illimity

BANCA OLTRE LA FORMA

Consolidated interim financial report
at 30 June 2020

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COMPOSITION OF CORPORATE BODIES

BOARD OF DIRECTORS

Chairman
Rosalba Casiraghi

Chief Executive Officer
Corrado Passera

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

* Appointed by the Shareholders' Meeting of 22 April 2020 replacing Director Sigieri Diaz della Vittoria Pallavicini who had served notice of his resignation on 2 March 2020.

BOARD OF STATUTORY AUDITORS

Chairman
Ernesto Riva

Standing Auditors
Stefano Caringi
Nadia Fontana

Substitute Auditors
Riccardo Foglia Taverna
Michela Zeme

EXECUTIVE IN CHARGE OF FINANCIAL REPORTING

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

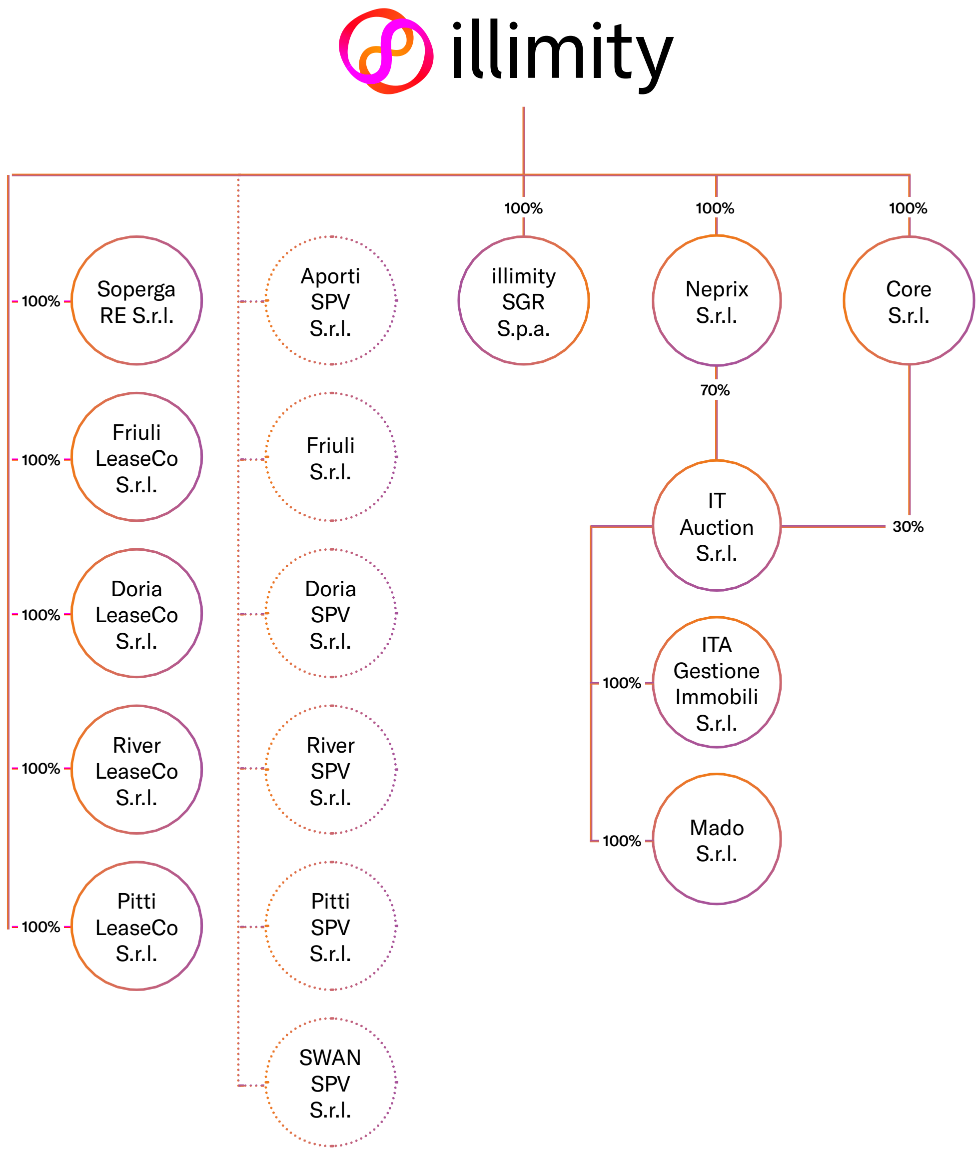
Consolidated interim financial report

at 30 June 2020

CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2020

This Consolidated Interim Financial Report illustrates the performance and the related 2020 first-half 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 exercises the management and coordination of the Group and has its registered office in Milan, at Via Soperga 9[1].

Group Structure



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

The Group includes the following entities:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COMPOSITION AND ORGANISATIONAL STRUCTURE

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

Small Medium Enterprises Division

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

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

The SME Division is active in the following segments:

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

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

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

Distressed Credit Investment & Servicing Division

The *Distressed Credit Investment & Servicing* 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 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 Area;
3. The *Pricing* Area, responsible, under the supervision of the *Risk Management* Function, for developing, implementing and maintaining the pricing models of portfolios/*single name* (*special situations)/senior financing* and the *capital structure* of all investments;
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, and developing 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 ("*secured*") and partly devoid of underlying real estate or secured by second-degree mortgages ("*unsecured*"). Credits are acquired both in the so-called "primary" market, i.e. directly from the credit intermediaries that originally granted the credit to the counterparties, and in the "secondary" market, i.e. from other investors who in turn purchased the credits from the aforementioned credit intermediaries.

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

a) "*Portfolios*", aimed at investments in *distressed* credit portfolios, mainly or totally represented by the *corporate* type (any retail receivables purchased are destined for sale on the secondary market);

b) "*Special Situations – Real Estate*", aimed at investment opportunities in so-called "*single name*" receivables, meaning exposures to a single debtor or, at most, a *cluster* of corporate counterparties, both *secured* and *unsecured*;
c) "*Special Situations – Energy*", recently launched and aimed at investment opportunities in *single name* loans involving corporate counterparties operating in the renewable energy sector.

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

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

In line with illimity's business model of internalising the entire value chain, the Bank avails itself of the support of Neprix (a wholly owned subsidiary of the Bank acquired on 20 July 2019) and IT Auction (which was fully integrated into the Banking Group during the first half of 2020 as described in more detail within the section "Significant events in the first half of 2020") for the management of *distressed* loans and forms commercial agreements with *servicers* selected from time to time on the basis of the characteristics of the assets acquired.

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

IT Auction is an operator specialised in managing and selling property and capital goods originating from insolvency proceedings and foreclosure, through its own *network* of platforms/online auctions and a network of professionals operating nationwide.

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

Direct Banking & Digital Operations Division

The *Direct Banking & Digital Operations* ("DDO") Division is sub-divided into two complementary divisions: the *Direct Banking Division* and the *Digital Operations Division*.

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

Through its *Direct Banking* Division, illimity offers *digital banking* products and services to *Retail* and *Corporate* customers. The Division aims to develop a range of products and services that can fulfil the needs of the market and to manage the *online* and *app* channels. It is responsible for designing the *value proposition* and its relative commercial and *pricing* characteristics, and for formulating the characteristics of the *front-end* and the overall *user experience* for the customer. In addition, it formulates the Bank's communications plan and brand development strategy to ensure positioning, results and optimal customer acquisition and management. It does all this using a platform supported by the most innovative technologies available and compliant with the new regulations (e.g. PSD2).

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

1. Deposits accounts with competitive rates and a simple, customisable product structure;
2. Current accounts offered according to an innovative, digital *user experience*;
3. Payment services provided through a platform that combines the most innovative tools available on the market with household *budget* management services;
4. Full range of other banking products for families (such as personal loans and insurance), made available to customers through *partnerships* with selected operators;
5. *Account aggregator*, i.e. a function which makes it possible to aggregate all accounts held with other banks in the customer's *home banking* area, enabling an overview of the customer's financial situation on a single screen;
6. *illimity Hubs*, i.e. innovative collaboration models enabling the Customer to use the functionalities offered by our partners - so far Mimoto and Fitbit – via integration into the illimitybank.com platform, and to activate complementary banking services.

