior years (+/-)	(4,022)	8
3. Reduction of current tax for the year (+)	–	–
3.bis Reduction of current taxes for the year for tax credits pursuant to Law no. 214/2011 (+)	–	–
4. Change in deferred tax assets (+/-)	16,383	10,613
5. Change in deferred taxes (+/-)	–	–
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	12,361	10,982

The taxes for the year mainly consist of the change in the prepaid taxes on the fiscal loss and on the ACE surplus, reintroduced with the Budget Law 2020, while the current taxes for the year are zero.

The Bank also recognised prepaid 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.

19.2 Reconciliation of theoretical tax charge to actual tax charge

Profit (loss) from current operations before tax	(29,201)	27.50%
Theoretical tax charge - IRES	**8,030**	
– Permanent positive differences		
Others	5,080	27.50%
– Permanent negative differences		
Others	(651)	27.50%
Carry-forward tax losses	(11,285)	27.50%
– Temporary positive differences	2,724	27.50%
– Temporary negative differences	(7,703)	27.50%
Taxable income	**(41,036)**	**27.50%**
Actual tax charge - IRES	**(11,285)**	
Profit (loss) from current operations before tax	**(29,201)**	**5.57%**
Theoretical tax charge - IRAP	**1,627**	
– Permanent positive differences		
Personnel expenses net of the tax wedge	3,264	5.57%
Others	9,956	5.57%
– Permanent negative differences		
Others	–	5.57%
– Temporary positive differences	2,379	5.57%
– Temporary negative differences	(15,344)	5.57%
Taxable income	**(28,947)**	**5.57%**
Actual tax charge – IRAP	**(1,612)**	
Total actual tax charge, IRES and IRAP	**–**	**33.07%**

Section 20 – Profit (Loss) (+/-) from discontinued operations after taxes – Item 290

There is no profit (loss) from disposed operations net of taxes.

Section 21 – Other information

There is no other information as of the reporting date.

Section 22 - Profit per share

Refer to the presentation in the same section of the Explanatory Note of the Financial Statement.

Disclosure of fees for legal auditing and other fees

Pursuant to the provisions of art. 149 *duodecies* of Consob Issuers' Regulations, the following table lists information regarding the payments disbursed to Independent Auditors KPMG S.p.A. and coming from companies belonging to the same network. The amounts reported below are net of VAT, Operating Costs and ISTAT Adjustment:

Type of service	Service provider	Sums due	
		illimity Bank S.p.A.	Group Companies
Accounting Audit	KPMG S.p.A.	147,000	159,000
Certification services	KPMG S.p.A.	76,000	
Other services	KPMG Advisory S.p.A.	90,000	
Total		**313,000**	**159,000**

PART D – COMPREHENSIVE INCOME

ANALYTICAL REPORT OF COMPREHENSIVE INCOME

Items		31/12/2019	31/12/2018
10.	**Net profit (loss) (+/-) for the period**	**(16,840)**	**(29,124)**
	Other income components not transferred to the income statement	**(47)**	**(13)**
20.	Equity instruments measured at fair value through other comprehensive income		
	a) fair value changes	2	5
	b) transfers to other shareholders' equity items		
30.	Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)		
	a) fair value changes		
	b) transfers to other shareholders' equity		
40.	Hedging of equity instruments measured at fair value through other comprehensive income		
	a) fair value changes (hedged instrument)		
	b) fair value changes (hedging instrument)		
50.	Property and equipment assets		
60.	Intangible assets		
70.	Defined-benefit plans	(71)	(18)
80.	Non-current assets and disposal groups		
90.	Share of valuation reserves for equity investments measured at equity		
100.	Other income components without recycling to the income statement	22	
	Other income components with recycling to the income statement	**967**	**(5,332)**
110.	Hedging of foreign investments		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
120.	Foreign exchange differences		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
130.	Cash flow hedges		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
140.	Hedging instruments (undesignated elements)		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		

(cont'd)

Items		31/12/2019	31/12/2018
150	Financial assets (other than equity instruments) at fair value through other comprehensive income		
	a) fair value changes	1,377	(1,558)
	b) reclassification through income statement		
	– adjustments for credit risk	(4)	
	– profits/losses on disposals	560	(3,633)
	c) other changes		(141)
160	Non-current assets and disposal groups		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
170	Share of valuation reserves for equity investments measured at equity		
	a) fair value changes		
	b) reclassification through income statement		
	– adjustments due to impairment		
	– profits/losses on disposals		
	c) other changes		
180	Income taxes relating to other income components with recycling to the income statement	(966)	
190	**Total other income components**	**920**	**(5,345)**
200	**Comprehensive income (Item 10+190)**	**(15,920)**	**(34,470)**

PART E– INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

Preamble

Quantitative information on the risks referred to the Bank is provided in this part of the Explanatory note to the Financial Statements. For qualitative information, refer to the exposure in Part E of the Explanatory note to the consolidated financial statements.

The qualitative and quantitative information is presented in the order established by Bank of Italy Circular No. 262, which also regulates, in a timely manner – in addition to the form of the table – the sequence of the different topics, with the exception of the section relating to market risks in relation to the application of internal models.

Section 1 – Credit Risk

Qualitative information

Qualitative information on credit quality is illustrated in Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

For the purposes of quantitative information on credit quality, the term "credit exposures" means financial assets excluding equity securities and units of UCIs.

A.1 Impaired and non-impaired credit exposures: amounts, value adjustments, trends and economic distribution

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

Portfolio/quality	Bad loans	Unlikely-to-pay positions	Past-due impaired exposures	Past due non-impaired exposures	Other non-impaired exposures	Total
1. Financial assets measured at amortised cost	631,105	147,193	1,209	10,082	1,201,693	1,991,282
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	125,773	125,773
3. Financial assets designated at fair value	–	–	–	–	–	–
4. other financial assets mandatorily measured at fair value	–	–	–	–	2,342	2,342
5. Financial assets held for sale	–	–	–	–	–	–
Total 31/12/2019	**631,105**	**147,193**	**1,209**	**10,082**	**1,329,808**	**2,119,397**
Total 31/12/2018	**98,761**	**9,453**	**205**	**42,033**	**626,221**	**776,672**

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

Portfolio/quality	Impaired				Non-impaired			
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortised cost	798,418	(18,911)	779,507	–	1,218,072	(6,297)	1,211,775	1,991,282
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	125,969	(196)	125,773	125,773
3. Financial assets designated at fair value	–	–	–	–	X	X	–	–
4. other financial assets mandatorily measured at fair value	–	–	–	–	X	X	2,342	2,342
5. Financial assets held for sale	–	–	–	–	–	–	–	–
Total 31/12/2019	**798,418**	**(18,911)**	**779,507**	**–**	**1,344,041**	**(6,493)**	**1,339,890**	**2,119,397**
Total 31/12/2018	**121,994**	**(13,576)**	**108,418**	**–**	**672,504**	**(4,249)**	**668,454**	**776,672**

A.1.3 Breakdown of financial assets by category of impairment (book values)

Portfolios/risk stages	Stage one			Stage two			Stage three		
	Between 1 day to 30 days	Between 30 and 90 days	More than 90 days	Between 1 day to 30 days	More than 30 days to 90 days	More than 90 days	Between 1 day to 30 days	More than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	6,451	528	–	307	2,445	352	1,336	1,718	697,153
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–
3. Financial assets held for sale	–	–	–	–	–	–	–	–	–
Total 31/12/2019	**6,451**	**528**	**–**	**307**	**2,445**	**352**	**1,336**	**1,718**	**697,153**
Total 31/12/2018	**35,764**	**–**	**–**	**3,157**	**2,119**	**993**	**1,844**	**530**	**100,843**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: trend of the total value adjustments and total provisions

p.1

Descriptions/risk stages	Total value adjustments									
	Assets in stage one					Assets in stage two				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**2,496**	**200**	**–**	**–**	**2,696**	**1,554**	**–**	**–**	**–**	**1,554**
Increases in purchased or originated financial assets	–	–	–	–	–	–	–	–	–	–
Derecognitions other than write-offs	–	–	–	–	–	–	–	–	–	–
Net value adjustments/write-backs for credit risk (+/-)	409	(200)	–	–	558	43	–	–	–	43
Contractual amendments without derecognitions	–	–	–	–	–	–	–	–	–	–
Changes in estimate methodology	–	–	–	–	–	–	–	–	–	–
Write-offs not recognised directly on the income statement	–	–	–	–	–	–	–	–	–	–
Other changes	2,799	196	–	–	2,601	(1,003)	–	–	–	(1,003)
Final total adjustments	**5,704**	**196**	**–**	**–**	**5,855**	**594**	**–**	**–**	**–**	**594**
Recoveries from receipts on written-off financial assets	–	–	–	–	–	–	–	–	–	–
Write-offs recognised directly on the income statement	–	–	–	–	–	–	–	–	–	–
Recoveries from receipts on write- off financial assets	–	–	–	–	–	–	–	–	–	–
Write-offs recognised directly on the income statement	–	–	–	–	–	–	–	–	–	–

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: trend of the total value adjustments and total provisions

p.2

Descriptions/risk stages	Total value adjustments						Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets in stage three					Of which: purchased or originated impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs		Stage one	Stage two	Stage three	
Opening total adjustments	**13,576**	**–**	**–**	**13,576**	**–**	**–**	**97**	**20**	**2**	**17,945**
Increases in purchased or originated credit impaired financial assets	703	–	–	703	–	703	–	–	–	703
Derecognitions other than write-offs	–	–	–	–	–	–	–	–	–	–
Net value adjustments/ write-backs for credit risk (+/-)	(135)	–	–	(135)	–	–	–	–	–	117
Contractual amendments without derecognitions	–	–	–	–	–	–	–	–	–	–
Changes in estimate methodology	–	–	–	–	–	–	–	–	–	–
Write-offs not recognised directly on the income statement	–	–	–	–	–	–	–	–	–	–
Other changes	4,768	–	–	4,768	–	–	382	19	78	7,239
Final total adjustments	**18,912**	**–**	**–**	**18,912**	**–**	**703**	**479**	**39**	**80**	**26,004**
Recoveries from receipts on written-off financial assets	–	–	–	–	–	–	–	–	–	–
Write-offs recognised directly on the income statement	–	–	–	–	–	–	–	–	–	–

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	19,144	7,844	6,010	1	15,612	–
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Financial assets held for sale	–	–	–	–	–	–
4. Commitments to disburse funds and financial guarantees issued	–	–	–	–	–	–
Total 31/12/2019	**19,144**	**7,844**	**6,010**	**1**	**15,612**	**–**
Total 31/12/2018	**16,121**	**11,769**	**2,486**	**33**	**10,483**	**–**

A.1.6 On and off-balance-sheet credit exposures to banks: gross and net values

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-Balance-sheet credit exposures					
a) Bad loans	–	X	–	–	–
– of which: forborne exposures	–	X	–	–	–
b) Unlikely-to-pay positions	–	X	–	–	–
– of which: forborne exposures	–	X	–	–	–
c) Past-due non-performing loans	–	X	–	–	–
– of which: forborne exposures	–	X	–	–	–
d) Past due performing exposures	X	–	–	–	–
– of which: forborne exposures	X	–	–	–	–
e) Other performing exposures	X	418,901	419	418,482	–
– of which: forborne exposures	X	–	–	–	–
Total (A)	**–**	**418,901**	**419**	**418,482**	**–**
B. Off-Balance Sheet credit exposures					
a) Non-performing	–	X	–	–	–
b) Performing	X	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**
Total (A+B)	**–**	**418,901**	**419**	**418,482**	**–**

A.1.7 On and off-balance-sheet credit exposures to customers: gross and net values

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-Balance-sheet credit exposures					
a) Bad loans	643,752	X	12,647	631,105	–
– of which: forborne exposures	–	X	–	–	–
b) Unlikely-to-pay positions	153,256	X	6,063	147,193	–
– of which: forborne exposures	1,397	X	386	1,011	–
c) Past-due non-performing loans	1,410	X	200	1,210	–
– of which: forborne exposures	–	X	–	–	–
d) Past due performing exposures	X	10,217	135	10,082	–
– of which: forborne exposures	X	–	–	–	–
e) Other performing exposures	X	917,265	5,939	911,326	–
– of which: forborne exposures	X	1,495	82	1,413	–
Total (A)	**798,418**	**927,482**	**24,984**	**1,700,916**	**–**
B. Off-Balance Sheet credit exposures					
a) Non-performing	26,376	X	80	26,296	–
b) Performing	X	193,526	518	193,008	–
Total (B)	**26,376**	**193,526**	**598**	**219,304**	**–**
Total (A+B)	**824,794**	**1,121,008**	**25,582**	**1,920,220**	**–**