BANK BRANCHES AND OFFICES

The Bank's branches and offices are as follows:

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

HUMAN RESOURCES

At 30 June 2020, the Bank's registered employees numbered 514 (348 as of 31 December 2019). A breakdown of the workforce is given below, divided by job level:

Category	30/06/2020		
	No. employees	No. employees %	Average age
Executives	48	9%	47
Middle managers	223	44%	37
White-collar	243	47%	33
Total	**514**	**100%**	

MACROECONOMIC SCENARIO

As described by the European Central Bank ("ECB") in its June 2020 "*Eurosystem staff macroeconomic projections for the euro area*", the coronavirus (COVID-19) pandemic has dramatically affected global economic activity and the euro area is no exception. Indeed, the euro area saw its GDP drop by 3.8% in real terms during the first quarter, mainly due to the strict lockdown measures implemented in most euro area countries around mid-March. A further decline of 13% is expected in the second quarter, even though most governments have begun to loosen their tight restrictions.

Looking ahead, the ECB stresses that what happens after 30 June 2020 will be subject to unprecedented uncertainty; the baseline rests upon a set of key assumptions about the future evolution of the pandemic as well as the necessary containment measures and the behaviour of households and enterprises. Namely, the baseline assumes only partial success in containing the virus, with some resurgence in infections over the coming quarters. This would necessitate persistent containment measures until a medical solution becomes available, which is assumed to happen by mid-2021. These measures are expected to weigh on supply and demand. Elevated uncertainty and worsened labour market conditions are expected to induce households and firms to cut back their spending further. Substantial support from monetary, fiscal and labour market policies should help maintain incomes and limit the economic scars the health crisis would leave behind. Such policies are also assumed to be successful in preventing adverse amplifications through financial channels. Under these assumptions, real GDP in the euro area is projected to fall by 8.7% in 2020 and to rebound by 5.2% in 2021 and by 3.3% in 2022. This implies that by the end of the projection horizon, the level of real GDP would be around 4% below its level expected in the March 2020 staff projections.

In view of the unprecedented uncertainty about the evolution of the pandemic and its impact on economic behaviour, as well as the associated containment measures and the success of the policy measures, the ECB has prepared two alternative scenarios:

- The mild scenario sees the shock as temporary, with a fast and successful containment of the virus allowing restrictions to be removed swiftly. In this scenario, real GDP would decline by 5.9% this year, followed by a strong rebound in 2021 and almost reaching the level of March 2020 projections by the end of the horizon. Inflation in this scenario would reach 1.7% in 2022.
- In contrast, a severe scenario, with a strong resurgence of infections, implies more stringent containment measures that significantly weigh on economic activity. In this scenario, real GDP falls by 12.6% in 2020 and, by the end of the horizon, stands around 9.5% below its level in the March 2020 projections, with the inflation rate at only 0.9% in 2022.

The ECB's analysis arrives at similar conclusions to that of the Bank of Italy, which in its July 2020 "*Economic Bulletin*" – describes how the contraction in international trade worsened in April. In the Bulletin, the Bank of Italy describes how there have been signs of recovery in recent weeks but that the risks are still significant, saying that the epidemic has intensified since May in some emerging economies and in the United States. The expansionary measures have helped to ease the strains on the financial markets, which nevertheless remain sensitive to news about the spread of contagion. With this in mind, the ECB's Governing Council has strengthened its expansionary monetary policy stance by expanding the size and duration of the pandemic emergency purchase programme (PEPP), which will continue until the crisis is over.

In Italy, according to the Bank of Italy, the decline in GDP appears to have intensified in the second quarter and, based on the available information (the July 2020 “Economic Bulletin”), currently stands at around 10%. This estimate reflects the unfavourable performance in April; the short-term indicators suggest that economic activity began to recover in May. The measures adopted by the ECB and by the Italian government have supported credit to firms. In Italy, growth in loans to non-financial companies reached 11.5% in May. The expansion in lending extended to family businesses, following the steady reduction in the delays in implementing the measures adopted by the government.

Growth prospects could improve as a result of the strengthening of the expansionary policies currently under discussion. The approval and the effective use of the instruments being debated within the European Union could have a direct impact on demand, production capacity and the confidence of households and firms. The amount of resources that may be granted and the subsequent stimulus to growth will depend on the capacity to propose and implement reforms and sound investment projects.

SIGNIFICANT EVENTS IN THE FIRST HALF OF 2020

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

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

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

The dramatic spread of the coronavirus, in Italy and the rest of the world, forced banking intermediaries to face a series of critical issues from an operational standpoint, including management of credit strategies and policies and credit risk, strategic management of financial asset portfolios, management of customer relations and business continuity models. On 27 March 2020, as urged by the ECB, the Bank of Italy extended the Recommendation that profits be used to reinforce own funds in order to place the financial system in an ideal position to absorb the losses that will occur as a result of the health emergency and to be able to continue to support the economy to less significant banks subject to its direct supervision.

In addition, in a further effort to assist banks, in its letter of 23 March 2020 the Bank of Italy granted deferrals of a series of processes (ICAAP, ILAAP, recovery plan and other reports), of which the Group availed itself, and also indicated that less significant banks (as the ECB had done for more significant intermediaries) could operate temporarily below the target levels assigned in the SREP process, capital conservation buffers and the liquidity coverage ratio. For ICAAP and ILAAP purposes, the illimity Group also adopted the guidelines issued by the Supervisory Authority when drawing up the *stress* scenario, using the indications in the *working paper* (Bank of Italy 15/05/2020 “Note COVID-19" – the impact of the COVID-19 pandemic on the Italian economy: illustrative scenarios”). It should be noted, in this regard, that the Group’s current and prospective capital adequacy and liquidity profiles are compliant with the minimum regulatory thresholds and its own management limits set out in the *Risk Appetite Framework*, even considering the current coronavirus scenarios.

In view of the related risks and uncertainties in terms of both personal health and the illimity Group’s strategy and business, the following measures were taken at the end of February 2020:

- 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 full *remote working* (still in place). These actions also addressed the objective of ensuring the Group's business continuity, in order to mitigate potential strategic and business risks regarding the achievement of the 2020 budget targets;
- the offer of collection/employment services through the Digital Bank channel and the German digital platform “Raisin” has allowed illimity to continue to best serve its Retail and SME customers, even in the areas affected by the spread of the virus, without any interruption of business continuity;

- the possible impacts in terms of slowing down business processes as a result of endogenous and exogenous factors (e.g. the impact of the spread of the virus and the actions of public authorities on the operations of counterparties and courts and consequent repercussions on the effectiveness of recovery processes, or operational repercussions on the evaluation and *origination* processes of loans to unrated or high-risk counterparties or UTPs), are constantly monitored by the Bank's Management Committees and Governing Bodies, in order to reactively adapt strategies and policies (including risk) to the changing context;
- capital adequacy (ICAAP) and liquidity (ILAAP) assessments have 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).

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

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

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

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

- Italian Decree Law no. 18/2020 (“Decreto Cura Italia”, converted into Italian Law no. 27/2020) introduces a legal suspension until 30 September 2020 for maturing loans and lines of credit contracted by SMEs, as an urgent measure to contain the effects of the business shutdowns ordered in response to the emergency;
- Italian Decree Law no. 23/2020 ("Decreto Liquidità", converted into Italian Law no. 40/2020) modifies the rules governing public guarantees, expanding the scope of application of the traditional subsidies provided through the SME Central Guarantee Fund (CGF) and introducing the government guarantee issued by SACE (the “Italy Guarantee”), intended to secure loans of more than EUR 5 million or loans to companies too large to be eligible for the Central Guarantee Fund.

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

We can say that the first phase has been broadly completed, involving recourse to legal suspensions or similar interventions and the granting of small loans with public guarantees, mostly to former BIP retail customers, in response to the liquidity requirements that have arisen as a result of the *lockdown*; there is also a second phase under way characterised by the granting of loans guaranteed by the CGF or by SACE in relation to larger and more complex positions, an activity that will account for a significant share of the SME Division’s overall operations in the second half of 2020, also taking into account the positive effects on related capital requirements: it is estimated that around EUR 150-200 million loans backed by the government will be issued by the end of the year. Indeed, in the second quarter of 2020, the Business Areas conducted a thorough review of outstanding transactions, with a view to possibly restructuring them to be consistent with the *business plan* updates arranged by borrowing companies following the epidemiological crisis, and of arranged but as yet unexecuted transactions in order to ascertain whether they are sustainable in the new economic climate; access to public guarantees plays a central role in these interventions.

With regard to the suspensions, as at 20 July 2020, 190 suspension/moratorium requests had been completed for a total amount of approximately EUR 86 million; 52% of exposure in a moratorium is attributable to suspensions for companies provided for in article 56 of the Cura Italia Decree Law, with a further 44% referring to bilateral interventions on account of the absence of the conditions required by law to activate legal suspensions; the remainder (approximately 4%) are ABI moratoria and those with individuals pursuant to Article 54 of the Cura Italia Decree Law.

Around half (48% of loan volumes) the restructuring interventions affected concerned the ex-BIP portfolio, with the remainder represented by the *Crossover* and *Turnaround Areas*(37%) plus one Senior Financing position.

With regard to loans with a public guarantee under the Decreto Liquidità, 19 transactions have been completed to date for a total amount of approximately EUR 10.5 million, all with guarantees supplied by the CGF for SMEs (the guaranteed portion is around EUR 7.6 million). As at 20 July 2020, an additional 18 loans have been agreed for a total amount of around EUR 78 million, of approximately EUR 41 million have SACE guarantees.

It should also be noted that, in line with the *forward-looking* approach required by IFRS 9, the PD models were updated during the first half in order to reflect the deterioration of the macroeconomic *outlook* and its impact on the prospective risk level of the performing portfolio.

Other events

The other significant events described below took place in the first six months of 2020.

Following the agreements reached in 2019, the acquisition by illimity of 70% of the share capital of IT Auction, for EUR 10.5 million, through Neprix, an illimity Group company in which all the bank's *distressed* credit management activities are concentrated, was completed on 9 January 2020. On 5 March 2020 illimity's Board of Directors thus approved an extraordinary transaction for the acquisition of the remaining 30% of the company, held by the current shareholders, including the company's top management, designed to acquire full control of the company and integrate it completely into the illimity Banking Group. In accordance with the international accounting standard IFRS 3 – *Business Combinations*, during the acquisition process a purchase price was allocated (PPA) to the acquiree's assets and liabilities and the goodwill associated with the transaction was recognised. For further information, see the Accounting policies – Section 5.

Further to the communication following the illimity Shareholders' Meeting regarding the capital increase servicing the transfer of 30% of IT Auction S.r.l. ("IT Auction") – to be carried out via the transfer of Core S.r.l. ("Core") which owns said equity investment – on 27 May 2020, illimity served notice that on said date the transfer agreement concerning the purchase of the entire share capital of Core, a prerequisite for the full integration of IT Auction into the illimity Group, was entered into. The transfer of Core's shares to illimity took effect on said date.

IT Auction, founded in 2011, counts for 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 EUR 240 million, up about 25% compared with the previous year. With the acquisition of IT Auction, Neprix becomes 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 agreement. The agreement reflects the values on which the mission of the newly established bank is based – a bank founded to enhance the potential of businesses and individuals and make their projects possible. In defining its welfare policies, illimity aimed at creating an ecosystem which enabled all illimiters to express their potential by customising, according to their needs and interests, the measures set forth by an extremely flexible system.

On 23 January 2020, illimity announced its partnership with two leading insurance market operators, the Aon Group (leading group in Italy and worldwide in risk management services and human resources consultancy, in insurance and reinsurance brokerage) and the Helvetia Group (leading Swiss insurance company present in Italy for over 70 years), to expand the offering of the direct digital bank, illimitybank.com, with added value services and non-life insurance products for its customers. In particular, Tsunami, the digital platform of Aon, was integrated into illimitybank.com. This platform provides bank customers with insurance agreements and solutions based on their needs. Moreover, since that date, some of Helvetia Group products 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 a certification from Great Place to Work®, 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©, which was carried out among all the bank's employees with the aim of measuring their perception of the workplace environment on the basis of a variety of 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 Italian Legislative Decree 58 of 24 February 1998.

On 19 March 2020 the Bank of Italy, following the *Supervisory Review and Evaluation Process* (SREP) involving the illimity Banking Group, informed the Bank of the prudential requirements to be observed at the consolidated level with effect from 31 March 2020. On this subject, see the more detailed description provided in the Capital adequacy section.

On 9 April 2020 illimity Bank announced that it had finalised, through three new transactions, the purchase of *distressed single name* loans for a total nominal value (gross book value) of approximately EUR 73 million. These transactions, signed with a leading bank and with a company specialised in *non-performing* loans management, consist mainly of *corporate secured* loans. The Bank also completed a new transaction in the *Senior Financing* segment, by way of providing financing to third-party investors to purchase *distressed* loans, for an amount of approximately EUR 11 million. The financing is guaranteed by corporate secured unlikely-to-pay loans.

On 20 April 2020, thanks to the *partnership* recently struck with Aon, a risk and human resources consultancy and insurance and reinsurance brokerage firm with a leading position in Italy and internationally, illimity Bank announced that it had expanded the range available to customers to include a wide array range of remote medicine services. The aim is to ensure the widest possible access to the provision of medical services to protect people's health, especially during the COVID-19 health emergency, limiting movement and the need to use health facilities already under significant pressure. This new service complements those already offered by illimity with Aon with the aim of making top quality products and services available to the Bank's customers, including these in an ecosystem of selected *partners* using an *open banking* and *open business* approach.

On 11 May 2020, illimitybank.com - the direct digital bank of illimity - announced the launch, a first for Italy, of the Payment Initiation Service (PIS) that enables payments from other banks' accounts aggregated on its platform.

On 20 May 2020, illimity announced it had signed a mortgage and equity instrument purchase agreement with a total gross book value (GBV) of approximately EUR 130 million, owed to a pool of 13 Italian and international financial institutions by TRE Holding S.p.A. – a management company for mainly logistics and production assets leased to a leading luxury goods operator. illimity entered into a medium-to-long-term mortgage debt restructuring agreement, thereby becoming TRE Holding's sole banking counterparty. The restructured loan has a term of nearly 5 years, expires on 31 December 2025 and will help to strengthen the Company's financial structure in the coming years.

On 25 May 2020, illimity announced it would take part in Milan *Digital Week*, the local-government-promoted event on the theme of a "city transformed". The digital world has proved a major ally during the health crisis: whether it's work, education or relationships, many aspects of daily and business life have been able to continue uninterrupted. Thanks to wholly technological DNA, illimity has been able to carry on regardless, enacting remote working across all its activities, developing new projects and introducing new ways of interacting both internally and with customers.

Also on 25 May 2020, illimity announced it had set up *illimity academy*, the *corporate business school* designed to create higher-education economic and financial training courses for new credit professionals by way of onsite *training* and educational programmes. *illimity academy's* first Master's, dedicated to credit management, has been designed in collaboration with MIP Politecnico di Milano *Graduate School of Business,* which oversees the course from a scientific perspective. Starting in September 2020, the Master's aims to train up the next generation of asset managers for Neprix, illimity's specialist *distressed corporate* credit management servicer.

On 29 May 2020, illimity and VEI Green II S.p.A. ("VG") embarked on a *joint venture* to set up a securitisation vehicle especially for *distressed* loans with underlying assets for the production of electricity from renewable sources. The vehicle, which is a first for the Italian *distressed energy* credit market, will invest up to EUR 100 million on both the primary and secondary markets.
For this new initiative, illimity has chosen to partner with VG, a specialist in the renewables sector that, since 2011, has carried out EUR 220 million of acquisitions and managed more than 260 MWp of operating plants. The partnership's first transaction was on the Italian secondary energy market. This deal involved the purchase of a portfolio of receivables with underlying assets of photovoltaic facilities for a gross book value of more than EUR 14 million, expiring between 2027 and 2031 and guaranteed by the state-owned energy company Gestore dei Servizi Elettrici (GSE).

On 29 May 2020, illimity disclosed the latest information about its share capital following the reserved capital increase totalling EUR 7,719,415.13 (of which EUR 502,888.22 as capital) freed up via the transfer to illimity of 100% of Core S.r.l. (which took place on 27 May 2020) and the issue of 771,656 new ordinary shares in service of such an amount, as well as the logging in the Companies Register of the directors' declaration pursuant to Article 2343-quater of the Italian Civil Code (which took place on 28 May 2020).