A.1.8 On-balance sheet credit exposure to banks: trend of the gross non-performing exposures

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.8bis On-balance sheet credit exposure to banks: trend of the gross non-performing forborne exposures separated by credit quality

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.9 On-balance sheet credit exposure to Customers: trend of the gross non-performing exposures

Descriptions/Categories	Bad loans	Unlikely-to-pay positions	Past-due non performing exposures
A. Starting gross exposure	**107,727**	**13,948**	**319**
– of which: exposures transferred but not derecognised	–	–	–
B. Increasing variations	**541,208**	**147,294**	**1,407**
B.1 inflows from performing exposures	2,299	11,281	1,190
B.2 inflows from purchased or originated credit-impaired financial assets	534,321	132,121	–
B.3 transfers from other non-performing exposures categories	4,497	2,553	–
B.4 contractual amendments without derecognitions	–	–	–
B.5 other increasing variations	91	1,339	217
C. Decreasing variations	**5,183**	**7,986**	**316**
C.1 outflows to performing exposures	–	–	1
C.2 write-offs	–	–	–
C.3 collections	2,487	223	255
C.4 proceeds from disposals	–	–	–
C.5 losses from disposals	–	–	–
C.6 transfers to other non-performing exposure categories	1,408	5,584	59
C.7 contractual amendments without derecognitions	–	–	–
C.8 other decreasing variations	1,288	2,179	1
A. Gross final exposure	**643,752**	**153,256**	**1,410**
– of which: exposures transferred but not derecognised	–	–	–

A.1.9bisOn-balance sheet credit exposure to clients: trend of the gross impaired forborne exposures separated by credit quality

Descriptions/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Starting gross exposure	**7,780**	**3,065**
– of which: exposures transferred but not derecognised	–	–
B. Increasing variations	**1,398**	**523**
B.1 inflows from performing, non forborne exposures	–	–
B.2 inflows from performing forborne exposures	95	X
B.3 inflows from non-performing forborne exposures	X	–
B.4 inflows from non-performing, non forborne exposures	–	–
B.4 other increasing variations	1,303	523
C. Decreasing variations	**7,781**	**2,093**
C.1 outflows towards non-forborne performing exposures	X	–
C.2 outflows towards forborne performing exposures	–	X
C.3 outflows towards non-performing forborne exposures	X	95
C.4 write-offs	–	–
C.5 collections	–	–
C.6 proceeds from disposals	–	–
C.7 losses from disposals	–	–
C.8 other decreasing variations	7,781	1,998
A. Gross final exposure	**1,397**	**1,495**
– of which: exposures transferred but not derecognised	–	–

A.1.10 On-balance sheet impaired credit exposure to banks: trend of total value adjustments

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.11 On-balance sheet impaired credit exposure to customers: trend of total value adjustments

Descriptions/Categories	Bad loans		Unlikely-to-pay positions		non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total adjustments	**8,966**	**–**	**4,495**	**115**	**114**	**–**
– of which: exposures transferred but not derecognised	–	–	–	–	–	–
B. Increasing variations	**5,110**	**–**	**3,638**	**271**	**200**	**–**
B.1 value adjustments to purchased or originated credit impaired assets	–	X	–	X	–	X
B.2 other value adjustments	–	–	–	–	–	–
B.3 losses from disposals	–	–	–	–	–	–
B.4 transfers from other categories of deteriorated exposures	1,451	–	103	–	–	–
B.5 contractual amendments without derecognitions	–	–	–	–	–	–
B.6 other increasing variations	3,659	–	3,535	271	200	–
C. Decreasing variations	**1,429**	**–**	**2,070**	**–**	**114**	**–**
C.1 write-backs from valuation	–	–	–	–	–	–
C.2 write-backs from proceeds	370	–	509	–	107	–
C.3 profits from disposals	–	–	–	–	–	–
C.4 write-offs	–	–	–	–	–	–
C.5 transfers to other categories of deteriorated exposures	193	–	1,354	–	7	–
C.6 contractual amendments without derecognitions	–	–	–	–	–	–
C.7 other decreasing variations	866	–	207	–	–	–
A. Final total adjustments	**12,647**	**–**	**6,063**	**386**	**200**	**–**
– of which: exposures transferred but not derecognised	–	–	–	–	–	–

A.2 Classification of financial assets, of commitments to disburse funds and financial guarantees issued on the basis of external and internal ratings

For the purposes of calculating the capital requirement for credit risk, illimity Bank uses the external *rating* agency (ECAI) *Fitch Ratings* only for positions included in the class "Exposures to central governments or central banks" and in the class "Exposures to institutions"; no external *ratings* are used for other *asset classes*.

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees issued: by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**161,428**	**114,772**	**–**	**1,593**	**–**	**–**	**1,738,697**	**2,016,490**
– Stage one	161,428	114,772	–	1,593	–	–	921,160	1,198,953
– Stage two	–	–	–	–	–	–	19,119	19,119
– Stage three	–	–	–	–	–	–	798,418	798,418
B. Financial assets measured at fair value through other comprehensive income	**5,354**	**36,972**	**41,221**	**13,269**	**5,168**	**–**	**23,986**	**125,970**
– Stage one	5,354	36,972	41,221	13,269	5,168	–	23,986	125,970
– Stage two	–	–	–	–	–	–	–	–
– Stage three	–	–	–	–	–	–	–	–
C. Financial assets held for sale	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Stage one	–	–	–	–	–	–	–	–
– Stage two	–	–	–	–	–	–	–	–
– Stage three	–	–	–	–	–	–	–	–
Total (A+B + C)	**166,782**	**151,744**	**41,221**	**14,862**	**5,168**	**–**	**1,762,683**	**2,142,460**
of which: purchased or originated credit impaired	–	–	–	–	–	–	*138,048*	*138,048*
D. Commitments to disburse funds and financial guarantees issued								
– Stage one	–	–	–	–	–	–	174,727	174,727
– Stage two	–	–	–	–	–	–	13,110	13,110
– Stage three	–	–	–	–	–	–	26,376	26,376
Total (D)	**–**	**–**	**–**	**–**	**–**	**–**	**214,213**	**214,213**
Total (A+B+C+D)	**166,782**	**151,744**	**41,221**	**14,862**	**5,168**	**–**	**1,976,896**	**2,356,673**

A.2.2 Breakdown of financial assets, of commitments to disburse funds and financial guarantees issued by classes of internal ratings (gross values)

Exposures	Internal rating classes No Rating	Total
A. Financial assets measured at amortised cost	**1,965,903**	**1,965,903**
– Stage one	1,198,730	1,198,730
– Stage two	19,118	19,118
– Stage three	748,055	748,055
B. Financial assets measured at fair value through other comprehensive income	**125,969**	**125,969**
– Stage one	125,969	125,969
– Stage two	–	–
– Stage three	–	–
C. Financial assets held for sale	**–**	**–**
– Stage one	–	–
– Stage two	–	–
– Stage three	–	–
Total (A+B + C)	**2,091,872**	**2,091,872**
of which: purchased or originated credit impaired financial assets	*138,048*	*138,048*
D. Commitments to disburse funds and financial guarantees issued	**214,212**	**214,212**
– Stage one	174,726	174,726
– Stage two	13,110	13,110
– Stage three	26,376	26,376
Total (D)	**214,212**	**214,212**
Total (A + B + C + D)	**2,306,084**	**2,306,084**

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Guaranteed on- and off-balance sheet credit exposure to banks

	Gross exposure	Net exposure	Effective guarantees: Real estate - liens	Effective guarantees: Real estate - Loans for leasing	Effective guarantees: Securities	Effective guarantees: Other real guarantees	Credit derivatives: Credit link notes	Credit derivatives – Other derivatives: Central Counterparties	Credit derivatives – Other derivatives: Banks	Credit derivatives – Other derivatives: Other financial companies	Credit derivatives – Other derivatives: Other entities	Endorsement credits: Public administrations	Endorsement credits: Banks	Endorsement credits: Other financial companies	Endorsement credits: Other entities	Total (1)+(2)
1. Guaranteed On-Balance-sheet credit exposures:	**418,901**	**418,482**	**-**	**-**	**273,944**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**273,944**
1.1 totally secured	418,901	418,482	-	-	273,944	-	-	-	-	-	-	-	-	-	-	273,944
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. B. Guaranteed Off-Balance Sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
21 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

p.1

	Gross exposure	Net exposure	Effective guarantees (1)				Personal guarantees (2)	
							Credit derivatives	
								Other derivatives
			Real estate - liens	Real estate - Loans for leasing	Securities	Other real guarantees	CREDIT LINK NOTES	Central Counterparties
1. Guaranteed On-Balance-sheet credit exposures:	**1,725,899**	**1,700,914**	**124,964**	**–**	**8,044**	**13,439**	**–**	**–**
1.1 totally secured	1,604,779	1,581,143	124,964	–	7,934	2,667	–	–
– of which impaired	61,459	54,928	12,036	–	7	1,712	–	–
1.2 partially secured	121,120	119,771	–	–	110	10,772	–	–
– of which impaired	78,479	27,338	–	–	–	5,976	–	–
2. Guaranteed "Off-Balance Sheet" credit exposures:	**219,903**	**219,305**	**350**	**–**	**6,681**	**1,808**	**–**	**–**
2.1 totally secured	197,566	196,975	350	–	6,676	936	–	–
– of which impaired	6,354	6,350	–	–	–	146	–	–
2.2 partially secured	22,337	22,330	–	–	5	872	–	–
– of which impaired	40	40	–	–	–	–	–	–

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

p.2

	Personal guarantees (2)							Total
	Credit derivatives			Endorsement credits				
	Other derivatives							(1)+(2)
	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed On-Balance-sheet credit exposures:	**–**	**–**	**–**	**–**	**11,056**	**1,321**	**57,080**	**215,904**
1.1 totally secured	–	–	–	–	9,865	1,197	55,128	201,755
– of which impaired	–	–	–	–	1,291	621	38,875	54,542
1.2 partially secured	–	–	–	–	1,191	124	1,952	14,149
– of which impaired	–	–	–	–	182	3	1,465	7,626
2. Guaranteed "Off-Balance Sheet" credit exposures:	**–**	**–**	**–**	**–**	**2,191**	**719**	**17,355**	**29,104**
2.1 totally secured	–	–	–	–	1,022	719	12,515	22,218
– of which impaired	–	–	–	–	109	–	6,095	6,350
2.2 partially secured	–	–	–	–	1,169	–	4,840	6,886
– of which impaired	–	–	–	–	–	–	40	40

A.4 Financial and non-financial assets obtained through the enforcement of guarantees received

There are no financial and non-financial assets obtained through the enforcement of guarantees received.