On 8 June 2020, illimity presented its first Sustainability Profile – available on the Bank's website at https://www.illimity.com/it/chi-siamo/sostenibilita – after its first year of business.

On 15 June 2020, the illimity Bank S.p.A. Board of Directors approved the capital increase in service of the 2020 "Employee Stock Ownership Plan - ESOP" for a total of EUR 96,016.40, corresponding to 147,327 ordinary shares.

On 16 June 2020, nine months since its launch, illimitybank.com - illimity's direct bank - unveiled an industry first in the shape of *illimity Hubs*, an innovative, *open-banking*, open-platform partnership model. The *Hubs* began life with two first-rate partners, both of which share the Bank's vision and technological DNA: MiMoto, *the first mover* in electric scooter *sharing*, has revolutionised urban and sustainable mobility; and Fitbit helps people to lead a more healthy and active life by offering them data, encouragement and advice so they can achieve their fitness and wellbeing goals. Through these *illimity Hubs*, the Bank wants to go beyond the traditional partnership model with a *cross-industry* approach aimed at anticipating and responding ever more effectively to customer demands through a single and integrated user experience which, for the first time, begins and ends within the illimitybank.com platform. *illimity Hubs* allows customers to benefit from our partners' services through illimitybank.com and to activate services that are complementary to our banking activities.

Long Term Incentive Plan 2020-2023

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

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

Small Medium Enterprises Division

as of 31 December 2019 the gross exposures in the SME portfolio totalled EUR 653 million, broken down as follows:

- former BIP portfolio, amounting to EUR 206 million (32%);
- Turnaround amounting to approximately EUR 132 million (20%);
- Crossover and Acquisition Finance amounting to EUR 180 million (27%);
- Factoring amounting to approximately EUR 135 million (21%).

Volumes grew in the first quarter of 2020, albeit in a volatile market context conditioned by the new macroeconomic scenario, driven mainly by investments in the Turnaround Area and by disbursements in the Crossover & Acquisition Finance segment. At the end of March 2020, the SME portfolio gross exposures totalled EUR 680 million, up by approximately EUR 27 million (approximately +4%) on December 2019.

The EUR 51 million growth of loans during the second quarter of 2020 is attributable mainly to nearly EUR 49 million of disbursements in the *Crossover & Acquisition Finance* segment.

Managed by the *Crossover & Acquisition Finance* Area, operations on the secondary corporate bond market began in April 2020: as at 30 June 2020, the corporate bond portfolio totalled approximately EUR 13 million (a further EUR 10 million was acquired during the first 20 days of July). As well as providing a healthy return (yield to maturity of around 10%), given the modest size of the individual investments (EUR 3-5 million), dealing in corporate debt securities can enhance the portfolio's single name concentration risk profiles, thereby improving sectoral diversification.

After a very strong first quarter, the COVID-19 crisis meant there was a sharp downturn in the factoring business during April and May, followed by a strong uptick in June; total *turnover* during the first six months of the year was EUR 280 million, with exposure at 30 June 2020 being approximately EUR 130 million.

The runoff in the ex-BIP portfolio continued, with exposure down by some additional EUR 11 million in the second quarter of 2020, although the measures brought in by the government to deal with the pandemic have helped to slow this trend compared with previous quarters.

The overall dynamic of SME Division portfolio volumes has been affected by the epidemiological crisis which, since the end of February, has engendered an overall slowdown in origination activities, particularly in the Turnaround segment.

At 30 June 2020, SME portfolio gross exposures totalled EUR 731 million, up by EUR 78 million (+12%) on 31 December 2019. Hence, the SME portfolio can be broken down as follows:

- former BIP portfolio, amounting to EUR 177 million (24%);
- Turnaround, amounting to approximately EUR 156 million (21%);
- Crossover and Acquisition Finance, amounting to EUR 268 million (37%), including EUR 13 million of *corporate* bonds;
- Factoring, amounting to EUR 130 million (18%).

Distressed Credit Investment & Servicing Division

Investments

During the first half of 2020, the Bank completed, both on its own account and through securitisation vehicles established pursuant to and for the purposes of Italian Law no. 130/1999, several agreements for the purchase of *distressed* loans for a total gross value of approximately EUR 545 million.

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

a) On 4 February 2020, the Bank signed an agreement with a leading financial institution for the purchase of a portfolio of *distressed* loans with a nominal value of approximately EUR 116 million, consisting of primarily *secured* exposures to corporate debtors. The purchase was concluded by the securitisation vehicle Aporti SPV pursuant to Italian Law no. 130/1999.

b) On 10 March 2020, the Bank signed an agreement for the purchase of a portfolio of *distressed* loans with a nominal value of approximately EUR 36 million, consisting of primarily *secured* exposures to *corporate* debtors. The purchase was concluded by securitisation vehicle Aporti SPV.

c) On 20 March 2020, the Bank signed an agreement for the purchase of *distressed* loans with a nominal value of approximately EUR 22 million, consisting of exposures to two primarily *secured* corporate "*single names*". The purchase was concluded by securitisation vehicle Aporti SPV.

d) On 1 April 2020, the Bank signed an agreement for the purchase of primarily *secured distressed* loans classified as *Unlikely to Pay* with a nominal value of approximately EUR 15 million, consisting of exposures to a single corporate counterparty ("*single name*"). The purchase was completed by the Bank directly without using securitisation vehicles pursuant to Italian Law no. 130/99.

e) On 19 May 2020, the Bank signed a mortgage and equity instrument purchase agreement with a total gross book value (GBV) of approximately EUR 130 million (including EUR 26 million of receivables), owed to a *pool* of 13 Italian and international financial institutions by a management company for mainly logistics and production *assets* leased to a leading luxury goods operator. The Bank has entered into a medium-to-long-term mortgage debt restructuring agreement, thereby becoming the debtor's sole banking counterparty. The purchase was completed by the Bank directly without using securitisation vehicles pursuant to Italian Law no. 130/99.

f) On 21 May 2020, the Bank signed an agreement for the purchase of *distressed* loans with a *cluster* of *corporate* debtors active in the renewable energies sector, the loans having a book value of approximately EUR 14 million and being secured by photovoltaic facilities. The purchase was completed using a securitisation vehicle pursuant to Italian Law no. 130/99 financed equally by the Bank and by VEI Green II S.p.A., a specialist in the renewables sector that, since 2011, has carried out EUR 220 million of acquisitions and managed more than 260 MWp of operating plants.

g) On 29 May 2020, the Bank signed an agreement for the purchase of *distressed* loans with a nominal value of approximately EUR 27 million, consisting of *unsecured* exposures to a single *corporate* counterparty ("*single name*") in an agreement with creditors. The purchase was completed by the Bank directly without using securitisation vehicles pursuant to Italian Law no. 130/99.

h) On 25 June 2020, in accordance with the framework agreement signed on 18 July 2019, the third *tranche* of a leasing portfolio with a nominal value of approximately EUR 5 million was transferred to River SPV. The loans were purchased by River SPV at the same time as the Bank subscribed to the notes issued by the vehicle. River LeaseCo took on the contracts underlying the loans at the same time.

i) On 25 June 2020, in accordance with the framework agreement signed on 28 June 2019, the fourth *tranche* of the Ace *Leasing* portfolio with a nominal value of EUR 202 million was transferred to Doria SPV. The loans were purchased by Doria SPV at the same time as the Bank subscribed to the *notes* issued by the vehicle. Doria LeaseCo took on the contracts underlying the loans at the same time.

In the light of the above, in terms of GBV declared by assigning parties and also considering investments made during 2018 and 2019, the total volume acquired by the Bank as at 30 June 2020 amounted to approximately EUR 5.8 billion, against a consideration of approximately EUR 857 million. It is understood that, in relation to the portfolio of leasing receivables described above, the values of the overall portfolio include only the tranches purchased up to 30 June 2020.

(amounts in millions of euros)

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

Senior Financing

In the first half of 2020, two financing transactions with underlying assets of non-performing loans (i.e. Senior Financing) were finalised for a total amount disbursed of approximately EUR 24 million.