B. Breakdown and concentration of credit exposures

B.1 Sector breakdown of the on- and "off-balance" sheet credit exposures to customers

p.1

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures						
A.1 Bad loans	–	–	591,055	475	–	–
– of which forborne exposures	–	–	–	–	–	–
A.2 Unlikely-to-pay positions	–	–	8,833	190	–	–
– of which forborne exposures	–	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	–	–	–
– of which forborne exposures	–	–	–	–	–	–
A.4 Performing exposures	24,541	434	377,749	1,309	565	3
– of which forborne exposures	–	1	–	–	–	–
Total (A)	**24,541**	**434**	**967,637**	**1,974**	**565**	**3**
B. Off-Balance Sheet credit exposures						
B.1 Non-performing exposures	–	–	–	–	–	–
B.2 Performing exposures	–	–	32,053	21	–	–
Total (B)	**–**	**–**	**32,053**	**21**	**–**	**–**
Total (A+B) 31/12/2019	**24,541**	**434**	**1,009,690**	**1,995**	**565**	**3**
Total (A+B) 31/12/2018	**208,724**	**432**	**140,804**	**295**	**1,000**	**–**

B.1 Sector breakdown of the on- and "off-balance sheet" credit exposures to customers (book value)

p.2

Exposures/Counterparties	Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures				
A.1 Bad loans	15,932	10,432	24,117	1,740
– of which forborne exposures	–	–	–	–
A.2 Unlikely-to-pay positions	137,005	5,368	1,355	505
– of which forborne exposures	998	383	13	3
A.3 Past-due non-performing exposures	908	168	302	32
– of which forborne exposures	–	–	–	–
A.4 Performing exposures	469,085	3,957	50,033	374
– of which forborne exposures	1,162	79	251	2
Total (A)	**622,930**	**19,925**	**75,807**	**2,651**
B. Off-Balance Sheet credit exposures				
B.1 Non-performing	26,245	80	51	–
B.2 Performing exposures	156,974	491	3,981	6
Total (B)	**183,219**	**571**	**4,032**	**6**
Total (A+B) 31/12/2019	**790,233**	**20,496**	**79,839**	**2,657**
Total (A+B) 31/12/2018	**442,914**	**14,711**	**75,116**	**2,360**

B.2 Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposure
A. On-Balance-sheet credit exposures					
A.1 Bad loans	631,104	12,647	–	–	–
A.2 Unlikely-to-pay positions	147,193	6,063	–	–	–
A.3 Past-due non-performing exposures	1,209	200	–	–	–
A.4 Performing exposures	825,317	5,600	87,000	425	2,262
Total (A)	**1,604,823**	**24,510**	**87,000**	**425**	**2,262**
B. Off-Balance Sheet credit exposures					
B.1 Non-performing exposures	26,296	80	–	–	–
B.2 Performing exposures	189,999	508	2,989	10	20
Total (B)	**216,295**	**588**	**2,989**	**10**	**20**
Total (A+B) 31/12/2019	**1,821,118**	**25,098**	**89,989**	**435**	**2,282**
Total (A+B) 31/12/2018	**815,494**	**17,401**	**52,044**	**399**	**20**

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-Balance-sheet credit exposures					
A.1 Bad loans	–	–	–	1	–
A.2 Unlikely-to-pay positions	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	1	–
A.4 Performing exposures	12	3,485	19	3,344	18
Total (A)	**12**	**3,485**	**19**	**3,346**	**18**
B. Off-Balance Sheet credit exposures					
B.1 Non-performing exposures	–	–	–	–	–
B.2 Performing exposures	–	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2019	**12**	**3,485**	**19**	**3,346**	**18**
Total (A+B) 31/12/2018	**–**	**–**	**–**	**–**	**–**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

p.3

Exposures / Geographical areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures								
A.1 Bad loans	596,015	973	6,690	10,857	10,834	591	17,565	226
A.2 Unlikely-to-pay positions	43,634	248	26,179	5,717	74,976	85	2,404	13
A.3 Past-due non-performing exposures	127	19	1,082	181	–	–	–	–
A.4 Performing exposures	461,629	2,702	289,692	2,076	37,189	644	36,807	178
Total (A)	**1,101,405**	**3,942**	**323,643**	**18,831**	**122,999**	**1,320**	**56,776**	**417**
B. Off-Balance Sheet credit exposures								
B.1 Non-performing exposures	1,608	–	24,293	80	395	–	–	–
B.2 Performing exposures	50,132	190	129,214	257	9,170	54	1,483	7
Total (B)	**51,740**	**190**	**153,507**	**337**	**9,565**	**54**	**1,483**	**7**
Total (A+B) 31/12/2019	**1,153,145**	**4,132**	**477,150**	**19,168**	**132,564**	**1,374**	**58,259**	**424**
Total (A+B) 31/12/2018	**76,228**	**946**	**455,978**	**15,082**	**253,258**	**1,282**	**30,029**	**92**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures
A. On-Balance-sheet credit exposures					
A.1 Bad loans	–	–	–	–	–
A.2 Unlikely-to-pay positions	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	–	–
A.4 Performing exposures	114,485	210	303,997	209	–
Total (A)	**114,485**	**210**	**303,997**	**209**	**–**
B. Off-Balance Sheet credit exposures					
B.1 Non-performing exposures	–	–	–	–	–
B.2 Performing exposures	–	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2019	**114,485**	**210**	**303,997**	**209**	**–**
Total (A+B) 31/12/2018	**83,094**	**144**	**–**	**–**	**–**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-Balance-sheet credit exposures					
A.1 Bad loans	–	–	–	–	–
A.2 Unlikely-to-pay positions	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	–	–
A.4 Performing exposures	–	–	–	–	–
Total (A)	**–**	**–**	**–**	**–**	**–**
B. Off-Balance Sheet credit exposures					
B.1 Non-performing exposures	–	–	–	–	–
B.2 Performing exposures	–	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2019	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2018	**–**	**–**	**–**	**–**	**–**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.3

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-Balance-sheet credit exposures								
A.1 Bad loans	–	–	–	–	–	–	–	–
A.2 Unlikely-to-pay positions	–	–	–	–	–	–	–	–
A.3 Past-due non-performing exposures	–	–	–	–	–	–	–	–
A.4 Performing exposures	44,093	91	5,440	19	64,952	100	–	–
Total (A)	**44,093**	**91**	**5,440**	**19**	**64,952**	**100**	**–**	**–**
B. Off-Balance Sheet credit exposures								
B.1 Non-performing exposures	–	–	–	–	–	–	–	–
B.2 Performing exposures	–	–	–	–	–	–	–	–
Total (B)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total (A+B) 31/12/2019	**44,093**	**91**	**5,440**	**19**	**64,952**	**100**	**–**	**–**
Total (A+B) 31/12/2018	**43,428**	**68**	**19,809**	**31**	**19,857**	**45**	**–**	**–**

B.4 Large exposures

	31/12/2019
Book value	1,645,667
Weighted value	321,611
Number	5

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

C. SECURITISATION TRANSACTIONS

Qualitative information

During the fourth quarter, the Bank carried out a self-securitisation transaction(*SWAN Project*) through the SWAN SPV S.r.l. vehicle managed by Finint; in detail, *performing* loans in the portfolio were legally sold with an IAS book value of 107.6 million euros, subscribing to 100% of the notes issued by the SPV.

However, with regard to third-party securitisations, below is a brief description, by Division:

DCIS Division

For its NPL operations, the Bank uses some SPVs, securitisation vehicles in accordance with Law 130/99, comprising *130 Servicing*, a financial intermediary and securitisation *master servicer*, through an "orphan" structure headed by the *trust company* of *130 Servicing*, named *130 trust company S.r.l.* These vehicles have not been acquired by the Bank and will not be part of the banking group.

In detail, the Bank acquires loan portfolios from independent third parties through SPV, which funds itself by issuing *monotranching* notes fully subscribed by the Bank, replicating the entire return of the underlying portfolio.

Also within the DCIS Division, the Bank also structures *senior financing* transactions, represented by financing services to investors of *distressed* credits through the subscription of *Senior* or *Junior* notes.

SME Division

During the transitional phase, the operations unit of the *Business Invoice Lending* area of the SME Division uses specialised operators (i.e. Credimi), through the construction of a securitisation vehicle called Lumen (in run-off), within which all the *factoring* positions are included (at the moment, without recourse transactions, only). As with the approach of all the transactions described above within the DCS Division, within the NPL division, also in this case the Bank fully subscribes the value of the *monotranching* notes issued by the vehicle.

Quantitative information

C.1 Exposures resulting from the main "in-house" securitisation transactions broken down by type of securisations and by type of exposures

Type of securitisation/Exposures	On-balance sheet exposures			
	Senior		Junior	
	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs
A. Object of full derecognition from the financial statements				
N/A	–	–	–	–
B. Object of partial cancellation from the financial statements				
N/A	–	–	–	–
C. Not derecognised from the financial statements	**57,681**	**–**	**42,044**	**(642)**
Financing contracts for small and medium-sized enterprises				

C.2 Exposures resulting from the main "third party" securitisation transactions broken down by type of securitisations and by type of exposures

Type of underlying asset/Exposures				On-balance sheet exposures							
				Single tranche		Senior		Mezzanine		Junior	
				Book value	Value (Adjustments)/ write-backs	Book value	Value (Adjustments)/ write-backs	Book value	Value (Adjustments)/ write-backs	Book value	Value (Adjustments)/ write-backs
1	APORTI SPV	NPL credits	Loans to customers	477,751	0						
2	DORIA SPV	NPL credits	Loans to customers	79,971	0						
3	RIVER SPV	NPL credits	Loans to customers	11,951	(148)						
4	PITTI SPV	NPL credits	Loans to customers	11,482	(302)						
5	FRIULI SPV	NPL credits	Loans to customers	9,891	0						
6	LUMEN SPV	Factoring credits	Loans to customers	1,148	(208)						
7	SENIOR FINANCING	NPL credits	Loans to customers FV Obligation			299,390	(363)			2,342	

C.3 SPV

As described above, to carry out its activities for the DCIS and SME Divisions, the Bank utilises securitisation vehicles pursuant to Law 130/99. These SPV have not been acquired by the Bank and will not form part of the banking group. However, since the Parent Company holds de facto control - in accordance with IFRS 10 - of these vehicles, they are subject to inclusion within the consolidated financial statements of illimity.

C.4 Non-consolidated SPV

The Bank does not use non-consolidated SPVs.

C.5 Servicer activities - in-house securitisations: proceeds of securitised credits and reimbursements of securities issued by the SPV

The Bank carries out *servicer* SWAN self-securitisation transactions in which the sold assets are derecognised from the financial statements in accordance with IFRS 9.

SPV	Securitised assets 31 December 2019		Proceeds from credits obtained during the financial year		Percentage share of securities redeemed 31 December 2019			
					Senior		Junior	
	Impaired	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired
SWAN SPV SRL	207	89,930	–	17,571	0%	13%	0%	0%

D. DISCLOSURE OF STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SPECIAL PURPOSE VEHICLES FOR SECURITISATION TRANSACTIONS - SPV)

The Bank does not use structured entities not consolidated in the accounts, other than special purpose vehicles for securitisation transactions (SPV).

C. DISPOSALS

A. Financial assets sold and partially derecognised

Qualitative information

The sales connected to financial assets sold and not derecognised relate to repurchase agreements - payable, where the buyer has to resell on expiration of the assets (for example securities).

Quantitative information

E.1 Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause	of which impaired	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading	**–**	**–**	**–**	**X**	**–**	**–**	**–**
1. Debt securities	–	–	–	X	–	–	–
2. Equity securities	–	–	–	X	–	–	–
3. Loans	–	–	–	X	–	–	–
4. Derivatives	–	–	–	X	–	–	–
B. Other financial assets mandatorily measured at fair value fair-value measurement	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Debt securities	–	–	–	–	–	–	–
2. Equity securities	–	–	–	X	–	–	–
3. Loans	–	–	–	–	–	–	–
C. Financial assets designated at fair value	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Debt securities	–	–	–	–	–	–	–
2. Loans	–	–	–	–	–	–	–
D. Financial assets measured at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Debt securities	–	–	–	–	–	–	–
2. Equity securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
E. Financial assets measured at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Debt securities	424,557	–	424,557	–	278,512	–	278,512
2. Loans	90,779	90,779	–	207	–	–	–
Total 31/12/2019	**515,336**	**90,779**	**424,557**	**207**	**278,512**	**–**	**278,512**
Total 31/12/2018	**9,594**	**–**	**9,594**	**–**	**8,960**	**–**	**8,960**

E.2 Financial assets sold and partially recognised and associated financial liabilities: book values

As of the reporting date of 31 December 2019, the Bank does not hold partially recognised financial assets sold and associated financial liabilities

E.3 Disposal transactions with liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

In table E.1, the financial assets refer to the portfolio "E. Financial assets valued at amortised cost" and their book value may be considered a *proxy* of the same *fair value*.

B. Assets sold and fully derecognised with recognition of continuing involvement

The Bank has no such operations.

E.4 Covered bond transactions

The Bank has no such operations.

F. CREDIT RISK MEASUREMENT MODELS

The Bank has no internal credit risk measurement models for prudential purposes.