In further detail, on 6 March 2020 the Bank concluded a financing agreement for the amount of approximately EUR 11 million with an investor specialised in the purchase of *distressed* loans, secured by a pledge of the *single tranche* bond issued by a securitisation vehicle pursuant to Italian Law no. 130/1999, set up by the investor for the purchase of *secured corporate distressed* loans classified as *unlikely-to-pay*.

2 The transaction referred to in point f) is shown at 50% in order to reflect the Bank's actual exposure.

On 29 June 2020, the Bank completed a transaction aimed at financing an investor active in the distressed loans sector, via the establishment of a securitisation vehicle in which illimity has subscribed to all the Senior and Mezzanine A Notes as well as 5% of the Mezzanine B and Junior Notes, while the borrower has subscribed to 95% of the Mezzanine B and Junior Notes. The loan's underlying is receivables backed by real estate assets with a total gross book value of approximately EUR 36 million, assigned by several banks and purchased by the investor for the most part in 2019 and 2020. The real estate assets backing the receivables involved in the loan are located mainly in Milan and Rome.

In light of the above, and also taking into account investments made by the Senior Financing area during 2018 and 2019, as well as the transaction finalised in 2019 by the Special Situations Real Estate area through illimity's subscription of 100% of the senior notes and 5% of the junior notes issued by a securitisation vehicle pursuant to Italian Law no. 130/99, as at 30 June 2020 the Bank had entered into 12 asset-backed loan agreements on distressed loans for a total amount of approximately EUR 414 million, as shown below.

(amounts in millions of euros)

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

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

3 As of 30 June 2020, the accounting balance amounted to approximately EUR 339.4 million, of which EUR 288.4 million of notes and EUR 51.0 million of loans.

Direct Banking & Digital Operations Division

Direct Banking

Direct Banking projects

In spite of the complications arising from the COVID-19 pandemic, during the opening half of 2020 the Division worked in accordance with the Direct Banking Masterplan, carrying out numerous innovative projects:

- The start of May saw the launch, for the first time in Italy, of the Payment Initiation Service (PIS), which customers to make payments from other banks' accounts once they have been aggregated in illimitybank.com. Initially set up for ordinary transfers, functionality for instant, recurring and international transfers has been live since June. The service will be gradually extended making it possible, for example, to fund illimitybank.com's deposit accounts or spending programmes through its own aggregated current accounts.
- In the second half of May, a partnership was launched for the distribution of American Express credit cards. The partnership enables illimity customers to apply for Gold or Platinum Cards and get access to all the relevant benefits.
- In the middle of June, nine months since its launch, illimity unveiled an industry first in the shape of illimity Hubs, an innovative, open-banking, open-platform partnership model. The first two partners chosen for the Hubs were Mimoto and Fitbit; by integrating their respective accounts within home banking, customers can activate services that are complementary to banking activities, such as creating spending projects linked to the number of steps taken and logged using Fitbit.
- Lastly, in the second half of June, a commercial partnership with Feltrinelli was launched, enabling people who open an illimity account with a special promotional code to receive a gift card that can be spent in Feltrinelli and IBS physical and online stores.

The work planned for the year includes various additional activities, some of which are nearing completion (e.g. Smart Care and Customer Experience), and others of which are longer term in 2020 (e.g. relating to partnerships and PSD2). A significant customer communications campaign plan was also drawn up to accompany a thorough masterplan in view of the main market launches.

Moreover, in June, illimitybank received the ABI award for most innovative bank thanks to PFM (Personal Financial Manager), the tool that customers can use to monitor and manage their current accounts.

Retail Business performance

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

- the partnership with the German fintech platform Raisin, operational since May 2019, contributes approximately EUR 354 million to funding thanks to its 10,500 customers;
- the strategic partnership with Azimut, a leader in asset management and consultancy services, with EUR 35 million, up compared with the end of the previous quarter;
- the digital bank illimitybank.com, presented to the market on 12 September 2019, contributes approximately EUR 834 million to funding (of which EUR 748 million on a term basis, with an average term of 41 months). The funding raised by illimitybank.com increased by approximately EUR 45 million during the last quarter.

- The number of direct customers is 33,000, up by approximately 3,000 (+10%) on the first quarter of 2020.

Total direct deposits from customers, including former customers of Banca Interprovinciale, amounted to approximately EUR 1.79 billion at the end of the first half.

Digital Operations

In the second quarter, the business suffered no repercussions from the peak of the COVID-19 emergency. Remote working became standard, and the technological infrastructure and processes in place ensured full functionality for all Divisions, commercial partners and suppliers, including Smart Care. Remote working for the Divisions will continue at least until the end of the summer.

IT platform projects

As a complement to Digital Operations, Smart Care activities are proceeding according to plan, in view of increasing digitalisation of activities in support of Direct Banking and facilitating relations between customers and operators. With this in mind, various CRM-enriching functionalities were implemented in the first quarter of 2020. Other projects for 2020 have been planned to develop relations with customers (e.g. new contact channels) and for the benefit of operators (e.g. further improvement of case management tools).

Projects in support of the other divisions

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

- SME Division
  - The project dedicated to new forms of financing is in the final phase. The goal is to round out the range of products available to the Division, improving the digitalisation of processes and monitoring of the main KPIs.
  - For the Factoring business, the development of new interfaces in support of users and customers and the implementation of new products are in the completion phase.
- DCIS Division
  - A simplified, standardisation application with a high level of automation that guides the user throughout the phases of the NPL process, from origination to management, minimising manual intervention, is in the implementation phase. The goals are to develop credit management according to an increasingly proactive approach, revising and digitalising the supporting processes and tools, optimising the management of credit risk and responding effectively to the authorities' requests.

The Division's planning framework is complemented by IT initiatives in support of internal company Functions, involving multiple important projects in Budget & Control, Treasury & ALM, Administration & Accounting, Risk Management and Compliance.

ALTERNATIVE PERFORMANCE MEASURES AS OF 30 June 2020

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

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

PERFORMANCE MEASURES	30/06/2020	30/06/2019	Chg.	Chg. (%)
Total net operating income	71,734	20,823	50,911	>100%
Operating costs	(57,586)	(38,157)	(19,429)	51%
Operating profit (loss)	14,148	(17,334)	31,482	N/A
Total net write-downs/write-backs	3,044	(3,159)	6,203	N/A
Profit (loss) from operations before taxes	17,192	(20,539)	37,731	N/A
Profit (loss) for the period	14,838	(11,358)	26,196	N/A

BALANCE SHEET MEASURES	30/06/2020	31/12/2019	Chg.	Chg. (%)
Net non-performing loans - organic[4]	**21,482**	**19,457**	**2,025**	**10%**
of which: Bad loans	5,937	5,232	705	13%
of which: Unlikely-to-pay positions	11,564	13,016	(1,452)	(11%)
of which: Past-due positions	3,981	1,209	2,772	>100%
Net non-performing loans - inorganic (POCI)[5]	**788,313**	**705,421**	**82,892**	**12%**
of which: Bad loans	585,890	544,765	41,125	8%
of which: Unlikely-to-pay positions	202,423	160,657	41,766	26%
Net impaired securities - inorganic (POCI)	**51,191**	**50,363**	**828**	**2%**
of which: Unlikely-to-pay positions	51,191	50,363	828	2%
Securities at amortised cost (HTC)	**298,616**	**299,390**	**(774)**	**0%**
of which: SME securities – High Yield	12,925	-	12,925	N/A
of which: DCIS securities - Senior Financing	285,691	299,390	(13,699)	(5%)
Net loans to financial entities	**139,959**	**-**	**139,959**	**N/A**
Net performing loans to customers	**606,321**	**563,232**	**43,089**	**8%**
Financial instruments (HTCS + FV)	**297,863**	**134,453**	**163,410**	**>100%**
Direct funding from customers	**1,915,250**	**1,978,589**	**(63,339)**	**(3%)**
Total Assets	**3,237,856**	**3,025,222**	**212,634**	**7%**
Shareholders' equity	**563,160**	**544,455**	**18,705**	**3%**

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

5 POCI = Purchased or Originated Credit Impaired

RISK RATIOS	30/06/2020	31/12/2019
Gross Organic NPE Ratio[6]	4.2%	4.2%
Net Organic NPE Ratio[7]	2.3%	2.2%
Coverage ratio for organic non-performing loans[8]	46.2%	48.4%
Coverage ratio for organic bad-debt positions[9]	67.8%	70.0%
Coverage ratio for performing loans[10]	1.15%	0.96%
Cost of organic credit risk (BPS)[11]	85	86

STRUCTURAL INDICATORS	30/06/2020	31/12/2019
Shareholders' equity/Total Liability	17.4%	18.0%
Interbank Funding/Total Funding	23.3%	15.8%
Liquidity coverage ratio	>1000%	>3000%
Net Stable Funding Ratio	>100%	>100%
Net loans with customers[12]/Total assets	54.5%	54.1%
Customer funding/ Total Liability	59.2%	65.4%

CAPITAL RATIOS	30/06/2020	31/12/2019
Tier I capital ratio (Tier I capital/Total weighted assets)	18.30%	21.35%
Total capital ratio [(Regulatory capital + Tier II)/Total weighted assets]	18.30%	21.35%
Own Funds	466,236	461,699
of which: Tier I capital	466,236	461,699
Risk-weighted assets	2,547,837	2,162,485

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

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

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

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

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

11 Ratio between the sum of write-downs on performing client loans (net of investments with financial entities), organic non-performing loans and HTC securities and net exposures of same at the end of the period.

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

RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AT 30 JUNE 2020

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

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

Therefore, this consolidated interim financial report includes a reconciliation between the financial statements presented and the mandatory financial reporting format laid down in Bank of Italy Circular No. 262, whose values converge in the items of the reclassified financial statements.

Reconciliation with the items of the mandatory financial statements aids in reclassification of the items in question, but above all facilitates the understanding of the criteria adopted in constructing the 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 expenses also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations;
- interest expense resulting from the *lease liability* (IFRS 16) is recognised under other administrative expenses;
- net credit exposure to customers on closed positions is shown separately from net value adjustments/ write-backs for credit risk.

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

- the inclusion of cash and cash equivalents in the residual item other assets;
- the aggregation in a single item of material and intangible assets;
- the aggregation of financial assets designated at fair value through other comprehensive income and financial assets held for trading;
- separate display of loans measured mandatorily at fair value;
- separate display of loans to financial entities;
- the reclassification of *Leasing* agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes[13];
- 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.

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

Reclassified consolidated balance sheet

(amounts in thousands of euros)

Components of official items of the Balance Sheet	Assets	30/06/2020	31/12/2019	Chg.	Chg. (%)
20 a) + 30	Treasury portfolio - Securities at FV	285,731	125,851	159,880	>100%
20 c)	Financial instruments mandatorily measured at fair value	7,710	8,602	(892)	(10%)
20 c)	Loans mandatorily measured at fair value	4,422	-	4,422	N/A
40 a)	Due from banks	502,844	344,858	157,986	46%
40 b)	Loans to financial entities	139,959	-	139,959	N/A
40 b)	Loans to customers	1,416,116	1,288,111	128,005	10%
40 b)	Securities at amortised cost – SME	64,116	50,363	13,753	27%
40 b)	Securities at amortised cost – Senior Financing	285,691	299,390	(13,699)	(5%)
90 + 100	Property and equipment and intangible assets	133,946	66,199	67,747	>100%
	of which: Goodwill	36,224	21,643	14,581	67%
110	Tax assets	39,500	37,061	2,439	7%
10 + 130	Other assets	357,821	804,787	(446,966)	(56%)
	of which: Cash and cash equivalents	311,387	772,125	(460,738)	(60%)
	Total assets	**3,237,856**	**3,025,222**	**212,634**	**7%**

(amounts in thousands of euros)

Components of official items of the Balance Sheet	Liabilities	30/06/2020	31/12/2019	Chg.	Chg. (%)
10 a)	Amounts due to banks	582,970	376,747	206,223	55%
10 b)	Amounts due to customers	1,912,996	1,963,237	(50,241)	(3%)
10 c)	Securities issued	2,254	15,358	(13,104)	(85%)
60	Tax liabilities	3,187	770	2,417	>100%
10 b) + 80 + 90 + 100	Other liabilities	173,289	124,655	48,634	39%
120 + 150 + 160 + 170 + 180 + 190 + 200	Shareholders' equity	563,160	544,455	18,705	3%
	Total liabilities and shareholders' equity	**3,237,856**	**3,025,222**	**212,634**	**7%**

Summary of consolidated statement of financial position data

The Group's total assets as of 30 June 2020 amounted to EUR 3,237.9 million, compared to EUR 3,025.2 million as of 31 December 2019, and primarily include financial assets arising from loans to customers for EUR 1,416.1 million, up from EUR 1,288.1 million as of 31 December 2019, mainly due to the new transactions of the SME Division and DCIS Division concluded during the half-year (as described above in this Report, in the section “Significant events in the first half of 2020”).

Financial assets at amortised cost - amounts due from banks - increased by EUR 158 million compared with 31 December 2019 due mainly to new subscriptions of reverse repurchase agreements and totalled EUR 502.8 million at 30 June 2020. Taking loans to financial entities into account, as at 30 June 2020, total net exposure to banks and financial entities was EUR 642.8 million. The cash and cash equivalents component decreased from EUR 772.1 million as of 31 December 2019 to EUR 311.4 million as of 30 June 2020.

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, primarily represented by government and other institutional securities, were up by approximately EUR 159.9 million compared with 31 December 2019. As at 30 June 2020 the Group had a negative valuation reserve of approximately EUR 4.2 million due to the performance of the markets. Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 7.7 million at 30 June 2020; the decrease on 31 December 2019 was due almost entirely to a partial write-down of equity instruments in an SME Division transaction in the first half of 2020. Loans mandatorily measured at fair value include a transaction pertaining to the DCIS Division.

Property and equipment and intangible assets increased by approximately EUR 67.7 million on 31 December 2019. Intangible assets include the goodwill on the SPAXS-Banca Interprovinciale *business combination* transaction, already described in financial year 2019, in the amount of EUR 21.6 million; the item also includes the measurement of the provisional goodwill recognised on the acquisition of IT Auction and its subsidiaries (amounting to EUR 14.6 million), in addition to the intangibles identified in the *purchase price allocation* (PPA) undertaken in accordance with the accounting standard IFRS 3. Property and equipment were up sharply compared with 31 December 2019 and consist mainly of assets covered by IAS 2, namely *datio in solutum* real estate involved in the lending business. Property and equipment with functional use was broadly unchanged during the half-year, consisting mainly of the *Right of Use* of assets acquired through leasing (IFRS 16).

Total liabilities and shareholders’ equity amounted to EUR 3,237.9 million, primarily including EUR 1,913 million relating to financial liabilities measured at amortised cost due to customers (net of the lease liability under IFRS 16) and EUR 582.9 million due to banks, up by EUR 206.2 million compared to 31 December 2019 (primarily in connection with repurchase agreements entered into with banks and taking part in the TLTRO III auction), in addition to the group's shareholders’ equity of EUR 563.2 million, which rose mainly on account of profit for the period.

Reclassified consolidated income statement

(amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	30/06/2020	30/06/2019	Chg.	Chg. (%)
10 + 20	Interest margin	46,121	16,649	29,472	>100%
40 + 50	Net fee and commission income	4,626	2,545	2,081	82%
80 + 100 + 110	Gains/losses on financial assets and liabilities	3,668	1,267	2,401	>100%
130 a)	Net write-downs/write-backs on closed positions - HTC Clients	17,046	-	17,046	N/A
140 + 230 + 280	Other operating expenses and income	273	362	(89)	(25%)
Total net operating income		**71,734**	**20,823**	**50,911**	**>100%**
190 a)	Personnel costs	(24,545)	(15,081)	(9,464)	63%
190 b)	Other administrative costs	(29,181)	(21,928)	(7,253)	33%
210 + 220	Net write-downs/write-backs on property and equipment and intangible assets	(3,860)	(1,148)	(2,712)	>100%
Operating costs		**(57,586)**	**(38,157)**	**(19,429)**	**51%**
Operating profit (loss)		**14,148**	**(17,334)**	**31,482**	**N/A**
130 a)	Net write-downs/write-backs for credit risk - HTC Banks	119	(42)	161	N/A
130 a)	Net write-downs/write-backs for credit risk - HTC Financial entities	(151)	-	(151)	N/A
130 a)	Net write-downs/write-backs for credit risk - HTC Clients	3,425	(2,614)	6,039	N/A
130 b)	Net write-downs/write-backs for credit risk - HTCS	(353)	(76)	(277)	>100%
200 a)	Net write-downs/write-backs for commitments and guarantees	4	(427)	431	N/A
Total net write-downs/write-backs		**3,044**	**(3,159)**	**6,203**	**N/A**
200 b)	Other net provisions	-	(46)	46	N/A
Profit (loss) from operations before taxes		**17,192**	**(20,539)**	**37,731**	**N/A**
300	Income taxes for the period on continuing operations	(2,354)	9,181	(11,535)	N/A
Profit (loss) for the period		**14,838**	**(11,358)**	**26,196**	**N/A**

Consolidated financial performance highlights

The group’s net operating income for the period ended 30 June 2020 amounted to EUR 71.7 million, up sharply on the first half of the previous year, when it came to approximately EUR 20.8 million.