Section 2 – Market Risks

2.1 Interest rate risk and price risk– regulatory trading portfolio

Qualitative information

Qualitative information on the measurement of the financial risks generated by the regulatory trading portfolio is illustrated in Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. On-balance sheet liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreement liabilities	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	401	–	–	–	–	–	–
+ Short positions	–	178	–	–	–	–	–	–

2. Regulatory trading portfolio: distribution of exposures in equity instruments and share indices for the main stock market countries

The Bank does not hold equity instruments and share indices in the trading portfolio, as of the reporting date.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

Refer to Part E of the Explanatory Note to the consolidated financial statements.

2.2 *INTEREST RATE RISK AND PRICE RISK - BANKING PORTFOLIO*

Qualitative information

Qualitative information on the measurement of financial risks generated by the banking portfolio is illustrated in Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(EURO)

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	**479,000**	**380,665**	**61,126**	**79,089**	**450,749**	**65,510**	**601,477**	**–**
1.1 Debt securities	–	286,469	224	–	141,637	50,686	591,046	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	286,469	224	–	141,637	50,686	591,046	–
1.2 Loans to banks	66,229	–	–	47,912	229,414	–	–	–
1.3 Loans to customers	412,771	94,196	60,902	31,177	79,698	14,824	10,431	–
– current account	39,123	–	546	404	15,837	211	–	–
– other loans	373,648	94,196	60,356	30,773	63,861	14,613	10,431	–
– with option of advance repayment	2,874	–	–	–	–	–	–	–
– others	370,774	94,196	60,356	30,773	63,861	14,613	10,431	–
2. On-balance sheet liabilities	**683,341**	**54,800**	**36,275**	**452,068**	**1,191,896**	**25,475**	**4,000**	**–**
2.1 Payables to customers	664,703	39,708	28,319	403,999	906,094	25,475	–	–
– current account	319,704	–	–	–	–	–	–	–
– other payables	344,999	39,708	28,319	403,999	906,094	25,475	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	344,999	39,708	28,319	403,999	906,094	25,475	–	–
2.2 Payables to banks	18,638	10,059	–	48,069	283,432	–	4,000	–
– current account	5	–	–	–	–	–	–	–
– other payables	18,633	10,059	–	48,069	283,432	–	4,000	–
2.3 Debt securities	–	5,033	7,956	–	2,370	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	5,033	7,956	–	2,370	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. Other off-balance sheet transactions	**120,793**	**257**	**541**	**3,725**	**19,565**	**12,426**	**322**	**–**
+ Long positions	41,978	257	541	3,725	19,565	12,426	322	–
+ Short positions	78,815	–	–	–	–	–	–	–

(cont'd)

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(OTHER CURRENCIES)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	**1,302**	**476**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
1.2 Loans to banks	1,302	–	–	–	–	–	–	–
1.3 Loans to customers	–	476	–	–	–	–	–	–
– current account	–	–	–	–	–	–	–	–
– other loans	–	476	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	476	–	–	–	–	–	–
2. On-balance sheet liabilities	**549**	**497**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Payables to customers	549	–	–	–	–	–	–	–
– current account	549	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
2.2 Payables to banks	–	497	–	–	–	–	–	–
– current account	–	–	–	–	–	–	–	–
– other payables	–	497	–	–	–	–	–	–
2.3 Debt securities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with option of advance repayment	–	–	–	–	–	–	–	–
– others	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–

(cont'd)

(OTHER CURRENCIES)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
3.2 Without underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. Other off-balance sheet transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–

2.3 EXCHANGE RISK

Qualitative information

For qualitative information, including exchange rate risk hedging assets, please refer to Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	USD	GBP	JPY	CAD	CHF	OTHER CURRENCIES
A. Financial assets	**1,387**	**88**	**–**	**–**	**191**	**110**
A.1 Debt securities						
A.2 Equity instruments	7					
A.3 Loans to banks	904	88			191	110
A.4 Loans to customers	476					
A.5 Other financial assets						
B. Other assets	**14**	**6**			**4**	**1**
C. Financial liabilities	**1,046**	**–**	**–**	**–**	**–**	**–**
C.1 Payables to banks	497					
C.2 Payables to customers	549					
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	**4**					
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions	178					
+ Short positions	399					
Total assets	**1,579**	**94**	**–**	**–**	**195**	**111**
Total liabilities	**1,449**	**–**	**–**	**–**	**–**	**–**
Difference (+/-)	**130**	**94**	**–**	**–**	**195**	**111**

2. Internal models and other methods of sensitivity analysis

Refer to Part E of the consolidated Explanatory Note.

Section 3 – Derivatives and hedging policies

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

Section 4 – Liquidity risk

Qualitative information

For qualitative information, refer to Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

1. Time breakdown by contractual residual maturity of financial assets and liabilities

(EURO)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indeterminate duration
A. On-balance-sheet assets	**50,524**	**66,294**	**13,029**	**41,785**	**61,896**	**87,643**	**125,339**	**844,026**	**872,997**	**5,041**
A.1 Government Securities	–	–	–	–	–	40	73	–	10,000	–
A.2 Other debt securities	–	63	1	3,482	244	3,600	6,618	319,181	721,720	5,041
A.3 Units of UCIs	163	–	–	–	–	–	–	–	–	–
A.4 Loans	50,361	66,231	13,028	38,303	61,652	84,003	118,648	524,845	141,277	–
– Banks	9,573	58,972	–	–	–	–	47,943	228,257	–	–
– Customers	40,788	7,259	13,028	38,303	61,652	84,003	70,705	296,588	141,277	–
B. On-balance sheet liabilities	**454,821**	**15,341**	**6,312**	**16,795**	**31,775**	**37,012**	**456,426**	**1,374,058**	**55,313**	**–**
B.1 Deposits and current accounts	448,293	15,341	6,312	16,795	26,634	28,568	406,273	902,486	3,208	–
– Banks	5	15,000	–	–	10,059	–	–	–	–	–
– Customers	448,288	341	6,312	16,795	16,575	28,568	406,273	902,486	3,208	–
B.2 Debt securities	–	–	–	–	5,098	7,905	–	2,355	–	–
B.3 Other liabilities	6,528	–	–	–	43	539	50,153	469,217	52,105	–
C. "Off-balance sheet" operations										
C.1 Financial derivatives with exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	577	–	–	–	–	–	–	–	–
C.2 Financial derivatives without exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be collected										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Commitments to disburse funds										
– Long positions	26,404	–	–	20	237	544	3,739	20,894	26,977	–
– Short positions	78,815	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–

(cont'd)

(EURO)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indeter-minate duration
C.7 Credit derivatives with exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–

1. Time breakdown by contractual residual maturity of financial assets and liabilities

(OTHER CURRENCIES)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 months to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indeter-minate duration
A. On-balance-sheet assets	**1,308**	**–**	**–**	**–**	**497**	**–**	**–**	**–**	**–**	**–**
A.1 Government Securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Units of UCIs	–	–	–	–	–	–	–	–	–	–
A.4 Loans	1,308	–	–	–	497	–	–	–	–	–
– Banks	1,308	–	–	–	–	–	–	–	–	–
– Customers	–	–	–	–	497	–	–	–	–	–
B. On-balance sheet liabilities	**549**	**–**	**–**	**–**	**497**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	549	–	–	–	497	–	–	–	–	–
– Banks	–	–	–	–	497	–	–	–	–	–
– Customers	549	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
C. "Off-balance sheet" operations										
C.1 Financial derivatives with exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	399	–	–	–	–	–	–	–	–
C.2 Financial derivatives without exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–

(cont'd)

(OTHER CURRENCIES)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 months to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indeter-minate duration
C.3 Deposits and loans to be collected										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to lend funds										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Credit derivatives with exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital										
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–

Section 5 – Operating Risks

Qualitative information

For qualitative information, including legal risks and tax litigation, see Part E of the Explanatory Note to the consolidated financial statements.

OTHER RISKS

For information relating to Other Risks, refer to Part E of the Explanatory Note to the consolidated financial statements.

PART F - SHAREHOLDERS' EQUITY

Section 1 - Bank's shareholders' equity

A. Qualitative information

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

B. Quantitative information

B.1 Bank's equity: breakdown

Items/values	31/12/2019	31/12/2018
1. Share capital	**43,408**	**43,377**
2. Share premium	**480,156**	**–**
3. Reserves	**36,994**	**214,589**
of profits	12,007	12,007
a) legal	804	804
b) statutory	–	
c) treasury shares	467	
d) others	10,736	11,203
Others	24,987	202,582
3.5 Advances on dividends (-)	–	–
4. Equity instruments	**–**	**–**
5. (Treasury shares)	**(96)**	**–**
6. Valuation reserves	**946**	**(961)**
– Equity instruments measured at fair value through other comprehensive income	7	5
– Hedging of equity instruments measured at fair value through other comprehensive income	–	
– Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,051	(903)
– Property and equipment assets	–	
– Intangible assets	–	
– Hedging of foreign investments	–	
– Cash flow hedges	–	
– Hedging instruments [not designated elements]	–	
– Foreign exchange differences	–	
– Non-current assets held for sale and discontinued operations	–	
– Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	–	
– Actuarial gains (losses) relating to defined benefit plans	(112)	(63)
– Share of valuation reserves for equity investments measured at equity	–	
– Special revaluation laws	–	
7. Profit (loss) (+/-) for the fiscal year	**(16,840)**	**(29,124)**
Total	**544,568**	**227,881**

B.2 Valuation reserves of the financial assets measured at fair value through other comprehensive income: breakdown

Assets/Values	Total 31/12/2019		Total 31/12/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,443	(392)	200	(1,547)
2. Equity securities	7	–	515	(66)
3. Loans	–	–	–	–
Total	**1,450**	**(392)**	**715**	**(1,613)**

B.3 Valuation reserves of the financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**(903)**	**5**	**–**
2. Positive changes	**3,573**	**2**	**–**
2.1 Increases in fair value	1,769	2	–
2.2 Value Adjustments for credit risk	196	X	–
2.3 Transfer to income statement of negative reserves following disposal	1,607	X	–
2.4 Transfers to other shareholders' equity items (equity securities)	–	–	–
2.5 Other changes	1	–	–
– of which business combinations	–	–	–
3. Negative changes	**(1,619)**	**–**	**–**
3.1 Decreases in fair value	(392)	–	–
3.2 Adjustments in value for credit risk	–	–	–
3.3 Reclassification to income statement of positive reserves: following disposal	(60)	X	–
3.4 Transfers to other shareholders' equity items (equity securities)	–	–	–
3.5 Other changes	(1,167)	–	–
– of which business combinations	–	–	–
4. Closing balance	**1,051**	**7**	**–**

B.4 Revaluation reserves on defined benefit plans: annual changes

	31/12/2019	31/12/2018
1. Opening balance	**(63)**	**(45)**
2. Positive changes	**22**	**–**
2.1 Increases in fair value Actuarial (Gains)/Losses	–	–
2.2 Reclassification through profit or loss of negative reserves	–	–
2.3 Other changes	22	–
3. Negative changes	**(71)**	**(18)**
3.1 Decreases in fair value Actuarial (Gains)/Losses	(71)	(10)
3.2 Reclassification through profit or loss of positive reserves	–	0
3.3 Other changes	–	(8)
4. Closing balance	**(112)**	**(63)**

Section 2 – Own funds and regulatory ratios

2.1 Own funds

A. Qualitative information

Own funds, risk-weighted assets and solvency ratios are determined in accordance with the harmonised regulations for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013 and on the basis of Bank of Italy Circulars 285 and 286 (issued in 2013 and 2014) and the update to Circular 154.

The regulatory provisions on own funds provided for the gradual introduction of a new regulatory *framework* during a transitional period during which some of the elements that after full introduction would be completely computable or deductible in *Common Equity*, would impact Common Equity Tier 1 only as a percentage (the so-called *Phase In*).

1. Common Equity Tier 1 (CET1) capital

Common Equity Tier 1 mainly consists of capital, reserves and valuation reserves as well as the deducted elements and prudential filters.

2. Additional Tier 1 (AT1) capital

At the closing date of the financial year, the Bank does not have any element that can be counted in the additional capital of class 1.

3. Tier 2 (T2) capital

On 31 December 2019 the Bank had not issued any Tier 2 capital instruments.