The increase in total net operating income is to be attributed to the operations of several of the Bank’s business lines in 2020, which contributed to the increase in interest margin from EUR 16.6 million to EUR 46.1 million.

Net fee and commission income also increased as a result of “auction commissions” and associated services accrued due to the use of the real-estate portals attributable to IT Auction, a company acquired in the first quarter of 2020, and its subsidiaries.

Total net write-backs on outstanding portfolio positions amounted to EUR 3.0 million, whereas net write-backs on positions closed during the half amounted to EUR 17.0 million. In detail, net write-downs to HTC positions are primarily related to individual and collective assessments of loans to customers and banks and the effects of the revision of expected cash flows from the NPL portfolios acquired.

Operating expenses increased by approximately EUR 19.4 million on 30 June 2019. In particular, personnel expenses were up by approximately EUR 9.5 million due to the hiring of new resources for the performance of the Group's activities and the inclusion of the companies attributable to IT Auction; other administrative expenses also increased by approximately EUR 7.3 million on the same period in the previous year owing to the increase in the Bank's operations.

The profit for the period ended 30 June 2020, before taxes, amounted to EUR 17.2 million. The net profit for the period was EUR 14.8 million.

The basic and diluted earnings per share in the first half of 2020, calculated by dividing the profit for the period by the weighted average number of ordinary shares issued, was EUR 0.23. See the section “Basic and diluted earnings per share” for details of the methodology to calculate earnings per share.

KEY BALANCE SHEET FIGURES

Invested assets

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

(amounts in thousands of euros)

Details of financing	30/06/2020		31/12/2019		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**311,387**	**10.32%**	**772,125**	**26.72%**	**(460,738)**	**(60%)**
Financial assets held for trading	**52**	**0.00%**	**63**	**0.00%**	**(11)**	**(17%)**
Financial assets mandatorily measured at fair value:	**12,132**	**0.40%**	**8,602**	**0.30%**	**3,530**	**41%**
- *DCIS Business*	7,092	0.23%	2,341	0.08%	4,751	>100%
- *SME Business*	4,941	0.16%	6,161	0.21%	(1,220)	(20%)
- *Treasury portfolio*	99	0.00%	100	0.00%	(1)	(1%)
HTCS Financial assets	**285,679**	**9.47%**	**125,788**	**4.35%**	**159,891**	**>100%**
- *Treasury portfolio*	285,679	9.47%	125,788	4.35%	159,891	>100%
Due from banks	**502,844**	**16.66%**	**344,858**	**11.94%**	**157,986**	**46%**
- *of which: Repurchase agreements*	419,631	13.90%	276,025	9.55%	143,606	52%
Loans to financial entities	**139,959**	**4.64%**	**-**	**0.00%**	**139,959**	**N/A**
Loans to customers - Loans	**1,416,116**	**46.92%**	**1,288,111**	**44.58%**	**128,005**	**10%**
- *Organic non-performing loans*	21,482	0.71%	19,457	0.67%	2,025	10%
- *Inorganic non-performing loans*	788,313	26.12%	705,421	24.41%	82,892	12%
- *Performing loans*	606,321	20.09%	563,232	19.49%	43,089	8%
Loans to customers - Securities	**349,807**	**11.59%**	**349,753**	**12.11%**	**54**	**0%**
- *DCIS Business (Senior Financing) - performing*	285,691	9.47%	299,390	10.36%	(13,699)	(5%)
- *SME Business - inorganic POCI*	51,191	1.70%	50,363	1.74%	828	2%
- *SME Business - performing*	12,925	0.43%	-	0.00%	12,925	N/A
Total invested assets	**3,017,976**	**100%**	**2,889,300**	**100%**	**128,676**	**4%**

Loans to customers amounted to EUR 1,416.1 million, up from EUR 1,288.1 million at the end of the previous year, due to transactions undertaken by the DCIS Division and SME Division. The line item also includes NPLs of EUR 788.3 million classified as POCI (Purchased or Originated Credit Impaired), up from EUR 705.4 million recorded as of 31 December 2019, due to the new transactions concluded by the SME Division and DCIS Division. Considering Securities, financing to customers amounted to EUR 1,765.9 million.

Financial assets measured at fair value through other comprehensive income held within a *hold-to-collect-and-sell business model* amounted to EUR 285.7 million, and were represented mainly by government and other securities.

Financial assets subject to mandatory measurement at fair value through profit or loss amounted to EUR 12.1 million and mainly include an investment in an equity instrument of EUR 4.9 million attributable to a transaction concluded by the SME Division and a EUR 4.4 million loan attributable to a transaction concluded by the DCIS Division. The remaining EUR 349.8 million of securities are measured at amortised cost (held-to-collect business model) and are mainly composed of EUR 285.7 million of Senior Financing securities and a POCI security of EUR 51.2 million attributable to a transaction concluded by the SME Division.

(amounts in thousands of euros)

Financing by technical form	30/06/2020		31/12/2019		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash	**311,387**	**10.32%**	**772,125**	**26.72%**	**(460,738)**	**(60%)**
Current accounts and deposits	83,213	2.76%	68,833	2.38%	14,380	21%
Repurchase agreements - receivable	419,631	13.90%	276,025	9.55%	143,606	52%
Due from banks	**502,844**	**16.66%**	**344,858**	**11.94%**	**157,986**	**46%**
Loans to financial entities	**139,959**	**4.64%**	**-**	**0.00%**	**-**	**0%**
Current accounts held by customers	73,099	2.42%	57,120	1.98%	15,979	28%
Loans	1,343,017	44.50%	1,230,991	42.61%	112,026	9%
Loans to customers	**1,416,116**	**46.92%**	**1,288,111**	**44.58%**	**128,005**	**10%**
Loans mandatorily measured at fair value	**4,422**	**0.15%**	**-**	**0.00%**	**4,422**	**N/A**
Debt securities	638,137	21.14%	477,868	16.54%	160,269	34%
- *Government bonds*	174,296	5.78%	10,736	0.37%	163,560	>100%
- *Bank bonds*	100,219	3.32%	73,624	2.55%	26,595	36%
- *Others*	363,622	12.05%	393,508	13.62%	(29,886)	(8%)
Equity instrument	4,941	0.16%	6,161	0.21%	(1,220)	(20%)
Equity securities	19	0.00%	15	0.00%	4	27%
Units of UCIs	151	0.01%	163	0.01%	(12)	(7%)
Securities	**643,248**	**21.31%**	**484,206**	**16.76%**	**159,042**	**33%**
Total	**3,017,976**	**100%**	**2,889,300**	**100%**	**128,676**	**4%**

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

Loans due from banks totalled EUR 502.8 million, up compared to 31 December 2019, mainly due to new deposits under administration and repurchase agreements during the period. Loans to customers also increased due to the constant operations of the DCIS Division and SME Division.

Finally, securities increased by EUR 159 million on 31 December 2019, mainly due to the new transactions of the Treasury Portfolio in financial assets measured at fair value through other comprehensive income.

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

(amounts in millions of euros)

Financing by business division	30/06/2020	Amount %	31/12/2019	Amount %	Chg.	Chg. (%)
DCIS Division	1,061	55.67%	1,008	61.54%	53	5%
SME Division	548	28.75%	444	27.11%	104	23%
Loans to ordinary former BIP customers (SMEs)[14]	157	8.24%	186	11.35%	(29)	(16%)
Loans to financial entities	140	7.35%	-	0.00%	140	N/A
Total loans to customers measured at amortised cost	**1,906**	**100%**	**1,638**	**100%**	**268**	**16%**

Financial assets designated at amortised cost

The table below provides an overview of the Group's main financing at amortised cost, compared with the relevant values as of 31 December 2019.