B. Quantitative information

The components of the regulatory capital are detailed below:

		31/12/2019	31/12/2018
A.	**Common Equity Tier 1 (CET1) pre-application of prudential filters**	**529,796**	**227,880**
	of which CET1 instruments subject to transitional provisions	–	–
B.	Prudential CET1 filters (+/-)	(134)	(137)
C.	**CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)**	**529,662**	**227,743**
D.	Elements to be deducted from CET1	(67,526)	(8,760)
E.	Transitional rules – Impact on CET1 (+/-)	–	–
F.	**Total Common Equity Tier 1 (Common Equity Tier 1 - CET1)(C – D +/-E)**	**462,136**	**218,983**
G.	**Tier 1 (Additional Tier 1 - AT1) inclusive of elements to be deducted and effects of transitional rules**	**–**	**–**
	of which AT1 instruments subject to transitional provisions	–	–
H.	Elements to be deducted from AT1	–	–
I.	Transitional rules – Impact on AT1 (+/-)	–	–
L.	**Total Additional Tier 1 (Additional Tier 1 – AT1) (G – H +/- I)**	**–**	**–**
M.	**Tier 2 (Tier 2 - T2) inclusive of elements to be deducted and effects of transitional rules**	**–**	**–**
	of which T2 instruments subject to transitional provisions	–	–
N.	Elements to be deducted from T2	–	–
O.	Transitional rules – Impact on T2 (+/-)	–	–
P.	**Total Tier 2 (Tier 2 –T2) (M – N +/- O)**	**–**	**–**
Q.	**Total own funds (F + L + P)**	**462,136**	**218,983**

2.2 Capital adequacy

A. Qualitative information

As of 31 December 2019, the *Common Equity Ratio* – the ratio between Common Equity Tier 1 capital and total weighted assets - stood at 21.54%, down compared to 31 December 2018 (41.77%), due both to a negative change in capital due mainly to the increase in intangible assets and to a significant growth in RWAs generated mainly by the acquisition of NPL portfolios.

B. Quantitative information

Categories/values	31/12/2019		31/12/2018	
	Non-weighted amounts	Weighted amounts/ requirements	Non-weighted amounts	Weighted amounts/ requirements
A. RISK ASSETS				
A.1 Credit and counterparty risk	2,960,628	2,098,045	864,101	478,074
1. Standardised methodology	2,066,252	1,062,010	775,659	367,396
2. Methodology based on internal ratings			–	–
2.1 Basic			–	–
2.2 Advanced			–	–
3. Securitisations	894,376	1,036,035	88,442	110,678
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk		167,844		38,246
B.2 Credit valuation adjustment risk				7
B.3 Settlement risks				–
B.4 Market risks		65		1,322
1. Standard methodology		65		1,322
2. Internal models				–
3. Concentration risk				–
B.5 Operational risk		3,749		2,370
1. Basic method		3,749		2,370
2. Standardised method				–
3. Advanced method				–
B.6 Other calculation factors				–
B.7 Total prudential requirements		171,658		41,945
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets		2,145,729		524,313
C.2 CET 1/Risk-weighted assets (CET1 capital ratio)		21.54%		41.77%
C.3 CET 1/Risk-weighted assets (Tier 1 capital ratio)		21.54%		41.77%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)		21.54%		41.77%

PART G - BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

Section 1 - Operations completed during the financial year

As mentioned in the Management Report ("*Significant events occurring over the course of the financial year*"), in the course of the financial year, there was a *Business Combination between entities under common control* transaction, which is excluded from the scope of application of IFRS 3 and is therefore recognised in the accounting in continuity of values.

On 17 July 2019, notice was given by the Bank of Italy that there were no reasons preventing the acquisition of Neprix S.r.l. by Illimity or the connected intergroup outsourcing.
Neprix was consolidated from the date on which the Bank acquired control according to the *"purchase method"*, as provided for in IFRS 3.

This transaction is part of the activities aimed at rationalising the Bank's organisational and governance structure.

Section 2 – Transactions after the closing of the financial year

At the closing of the financial year, no business combination transactions were carried out, as defined by IFRS 3.

Section 3 – Retrospective adjustments

No retrospective adjustments were made.

PART H – TRANSACTIONS WITH RELATED PARTIES

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

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391 bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which was then amended by resolution no.17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions.

In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

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

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

With regard to operations performed by the Bank 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 financial year to directors, statutory auditors and other directors with strategic responsibilities is 6,503 thousand euros.

As required by the new IAS 24, pargraph 17, further information has been provided about the following categories of remuneration for directors with strategic responsibilities and employees, 6,503 thousand euros:

a) short term benefits to employees	6,169
b) post-employment benefits	235
c) other long term benefits	
d) benefits due to employees for termination of contract	
e) share-based payments	99

2. Information on related party transactions

With regard to the financial relations, and remembering that directors with strategic responsibilities also include the directors and statutory auditors of the Bank, the situation on the reporting date is shown in the following table, expressed in thousands of euros.

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* governing the aforementioned transactions.

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.

BALANCE SHEET					
Assets		Book value		of which with related parties	Impact of related parties
40.b)	**Loans to customers**	**1,646,423**		**595,689**	**36.18%**
	To subsidiaries		595,468		
	To parties subject to significant influence		–		
	To directors with strategic responsibilities		221		
	To other related parties		–		
70.	**Equity investments**	**1,079**		**1,079**	**100.00%**
	To subsidiaries		1,079		
	To parties subject to significant influence		–		
	To directors with strategic responsibilities		–		
	To other related parties		–		

Liabilities		Book value		of which with related parties	Impact of related parties
10.b)	**Amounts due to customers**	**2,068,846**		**121,232**	**5.86%**
	To subsidiaries		120,139		
	To parties subject to significant influence				
	To directors with strategic responsibilities		1,093		
	To other related parties				
80.	**Other liabilities**	**32,487**		**2,112**	**6.50%**
	To subsidiaries		2,112		
	To parties subject to significant influence				
	To directors with strategic responsibilities				
	To other related parties				
90.	**Employee severance pay**	**1,059**		**273**	**25.78%**
	To subsidiaries				
	To parties subject to significant influence				
	To directors with strategic responsibilities		273		
	To other related parties				

INCOME STATEMENT				
Income Statement items		Book value	of which with related parties	Impact of related parties
10.	Interest income and similar income	44,007	15,076	34.26%
20.	Interest expenses and similar charges	(13,512)	(2)	0.01%
40.	Fee and commission income	11,581	6	0.05%
130.	Net losses/recoveries for credit risks associated with:	638	(658)	>100%
	a) Financial assets measured at amortised cost	*634*	*(658)*	>100%
	b) Financial assets measured at fair value through other comprehensive income	*4*	–	–
160.	Administrative costs:	(80,856)	(9,858)	12.19%
	a) personnel costs	(29,226)	(6,503)	22.25%
	b) other administrative expenses	(51,630)	(3,355)	6.50%
200.	Other operating income/expenses	3,526	60	1.70%

PART 1 – PAYMENT AGREEMENTS BASED ON EQUITY INSTRUMENTS

Qualitative information

1. Description of payment agreements based on own equity instruments

As to the variable component, the 2019 Remuneration Policy provides that this can be serviced by a "*Stock Option Plan*" (so-called SOP) for up to 40 employees of the Issuer and/or of its subsidiaries with the aim of bringing the interests of management and of employees in general in line with those of the long-term shareholders.

Quantitative information

1. Annual changes

Items/Number of options and exercise prices	31/12/2019			31/12/2018		
	Number of options	Average exercise prices	Average maturity	Number of options	Average exercise prices	Average maturity
A. Opening balance	–	–	–	–	–	–
B. Increases			X			X
B.1 New issues	1,503,711	7.10	30/04/2024	–	–	–
B.2 Other changes			X	–	–	X
C. Reductions			X			X
C.1 Derecognised	–	–	X	–	–	X
C.2 Exercised	–	–	X	–	–	X
C.3 Past-due	–	–	X	–	–	X
C.4 Other changes	–	–	X	–	–	X
D. Closing balance	**1,503,711**	**7.10**	**30/04/2024**	–	–	
E. Options exercised as at the end of the financial year	–	–	X	–	–	X

2. Other information

SOP plan

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

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

a) the reaching of so-called *gate* objectives linked to, among other things, the maintenance of certain capital and liquidity ratios, earnings, and the absence of any individual violations of laws or regulations;

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

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

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

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 identified by 31 December 2020.

ESOP Plan

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

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

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

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

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

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

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

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

On 10 May 2019, the shares allocated amounted to 43,022 for a value of 30.6 thousand euros ,for an increase in share capital and 355.2 thousand euros in Share premium reserve with a total cost of 386 thousand euros.

PART L – SECTORIAL DISCLOSURE

The Bank does not provide such disclosure.

PART M - INFORMATION ON LEASING

Section 1 – Lessee

QUALITATIVE INFORMATION

The Bank holds contracts that may be classified in the two following categories:

1. Rental of business and personal use properties;
2. Long-term rental of cars.

On 31 December 2019, there were 54 leasing contracts, of which 17 related to real estate *leasing*, with a total value of rights of use of 19.1 million euros, and of which 37 related to cars, with a total value of rights of use of 1.1 million euros.

Real estate *leasing* contracts include rental fees for buildings intended for instrumental use, such as offices, and for personal use.

Contracts, as a rule, have a duration of greater than 12 months, and typically have renewal and termination options that can be exercised by the lessor and the lessee according to the rules of law or specific contractual provisions.

Contracts relating to other *leases* relate to cars. These are long-term rental contracts available to employees. Generally, these contracts have a four-year duration, with monthly payments, without the option of renewal and do not include the option of purchasing the asset.

Sub lease transactions are of an amount attributable to properties intended for residential use.

As previously specified in the accounting policies, excluded from the application of the principle are contracts with durations of less than 12 months, or that have a low unit value when new of *leasing* .

QUANTITATIVE INFORMATION

The following table provides a summary of the components of the Balance Sheet relating to *leasing* contracts; for further information, see Part B of the Explanatory Note:

CONTRACT TYPE	Right of use	Lease Liability
Property rental fees	19,116	20,527
Long Term Rental Cars	1,147	1,163
Total	**20,263**	**21,690**

The following table shows a summary of the components of the Income Statement relating to *leasing contracts;* for further information refer to the contents of Part C of the Explanatory Note:

CONTRACT TYPE	Interest expense	Net value adjustments to material and intangible assets
Property rental fees	1,225	1,351
Long Term Rental Cars	33	243
Total	**1,258**	**1,594**

As of 31/12/2019 there are no material amounts relating *to leasing* commitments not yet stipulated.

Section 2 – Lessor

QUALITATIVE INFORMATION

At the reporting date, the Bank has no *leases* in the role of lessor to third parties.

Certification of Financial Statements

pursuant to article 154 bis of the Italian Civil Code 58/1998
as 31 December 2019

Certificate of financial statements in accordance with article 154 bis of Legislative Decree 58/1998

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering article 154-bis, paragraphs 3 and 4, of 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 financial statements during financial year 2019.

2. The adequacy of the administrative and accounting procedures used in the formation of the accounts to 31 December 2019 is checked according to 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 financial statements:

   a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) N° 1606/2002 of the European Parliament and Council, of 19 July 2002;

   b) correspond to the accounting records;

   c) are capable of providing a true and correct representation of the issuer's balance sheet, economic and financial situation.

   3.2 The management report includes a reliable analysis of the progress and results of operations as well as the issuer’s situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Milan, 05 March 2020

Signature of the Chief Executive Officer

Corrado Passera

Signature

Signature of the Financial Reporting Officer

Sergio Fagioli

Signature

Report of the Board of Statutory Auditors

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

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING ON ACTIVITIES PERFORMED IN 2019 (ARTICLE 153 LEGISLATIVE DECREE 58/1998)

Dear Shareholders,

The Board of Statutory Auditors (hereafter the "**Board of Statutory Auditors**") hereby reports to the Shareholders' Meeting of illimity Bank S.p.A. (hereafter "**illimity**" or "**illimity Bank**" or the "**Bank**") on its supervision activities for the year ending 31 December 2019, in accordance with Article 153 of Legislative Decree 58/1998 (hereafter also the "**TUF**").

The Shareholders' Meeting on 18 January 2019 authorised the "reverse merger" of SPAXS S.p.A. into Banca Interprovinciale S.p.A., and for the period ending with approval of the financial statements as of 31 December 2021, appointed a new Board of Statutory Auditors , comprising the auditors Ernesto Riva (Chairman), Stefano Caringi and Nadia Fontana, which performed the control functions from that date for the 2019 financial year.

On 5 March 2019, the abovementioned merger was completed and the company took on the new name of illimity Bank S.p.A., replacing the previous name of Banca Interprovinciale S.p.A. illimity Bank has been listed on the Mercato Telematico Azionario (MTA) of the Italian Stock Exchange since that date.

On 17 July 2019, illimity received a notice from the Bank of Italy concerning the registration of the illimity Bank S.p.A. Banking Group (hereafter also the "**Group**") in the Register of Banking Groups, with effect from 24 June 2019.

1. Activities carried out by the Board of Statutory Auditors

During the 2019 financial year, the Board of Statutory Auditors carried out its statutory duties in compliance with the Italian Civil Code, Legislative Decree no. 385/1993 (hereafter the "**TUB**"), the TUF, the guidance provided by CONSOB in communication no. 1025564 of 6 April 2001 as amended, Legislative Decree no. 39/2010 (Decree implementing Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts) as amended, statutory provisions and provisions issued by the regulatory and supervisory authorities, and also taking into account the rules of conduct laid down by the National Council of Chartered Accountants and Accounting Experts.

The Board of Statutory Auditors also complied with the regulations applicable to public interest bodies, as the "Internal Control and Audit Committee", performing additional specific control and monitoring duties with regard to financial reporting and statutory auditing, as provided for in Article 19 of the abovementioned Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016.

The Board of Statutory Auditors also performed the functions of the Supervisory Body, established pursuant to Legislative Decree no. 231/2001 on corporate responsibility, assigned by resolution of the Board of Directors on 18 January 2019.

In accordance with the Bank of Italy Circular no. 285, on 4 February 2019, the Board of Statutory Auditors carried out a self-assessment of its composition and of the integrity, professionalism and independence of its members, with a positive result. On 26 February 2020, it renewed the verification of the independence of its members, again with a positive outcome.

The Board of Statutory Auditors herein reports on the activities carried out in the 2019 financial year. The relevant information is provided below in accordance with applicable provisions.

a) Monitoring of compliance with laws, regulations and statutory provisions

The Board of Statutory Auditors took part in all meetings of Shareholders, the Board of Directors, the Risks Committee, the Remuneration Committee, the Appointments Committee and the Related Party Transactions Committee. The Board of Statutory Auditors met 25 times, including 7 times jointly with the Risks Committee.

During the financial year, the Board of Statutory Auditors also issued 8 opinions on compliance or the sharing of decisions taken by the Executive Body, required by the law or regulations.

As part of its control activities, the Board of Statutory Auditors, among other things:

- monitored compliance with the laws, By-laws and industry regulations, including with reference to the obligations regarding regulated or insider information or information requested by the Supervisory Authorities;
- monitored compliance with the principles of sound management as well as the efficiency and adequacy of the Bank's organisational structure, administrative-accounting and internal control systems through direct investigations, data and information collection from the Heads of the main business Functions concerned, the Financial Reporting Officer pursuant to Article 154-*bis* of the TUF (hereafter the "**Financial Reporting Officer**") and the company responsible for the independent auditing of the accounts, KPMG S.p.A. (hereafter "**KPMG**" or the "**Independent Auditors**");
- monitored the adequacy of the company control functions and their independence;
- monitored, pursuant to Article 149, paragraph 1, letter c-*bis* of the TUF, the implementation of the Corporate Governance Code for listed companies, which the company endorses;
- examined the measures taken by the Bank to comply with the Bank of Italy's requirements regarding internal organisation and control systems;
- checked that the criteria and verification procedures adopted by the Board to assess the various requirements for Directors and Statutory Auditors have been properly applied;
- carried out its checks on the internal control system, often supported by the Head of Internal Audit's attendance of board meetings, also attended by the Head of Compliance & AML and the Head of Risk Management;
- monitored the compliance of the related party transaction regulation approved by the Board of Directors with the principles set out in CONSOB resolution no. 17221 of 12 March 2010 as amended, as well as compliance with the regulation itself;
- met the newly appointed Board of Statutory Auditors of the subsidiary Neprix S.r.l., discussing in advance the arrangements for exchanging information on the activities carried out;
- monitored the adoption of remuneration policies submitted to the Shareholders' Meeting for approval;
- carefully examined the "reverse merger" of the parent company SPAXS S.p.A. into Banca Interprovinciale S.p.A., as part of the complex process that led to the creation of illimity Bank and its listing on the Italian Stock Exchange;
- carried out the activities related to the aforementioned functions of the Supervisory Body, monitoring the performance of illimity's Organisational Model pursuant to Legislative Decree 231/2001.

With regard to the provisions of Article 2408 of the Italian Civil Code, the Board of Statutory Auditors informs the Shareholders' Meeting that in 2019 no complaints of reportable matters were received from Shareholders. In February 2020, a report was received from a Shareholder, pursuant to the first paragraph of the aforementioned provision, who alleged unspecified management irregularities in relation to the negative financial performance of the first quarter of 2019: an allegation that the Board of Statutory Auditors, in relation to the evidence acquired in the course of its activities, considers unfounded.

The Board of Statutory Auditors did not receive reports of actions or matters that may constitute a breach of the rules governing banking activities pursuant to Article 52 *bis* of the TUB, or pursuant to Article 6, paragraph 2 *bis* of Legislative Decree no. 231/2001. Neither did it receive reports from customers or other parties of irregularities or reportable conduct by Bank personnel.

There were no alleged cases of breach of duties by the Directors in 2019 as set out by Articles 2406 and 2409 of the Italian Civil Code.

b) Compliance with the principles of sound management and related party transactions

In the 2019 financial year, the Board of Statutory Auditors obtained the necessary information about the activities performed and the major financial and equity transactions carried out in exercising the Bank's activities from the Directors. This information is presented in detail in the Management Report, which reference should be made to. On the basis of the information made available to the Board of Statutory Auditors, it can reasonably be considered that these transactions were carried out in accordance with the law and the company By-laws, and that they were not demonstrably imprudent, reckless, in conflict with the resolutions passed by the Shareholders' Meeting nor would they compromise the integrity of the company's assets. The

Board of Statutory Auditors, which also examined the company's management planning documents, did not identify any atypical or unusual transactions carried out with subsidiaries, with securitisation vehicles pursuant to Law 130/1999 (SPVs) included in the consolidation, with related parties or with third parties.

As reported in the Board of Directors' Report, on 20 September 2019, holders of the conditional share rights attributed to subscribers to the capital increase of SPAXS S.p.A., were assigned free of charge 5,698,551 new-issue ordinary shares, in the ratio of 1 share for every 5 rights. This assignment did not result in any change to the share capital.

During the financial year, the Bank purchased from the Shareholders of Banca Interprovinciale S.p.A., who did not participate in the merger, pursuant to Article 2505-*bis* of the Italian Civil Code, 10,554 treasury shares at the unit price of 9.09 euros each, for a total equivalent value of 95,940 euros, as per the resolution of the Shareholders' Meeting of 18 January 2019, at a price determined on the basis of the criteria established for withdrawal.

As part of its activities, the Board of Statutory Auditors has systematically and effectively liaised with the Bank's Board of Directors, its Chairman, Chief Executive Officer and other Board Members, both in the context of board meetings and, above all, in the context of the internal Board Committees, in whose profitable activities the Auditors participate.

Also as part of its statutory duties, the Board of Statutory Auditors had the full cooperation of all the Bank's departments, in particular the Internal Control Functions: the Internal Audit Function, the Risk Management Function and the Compliance & AML Function.

In order to monitor compliance with the principles of sound management, the Board of Statutory Auditors regularly met with the Head of Administration & Accounting and Financial Reporting Officer, discussing the various issues within its area of responsibility, with particular reference to the IT migration process and its impact on the administrative structure. The Financial Reporting Officer did not highlight any significant shortcomings in the operational and control processes that could impair the opinion of adequacy and effective application of the administrative and accounting procedures for the purposes of giving an accurate representation of the Bank and Group's asset and financial situation. The Board of Statutory Auditors exercised constant control of the process of upgrading the IT system, which is still in progress, including in relation to business expansion. This activity will continue in 2020.

In the Management Report and Explanatory Notes, the Board of Directors provided an illustration of the transactions with related parties, based on adequate internal control and under the control of the Board of Statutory Auditors, indicating the related asset and financial effects. Also described are the methods used to determine the amount of the related considerations, illustrating that these transactions were carried out in the interests of the Company and were conducted according to the principles of sound management.

c) Monitoring of the adequacy of the organisational structure

As mentioned above, the 2019 financial year saw the implementation of the Business Combination with the parent company SPAXS S.p.A. and the resulting amendments to the business model, as described in detail in the new 2019-2023 Industrial Plan. An extensive restructuring process was therefore initiated, with the adoption of new operational and management procedures, which were implemented during the year, with the approval of the new body of legislation consisting of Regulations, Policies and Guidelines to regulate in detail the Bank's entire operations.

The Board of Statutory Auditors continuously followed the production process of new internal regulations, which appear to adequately regulate the governance, procedures, expertise and responsibilities of the corporate bodies and corporate structures, in the context of an organisational system that is consistent overall with the nature and characteristics of the Bank's activities. In view of the continuous expansion of illimity operations, these internal regulations are constantly evolving, requiring continuous adjustments, which the Board of Statutory Auditors monitors.

The Board of Statutory Auditors acquired the necessary knowledge of the Bank's organisational structure and IT system and monitored, within its scope of responsibility, the implementation of the adjustment and/or improvement measures requested by the operational and control Functions, by acquiring information from the Heads of all the internal Functions involved in the process and holding meetings with KPMG, which reported on the specific auditing activities carried out by them.

The new business model required the adoption of particularly innovative IT solutions: a new IT servicer was chosen, migrating the central information system from the platform of the previous service provider to that of the new one, and outsourcing some IT activities closely connected to business expansion. In addition, and most significantly, the Digital Bank was launched. The Board of Statutory Auditors monitored these activities.

Regarding the management of the core banking IT system, the previous IT service provider was replaced by Sella Technology Solutions S.p.A., which then changed its name to Centrico S.p.A.. This migration, like all such operations, required substantial preparatory work in order to minimize the impact on the operations of customers and the illimity Functions. However, in the course of this activity, some technical anomalies arose that did not generate significant critical issues but did require improvements, some of which are still being implemented. These were monitored by both the Executive Body and the Board of Statutory Auditors. The management of the cloud computing infrastructure component, required for the direct development of the new modular IT system by illimity, was entrusted to Microsoft S.p.A.

In authorising the migration and outsourcing of a significant part of the IT activities, which the Supervisory Authority classifies as an Important Operational Function (IOF), the Bank of Italy requested a series of improvement measures regarding the implementation, which the Board of Statutory Auditors monitored. Again in this case, this was done with continuous dialogue with the relevant internal Functions and KPMG.

As already mentioned, and as the Directors explain in the Report accompanying the Financial Statements, last September, *illimitybank.com*, illimity's digital bank, began operating, offering a range of services based on the very latest technologies. This new initiative was also monitored by the Supervisory Body, with the collaboration of the internal Functions.

In relation to the establishment of the illimity Bank S.p.A. Banking Group, intercompany agreements were established regarding the activities of the Control Functions. In addition, the regulations governing intergroup relationships are currently being drawn up, defining the management and control role of the Bank in relation to the subsidiaries. In this context, the Parent Company is responsible for ensuring the overall consistency of the Group structure through management and coordination activities. The Board of Statutory Auditors also monitors, within the scope of its responsibility, the instructions given by the Parent Company to subsidiaries pursuant to Article 114, paragraph 2 of the TUF (fulfilment of reporting obligations established by law). Special attention is paid to the close relationship with Neprix S.r.l., a company which is closely integrated from an operational point of view.

As part of its statutory activities, the Board of Statutory Auditors, which also acts as the Supervisory Body, obtained and examined information about the organisational and procedural activities carried out and currently being updated, in accordance with Legislative Decree 231/2001 as amended, on the corporate liability of legal entities for the offences governed by that decree.

In particular, the Supervisory Body, in performing its ordinary activities, monitored (i) the efficiency, effectiveness and adequacy of the Organisational Model in preventing and combating the commission of offences to which Legislative Decree 231/2001 is applicable, (ii) compliance with the requirements contained in the Model by the recipients, (iii) the updating of the Model, making proposals to the Corporate Bodies and (iv) the implementation of the staff training plan. In this context, it examined the information sent to the Supervisory Body as well as the periodic reports of the Compliance & AML Function, the Internal Audit Function and the related dashboards, and monitored the mailbox and the implementation of whistleblowing procedures. The Board of Statutory Auditors, in carrying out the tasks and functions of the Supervisory Body, also monitored compliance with the principles and values contained in the Code of Ethics.

For the best performance of its tasks, the Body made use of the Bank's departments, in particular the Internal Audit Function, the Compliance & AML Function and the Risk Management Function, as well as the Organisation Function and the Corporate Affairs Function.

d) Adequacy of the internal control and risk management system, and of the administration and accounting system

According to current regulations and best practices, within illimity Bank, the types of control are organised into three levels:

- line controls (level I) carried out by the company Functions responsible for business/operational activities;
- risk and compliance controls (level II);
- internal auditing (level III) carried out by the Internal Audit Function.

As part of the process of organising the illimity Bank structures related to the new businesses and listed company status, during the financial year, the structure of the second and third level control functions was completed, whose efficiency and independence is continuously monitored by the Board of Statutory Auditors.

During the financial year, the Chief Risk Officer (CRO) Department was provided with adequate personnel, both in terms of quantity and skills, and the Head of Compliance & AML was appointed. As of 31 December 2019, the Department had 29 members of staff (plus one intern), 5 of whom held the role of manager. Similarly, the structure of the Internal Audit Function was defined, which as of 31 December 2019, had 5 members of staff, one of whom held the role of manager.

In relation to the establishment of the illimity Bank S.p.A. Group and the numerous ongoing business development initiatives, the Board of Statutory Auditors will ensure that the Control Functions are adequately staffed in terms of quantity and skills.

During the financial year, the Board of Statutory Auditors carried out the required continuous exchange of relevant information with the Control Functions mentioned above. These functions fulfilled their reporting obligations towards the executive and supervisory bodies by providing them with the necessary periodic reports on their work and also with reports on the outcomes of the most significant checks.

Of these, the reports of the Internal Audit Function were of particular importance for the control of the Bank's operations, which concerned in particular: (i) the ICT governance model, (ii) the ICAAP, (iii) anti-money laundering measures relating to customers acquired through the Raisin platform, (iv) the NPL Investment management process, (v) services outsourced to Centrico S.p.A.. (formerly Sella Technology Solutions S.p.A.), (v) the effectiveness of logical and physical security measures, (vi) anti-money laundering measures during the onboarding phase of Digital Bank customers, and (vii) the lending process.

In 2019, this Function completed the Activity Plan. The activities carried out highlighted the opportunity to strengthen the internal control system as a whole, in order to adapt it to the evolution of the company's operations. As of 31 December 2019, most of the recommendations provided had been implemented. The others are expected to be completed by the second quarter of 2020. The corrective measures, envisaged by the Bank with reference to these recommendations, were assessed overall as adequate by the Internal Audit Function in terms of the quality of the actions and timing of their implementation.

The CRO Department defined its 2019 Activity Programme, divided into a series of strengthening measures and actions in relation to the internal models, measurement and control processes, supporting IT systems and reference company regulations. In 2019 and the first two months of 2020, approximately 80% of the actions were implemented, including all those of major strategic importance. Several project activities were carried out and a significant flow of operations, including unplanned activities, was managed. Several areas of improvement were identified and various recommendations issued in this regard, and the related measures are being implemented and monitored by the Board of Statutory Auditors.

Adequate control activities were carried out in advance by the Compliance & AML Function on products and services offered to customers. In this regard, it is worth mentioning the activities carried out by the Function regarding the activation of the channel for deposits from non-resident customers through the Raisin internet platform, as part of the funding diversification strategy.

With reference to the preparation of the Financial Statements, financial reporting and the management of related risks, the Board of Statutory Auditors held, among other things, regular meetings with the Financial Reporting Officer to acquire the necessary elements to assess the internal procedures for classifying loans to customers according to the degree of impairment, and to evaluate them, as well as with the CRO Department for the validation of the new model for calculating the so-called collective adjustment of performing loans. Special attention was paid to the internal process used to determine capital adequacy and the management criteria used to define the risk appetite framework. The consistency of the data in the annual ICAAP summary, which is required by the prudential supervision regulations of the Bank of Italy, was also checked.

Based on the information obtained, the Board of Statutory Auditors verified that the internal control system in operation during the financial year permitted, overall, an informed and prudent management of business risks, within a complex framework of policies, planning and systematic monitoring by the Control Functions.

In conclusion, the Board of Statutory Auditors considers that the control system, which relies on an adequate number of personnel with the right qualifications, is capable of supporting the business growth that illimity is implementing.

e) <u>Independent auditing and financial reporting process, and independence of the Independent Auditors</u>

With the resolution of the Shareholders' Meeting of 17 December 2018, the independent auditing was assigned to the independent auditors KPMG S.p.A. for the financial years 2018 to 2026.

In accordance with Article 19 of Legislative Decree 39/2010, which designates the Board of Statutory Auditors as the "Internal Control and Audit Committee", the Board of Statutory Auditors verified and examined the process of preparing the separate and consolidated financial statements of illimity for the 2019 financial year, as well as its compliance with the laws and regulations in force and consistency with the resolutions adopted by the Board of Directors. With regard to these activities, the Board of Statutory Auditors, among other things:

- informed the illimity Bank Board of Directors of the outcome - without findings or information requests - of the reports relating to the 2018 Financial Statements of illimity Bank (formerly Banca Interprovinciale S.p.A.) and of the incorporated SPAXS S.p.A.,
- again with regard to the 2018 Financial Statements, it sent the Additional Report referred to in Article 11 of European Regulation No 537/2014 to the Board, accompanied by observations;
- it monitored the audit of the 2019 Separate and Consolidated Financial Statements;
- it verified and monitored the independence of KPMG, with particular reference to the provision of non-audit services provided to the Bank.

In this regard, on 18 March 2019, KPMG issued a statement confirming its independence pursuant to Article 6, paragraph 2 of Regulation (EU) No 537/2014. This statement was reissued on 16 March 2020.

With regard to the provision by KPMG of non-audit services in 2019, the Board of Statutory Auditors approved the assignment to a company of the KPMG network of an individual task of this kind for the issuance of an Independent Business Review relating to a credit transaction, not having identified potential risks to KPMG's independence. As provided for by Article 149-*duodecies* of the CONSOB Issuers' Regulations, as an annex to the 2019 Financial Statements, there is a statement of the fees on a consolidated basis for the year paid to KPMG and the company of the KPMG network, in relation to the services provided during the year:

- by the Independent Auditors, for the provision of auditing services: EUR 306,000;
- by the Independent Auditors for the provision of non-audit services (mainly comfort letters for EMTN issue): EUR 76,000;
- by the entities belonging to the network of the Independent Auditors for the provision of the aforementioned Independent Business Review service: EUR 90,000.

During the 2019 financial year, the Board of Statutory Auditors held frequent meetings (9) with the Auditing Manager and his or her co-workers, exchanging the necessary information and assessments, in accordance with Article 2409-*septies* of the Italian Civil Code. The main topic of the meetings was the work carried out by KPMG, based on an auditing plan shared by the Board of Statutory Auditors, also benefiting from the collaboration of experts from its network to verify the adequacy of the administrative-accounting system, post IT migration controls, and the quality of outsourced IT services. In the course of these activities, no conduct or situations considered reportable were identified by the Independent Auditors.

The Board of Statutory Auditors also discussed and shared with KPMG and the Financial Reporting Officer the accounting procedures and standards used, the assessments of the adequacy of the asset and liability items, the methodology for implementation, and the results of the goodwill impairment testing and the deferred tax probability testing (so-called DTA) and the other choices made in the preparation of the 2019 Financial Statements of illimity Bank, the subsidiaries Neprix S.r.l. and illimity SGR S.p.A., as well as the reporting packages of the Securitisation Vehicles pursuant to Law 130/1999 (SPVs), companies which illimity relies on for the securitisation of purchased NPL credits. It should be noted that Neprix S.r.l., illimity SGR S.p.A. and the SPVs are all subject to independent auditing by KPMG. In early 2020, meetings between the Board of Statutory Auditors and the Independent Auditors were intensified in order to ensure an adequate flow of information in compliance with their respective control duties, including with regard to the timing of the preparation of the relevant Reports.

As already highlighted, in 2019, the Board of Statutory Auditors systematically liaised with the Financial Reporting Officer in order to ensure the exchange of information required, among other things, for the fulfilment of the supervision envisaged by the Board of Statutory Auditors (in its role as Internal Control and Audit Committee), as well as for the purpose of acquiring information and clarifications concerning the adequacy of the administrative-accounting system, the critical issues arising from the migration of the central IT system and the progress of the necessary adaptation, improvement and implementation actions, with results that the Board considered satisfactory.

In light of the provisions in force, the Independent Auditors:

- issued the Reports referring to the individual and consolidated financial statements as of 31 December 2019, pursuant to Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) 537/2014. With regard to opinions and statements, KPMG issued the Reports on the Individual and Consolidated Financial Statements without findings, which show that these financial statements provide a true and fair view of the Group and Bank's financial position and performance and cash flows;
- issued an opinion, stating that the Management Report and the Corporate Governance and Ownership Report, limited to the information indicated in Article 123-*bis*, paragraph 4 of Legislative Decree 58/1998, reflect the financial statements and have been prepared in accordance with legal requirements;
- stated that it had nothing to report, with reference to Article 14, paragraph 2, letter e) of Legislative Decree 39/2010, regarding the identification of any material errors in the Management Report, based on its knowledge and understanding of the company and its context acquired during its activities;
- issued to the Board of Statutory Auditors pursuant to Article 11 of Regulation (EU) No 537/2014, the Additional Report for the Internal Control and Audit Committee, which did not reveal any significant shortcomings in the internal control system in relation to the financial reporting process which merit being brought to the attention of the Board of Statutory Auditors. Moreover, initiatives currently under way to implement data quality controls, minimizing the risks of operational errors, are highlighted. KPMG also confirmed its independence.

These aspects were discussed with the Board of Statutory Auditors, which will take them into account in the preparation of its comments to be provided to the Board of Directors - in accordance with the provisions of Article 19, paragraph 1, letter a) of Legislative Decree no. 39/2010 - accompanying the submission of the Additional Report.

2. 2019 Consolidated Financial Statements

The consolidated financial statements of the illimity Bank S.p.A. Group include the illimity Parent Company, the subsidiaries Neprix S.r.l. and illimity SGR S.p.A., as well as the Special Purpose Vehicles (SPVs) consolidated in accordance with IAS/IFRS international accounting standards: Aporti S.r.l., Soperga RE S.r.l., Lumen S.r.l., Friuli LeaseCo D.r.l., Friuli SPV S.r.l., Doria LeaseCo S.r.l., Doria SPV S.r.l., River LeaseCo S.r.l., River SPV S.r.l., Pitti LeaseCo S.r.l. and Pitti SPV S.r.l. The financial statements and packages of the consolidated entities have been prepared in accordance with the coordination guidelines provided to them by illimity Bank. As mentioned above, all companies were independently audited by KPMG.

In their Management Report, prepared in accordance with the applicable regulations, the Directors provide a clear and comprehensive set of information on the situations and events that characterised 2019, and on the strategies adopted and results achieved by the Bank. They also provide appropriate comparisons with the figures for the previous financial year as well as adequate information about the business outlook. As required, the Explanatory Notes contain full information about the possible risks (credit, market, operational and liquidity), the uncertainties faced by the Bank and the related methods of control. The qualitative-quantitative information is accompanied by the required illustrative accounting reports.

This Board of Statutory Auditors has exercised an overall summary control of the consolidated financial statements for 2019, as well as the interim reports for the period, verifying the correct preparation and adequate level of disclosure. This control related in particular to the application of the Accounting Standards and criteria used for the measurement of financial statement items. In this context, explicit consent is given to the recognition in the financial statements of intangible assets, which however remain of a marginal amount. No exemptions from the provisions of the Italian Civil Code (Article 2423, paragraph 4) were sought.

During the financial year, there was a steady, significant increase in total assets: total consolidated assets increased from 1,235 million euros as of 31 December 2018 to 3,025 million at the end of 2019; loans to customers, in various forms, from 484 million euros to 1,288 million; deposits from customers from 535 million euros to 1,979 million; and shareholders' equity decreased from 557 million euros to 544 million, with a CET 1 ratio of just over 21%.

The consolidated income statement closed with a loss for the year of 16.1 million euros, compared to a loss of 29.1 million in 2018. A strong growth in the net result of banking transactions (from a negative figure of -6.9 million euros to a positive figure of +59.7 million) was matched by an equally strong increase in operating expenses, typical of the start-up phase of new companies. It is also worth noting the strong increase in revenues during the year: interest, commissions and results of financial operations, in line with the gradual activation of illimity's new businesses, which enabled closure of the end of the fourth quarter with a significant positive result (+ 2.1 million euros).

The loss for the financial year generated advance taxes of 12.4 million euros, the total amount of which rises to 37.1 million euros, which can be considered fully recoverable on the basis of illimity's prospective earnings.

The loss for the financial year is essentially attributable to the significant costs associated with the Bank's start-up phase, in line with the assumptions of management planning documents. Overall, the progressive activation of new businesses, the trend in asset volumes and revenue generation, the soundness of the asset structure and the cash flow situation make it possible to positively assess the prospects of the Bank and the Banking Group and to consider that the assumption of business continuity has been verified, despite market scenarios characterised by uncertainties.

3. 2019 Separate Financial Statements

The separate ("individual") financial statements of illimity Bank for 2019 are submitted to the Shareholders' Meeting for approval.

In relation to the specific structure of the illimity Bank S.p.A. Group, the total assets and financial results of these financial statements are substantially in line with those of the Consolidated Financial Statements.

In particular: total assets amounted to 3,029 million euros (3,025 million in the Consolidated Financial Statements); the result for the period was negative by -16.8 million euros (-16.1 million in the Consolidated Financial Statements); and the shareholders' equity was approximately 544 million euros (in line with that of the Consolidated Financial Statements).

4. CONCLUSIONS

The supervisory activities carried out by the Board of Statutory Auditors did not reveal any reportable matters or conduct, omissions or irregularities to be outlined in this Report. From the information obtained through its supervisory activities, the Board of Statutory Auditors is not aware of any transactions carried out during the year that were not carried out in accordance with the principles of sound management nor any that were authorised and carried out in conflict with the law or company By-laws, nor any not in the interests of the Bank and Group, in contradiction to the resolutions adopted by the Shareholders' Meetings, nor any that were demonstrably imprudent or reckless, or that lacked the necessary information in the case of interests of company representatives, or such that would compromise the integrity of the company's assets.

Having considered the content of the Independent Auditors' reports, and acknowledging the statements issued jointly by the CEO and the Financial Reporting Officer, the Board of Statutory Auditors, acting within its scope of responsibility has not identified any obstacles to the approval by the Shareholders' Meeting of the draft individual financial statements for the year ended 31 December 2019 of illimity Bank S.p.A. In the opinion of the Board of Statutory Auditors, there is no obstacle to the proposal to carry forward the loss for the financial year.

Milan, 18 March 2020

Ernesto Riva

Stefano Caringi

Nadia Fontana

Report of the Independent Auditors

pursuant to article 154 bis of the Italian Civil Code 58/1998
at 31 December 2019

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

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

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of illimity Bank S.p.A. (the "bank"), which comprise the balance sheet as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of illimity Bank S.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets measured at amortised cost

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost" and paragraph A.2.15 "Other information - Purchased or originated credit-impaired financial assets (POCI)"

Notes to the separate financial statements "Part B - Information on the balance sheet": Section 4 "Financial assets measured at amortised cost – Item 40"

Notes to the separate financial statements "Part C - Information on the income statement": Section 8 "Net losses/recoveries for credit risk – Item 130"

Notes to the separate financial statements "Part E - Information on risks and related hedging policies": Section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Loans and receivables with customers recognised under financial assets at amortised cost totalled €1,646.4 million at 31 December 2019, accounting for 54.4% of total assets. Loans and receivables with customers of the "*Distressed Credit Investment & Servicing Division*" include notes issued by securitisation vehicles against the purchase of *non-performing* exposures (€591.0 million), *non-performing* exposures purchased directly by the bank (€83.5 million) and *senior financing* (€341.0 million). Loans and receivables with customers of the "SME Division" include amounts relating to *"Crossover and Acquisition Finance"* transactions (€177.8 million), *"Factoring"* transactions (€135.6 million), *"Turnaround"* transactions (€131.5 million) and the business previously carried out by Banca Interprovinciale S.p.A. (€186.1 million). Net impairment gains on loans and receivables with customers recognised during the year totalled €0.8 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show	Our audit procedures included: — gaining an understanding of the banks' processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (*staging*); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
evidence of impairment after disbursement or purchase. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the business plans and related regular updates (especially in relation to the POCI exposures), the existence of any indicators of impairment, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the group's customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	— selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls in relation to the regular updating of the business plans on which basis the POCI exposures are measured; — for a sample of POCI exposures, checking the underlying business plans and the cash flow backtesting by tracing the business plan figures to the actual collections; — analysing the significant changes in the categories of loans and receivables with customers and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets measured at amortised cost.

Measurement of goodwill

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the separate financial statements "Part B - Information on the balance sheet": Section 9 "Intangible assets - Item 90"

Notes to the separate financial statements "Part C - Information on the income statement": Section 13 "Net adjustments/recoveries on intangible assets - Item 190"

Key audit matter	Audit procedures addressing the key audit matter
Following the acquisition of Banca Interprovinciale S.p.A., the SPAXS Group recorded goodwill of €21.6 million in its consolidated financial statements at 31 December 2018. As a result of the reverse merger between SPAXS S.p.A. and Banca Interprovinciale S.p.A. (which then changed its name to illimity Bank S.p.A.) that took place on 5 March 2019, the bank's separate financial statements at 31 December 2019 show such goodwill. As disclosed in the notes, in accordance with IFRS 3, the directors allocated goodwill to the sole cash-generating unit ("CGU") they identified, which is the entire bank. The directors tested the reporting-date carrying amount of goodwill for *impairment* by comparing the carrying amount of the CGU to which goodwill is allocated to its recoverable amount. The directors estimated the recoverable amount based on value in use calculated using the discounted cash flow model. Testing goodwill for *impairment* requires complex valuations and a high level of judgement, especially in relation to: — the expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of bank's sector and the directors' forecasts about its future performance;	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the bank's directors; — gaining an understanding of the process used to draft the bank's long-term plan approved by the directors; — assessing the key assumptions used by the directors to determine the CGU's value in use. Our assessment included checking the consistency of the method adopted with that used in the previous year and comparing the key assumptions used to external information, where available; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for *impairment* testing; — assessing the appropriateness of the disclosures about goodwill and the related *impairment* test.

Key audit matter	Audit procedures addressing the key audit matter
— the financial parameters to be used to discount the cash flows. For the above reasons, we believe that the measurement of goodwill is a key audit matter.	

Sale of debt instruments measured at amortised cost

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"

Notes to the separate financial statements "Part B - Information on the balance sheet": Section 4 "Financial assets measured at amortised cost – Item 40"

Notes to the separate financial statements "Part C – Information on the income statement": Section 6 "Profits (losses) on disposals/repurchases – Item 100"

Key audit matter	Audit procedures addressing the key audit matter
At 30 September 2019, the bank held Italian government bonds classified at amortised cost, which its treasury unit managed as part of a hold to collect (HTC) business model. They totalled €103.3 million and accounted for 5.3% of total assets at that date. During 2019, the bank's directors resolved to discontinue the treasury unit's HTC investment strategy and to sell the related securities. The bank realised a gross gain of €7.7 million on such sale. The directors have provided the disclosures about the discontinuance of the treasury unit's HTC investment strategy and related effects in the notes. For the above reasons, we believe that the sale of the debt securities classified at amortised cost is a key audit matter.	Our audit procedures included: — gaining an understanding of the process used to manage and monitor the securities portfolios by the different *business units* and, especially, by the treasury unit; — reading the *governance* bodies' resolutions supporting the decision-making and authorisation process; — checking the consistency of accounting treatment applied to the sale of government bonds with IFRS 9; — checking the accuracy of the accounting entries; — assessing the appropriateness of the disclosures about the sale of debt instruments classified at amortised cost.

Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 17 December 2018, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of a report and a report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 16 March 2020

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

Management Team

1 **Passera Corrado**, Chief Executive Officer
2 **Battisti Andrea**, Head of Servicing - neprix, DCIS
3 **Argnani Daiana**, Head of Commercial Processes - IT Auction, DCIS
4 **Campanella Tiziana**, Head of Credit Machine, SME
5 **Bonifazi Claudio**, Head of Digital Customer Operations, DDO
6 **Benzi Silvia**, Head of IR & Strategic Planning, CFO & Central Functions
7 **Clamer Andrea**, Head of Distressed Credit Investment & Servicing
8 **Russomando Marco**, Head of Human Resources, CFO & Central Functions
9 **Ciccarelli Renato**, CEO IT Auction, DCIS
10 **Teixeira Filipe**, Head of Information Technology, DDO
11 **Moretti Umberto Paolo**, Head of Turnaround, SME
12 **Giuseppone Francesco**, Head of Due Diligence - neprix, DCIS
13 **Giada Lorenzo**, Head of Risk Management, CRO
14 **Bianchi Massimo**, Head of Special Situation Real Estate, DCIS
15 **Mele Francesco Renato**, Chief Financial Officer and Head of Central Functions
16 **Tondelli Paola**, Responsabile Area Investimenti SGR
17 **Falautano Isabella**, Chief Communication & Stakeholder Engagement Officer
18 **Ortolano Stefano**, Head of Crossover, SME
19 **Giovanni Lombardi**, General Counsel, CFO & Central Functions
20 **Lionetti Fabiano**, Head of ALM & Treasury, CFO & Central Functions
21 **Levi Formiggini Daniele**, Head of Real Estate Investment Support - neprix, DCIS
22 **Fagioli Marzocchi Enrico**, Head of SME
23 **Mazzucchelli Luigi Ferruccio**, Head of Leasing Asset Management - neprix, DCIS
24 **Montella Giuseppe**, Head of Design & Web Strategy, DDO
25 **Ceriotti Marco**, Head of Organic NPE & Credit Monitoring, SME
26 **Galli Francesca**, Head of Loans Asset Management - neprix, DCIS
27 **Montana Andrea**, Head of Portfolios, DCIS
28 **Le Pera Giacomo**, Head of Risk Analytics, CRO
29 **Maspoli Elena**, Head of Special Situations Energy, DCIS
30 **Panella Carlo**, Head of Direct Banking & Digital Operations
31 **Weisz Daniele**, Head of Pricing, DCIS
32 **Martiniello Francesco**, Head of Compliance & AML, CRO
33 **Preziosi Luca**, Head of NPL Senior Financing, DCIS
34 **Pelliconi Massimo**, Head of Business Applications - Mado, DCIS
35 **Brucoli Matteo**, Head of Sales - IT Auction, DCIS
36 **Donattini Davide**, Head of Information Technology - Mado, DCIS
37 **Laghi Jessica**, Head of Online Channels - IT Auction, DCIS
38 **Assirelli Edoardo**, Head of Data Management - IT Auction, DCIS
39 **Piovini Paolo**, Head of Business Ops. & Credit Support, SME
40 **Senzani Carlo**, Head of Legal SME, SME
41 **Andreis Nicola**, Head of Risk Strategy, CRO
42 **Marcarini Franco**, Head of Factoring, SME
43 **Nordio Claudio**, Chief Risk Officer
44 **Montagnani Marco**, Head of Product Customer & Business Development, DDO
45 **Zucchi Iacopo**, Head of Budget & Control, CFO & Central Functions
46 **Biondi Alessandro**, Head of Business Operations, DCIS
47 **Fagioli Sergio**, Head of Administration & Accounting, CFO & Central Functions
48 **Girgenti Andrea Alfio**, Head of NPL Operations - neprix, DCIS
49 **Marchesi Fabio**, Head of Internal Audit
50 **Vanzini Andrea**, Head of Procurement, CFO & Central Functions
51 **La Porta Vittoria**, Brand & Marketing Comms Advisor, DDO
52 **Tognolini Sara**, Head of Organization & Process, DDO