(amounts in thousands of euros)

FINANCIAL ASSETS AT AMORTISED COST	30/06/2020						31/12/2019					
	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio
Due from banks	**503,018**	**20.6%**	**(174)**	**502,844**	**20.9%**	**0.03%**	**345,143**	**17.1%**	**(285)**	**344,858**	**17.4%**	**0.08%**
- Loans	503,018	20.6%	(174)	502,844	20.9%	0.03%	345,143	17.1%	(285)	344,858	17.4%	0.08%
- *Stage 1/2*	503,018	20.6%	(174)	502,844	20.9%	0.03%	345,143	17.1%	(285)	344,858	17.4%	0.08%
Loans to financial entities	**140,110**	**5.7%**	**(151)**	**139,959**	**5.8%**	**0.11%**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	140,110	5.7%	(151)	139,959	5.8%	0.11%	-	-	-	-	-	-
- *Stage 1/2*	140,110	5.7%	(151)	139,959	5.8%	0.11%	-	-	-	-	-	-
Loans to customers	**1,793,718**	**73.6%**	**(27,795)**	**1,765,923**	**73.3%**	**1.55%**	**1,670,092**	**82.9%**	**(32,229)**	**1,637,864**	**82.6%**	**1.93%**
- Securities	350,610	14.4%	(803)	349,807	14.5%	0.23%	350,116	17.4%	(363)	349,753	17.6%	0.10%
- *Stage 1/2*	299,419	12.3%	(803)	298,616	12.4%	0.27%	299,753	14.9%	(363)	299,390	15.1%	0.12%
- *Stage 3*	51,191	2.1%	-	51,191	2.1%	0.00%	50,363	2.5%	-	50,363	2.5%	0.00%
- Loans	1,443,108	59.2%	(26,992)	1,416,116	58.8%	1.87%	1,319,976	65.5%	(31,866)	1,288,111	65.0%	2.41%
- *Stage 1/2*	614,888	25.2%	(8,567)	606,321	25.2%	1.39%	568,673	28.2%	(5,441)	563,232	28.4%	0.96%
- *Stage 3*	828,220	34.0%	(18,425)	809,795	33.6%	2.22%	751,303	37.3%	(26,425)	724,879	36.6%	3.52%
TOTAL	**2,436,846**	**100%**	**(28,120)**	**2,408,726**	**100%**	**1.15%**	**2,015,235**	**100%**	**(32,514)**	**1,982,722**	**100%**	**1.61%**

14 The item includes loans to ordinary former BIP customers totalling 92 million euros and non-core former BIP loans of approximately 65 million euros.

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

(amounts in thousands of euros)

Loans to customers	30/06/2020						31/12/2019					
	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio (*)	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio (*)
Non - performing loans - Organic	**39,907**	**2.1%**	**(18,425)**	**21,482**	**1.1%**	**46.17%**	**37,718**	**2.3%**	**(18,261)**	**19,457**	**1.2%**	**48.42%**
- Bad loans	18,440	1.0%	(12,503)	5,937	0.3%	67.80%	17,429	1.0%	(12,197)	5,232	0.3%	69.98%
- Unlikely-to-pay positions	17,157	0.9%	(5,593)	11,564	0.6%	32.60%	18,880	1.1%	(5,864)	13,016	0.8%	31.06%
- Past-due positions	4,310	0.2%	(329)	3,981	0.2%	7.63%	1,410	0.1%	(200)	1,209	0.1%	14.18%
Non - performing loans - Inorganic	**788,313**	**40.8%**	**-**	**788,313**	**41.4%**	**N/A**	**713,585**	**42.7%**	**(8,163)**	**705,422**	**43.1%**	**N/A**
- Bad loans	585,890	30.3%	-	585,890	30.7%	N/A	552,698	33.1%	(7,933)	544,765	33.3%	N/A
- Unlikely-to-pay positions	202,423	10.5%	-	202,423	10.6%	N/A	160,887	9.6%	(230)	160,657	9.8%	N/A
Impaired Securities - Inorganic	**51,191**	**2.6%**	**-**	**51,191**	**2.7%**	**N/A**	**50,363**	**3.0%**	**-**	**50,363**	**3.1%**	**N/A**
- Unlikely-to-pay positions	51,191	2.6%	-	51,191	2.7%	N/A	50,363	3.0%	-	50,363	3.1%	N/A
Performing loans	**1,054,417**	**54.5%**	**(9,521)**	**1,044,896**	**54.8%**	**0.90%**	**868,426**	**52.0%**	**(5,804)**	**862,622**	**52.7%**	**0.67%**
- Securities	299,419	15.5%	(803)	298,616	15.7%	0.27%	299,753	17.9%	(363)	299,390	18.3%	0.12%
- Loans (**)	754,998	39.0%	(8,718)	746,280	39.2%	1.15%	568,673	34.1%	(5,441)	563,232	34.4%	0.96%
Total	**1,933,828**	**100%**	**(27,946)**	**1,905,882**	**100%**	**N/A**	**1,670,092**	**100%**	**(32,229)**	**1,637,864**	**100%**	**N/A**

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

(**) The aggregate includes items from the reclassified statement of financial position relating to "loans to customers" and "loans to financial entities". Excluding the factoring business (mainly covered by credit insurance) and loans to financial entities, the coverage ratio of performing loans exceeded 1.5% at 30 June 2020.

Organic non-performing loans amounted to EUR 21.5 million, up slightly compared to EUR 19.5 million as at 31 December 2019, due to the current macroeconomic environment.

The coverage ratio for organic non-performing loans as of 30 June 2020 of 46.2% is essentially in line with that as of 31 December 2019 of 48.4%, in view of the assessments of non-performing positions carried out in financial year 2019.

Inorganic non-performing loans amounted to EUR 788.3 million, of which:

- EUR 585.9 million relating to transactions concluded by the SME and DCIS Divisions classified as bad loans, up from EUR 544.8 million as of 31 December 2019;
- EUR 202.4 million relating to transactions concluded by the SME and DCIS Divisions classified as unlikely-to-pay positions, up from EUR 160.7 million as of 31 December 2019.

Performing loans amounted to EUR 746.3 million, up compared with EUR 563.2 million as at 31 December 2019 as a result of the new transactions during the first half of 2020.

The coverage ratio for performing loans as of 30 June 2020 was 1.15%, up from the value as of 31 December 2019 of 0.96%, as a result of the current macroeconomic scenario.

Performing securities amounted to EUR 298.6 million as at 30 June 2020 and were attributable to DCIS Division *Senior Financing* securities and SME Division *high-yield* securities. Inorganic POCI securities include EUR 51.2 million attributable to a transaction concluded by the SME Division during the previous year.

Deposits

(amounts in thousands of euros)

Deposits from customers by technical form	30/06/2020		31/12/2019		Change	
	Book values	Inc. %	Book values	Inc. %	Absolute	Chg. (%)
Amounts due to customers (A)	1,912,996	76.57%	1,963,237	83.51%	(50,241)	(3%)
Securities issued (B)	2,254	0.09%	15,358	0.65%	(13,104)	(85%)
Amounts due to banks (C)	582,970	23.34%	376,747	16.00%	206,223	55%
Total direct deposits from customers (A) + (B)	**1,915,250**	**76.66%**	**1,978,595**	**84.00%**	**(63,345)**	**(3%)**
Total debt (A) + (B) + (C)	**2,498,220**	**100%**	**2,355,342**	**100%**	**142,878**	**6%**

At the end of the reporting period, deposits amounted to EUR 2,498.2 million, up on 31 December 2019 due to repurchase agreements entered into with banks and participation in the TLTRO III auction.

Property and equipment and intangible assets

Property and equipment amounted to EUR 72.1 million as at 30 June 2020, up from EUR 25.4 million as at 31 December 2019. In accordance with IFRS 16, the item includes the *right of use* of assets acquired on lease of approximately EUR 20.5 million, net of accumulated depreciation. 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 as at 30 June 2020 amounted to EUR 61.9 million, up from EUR 40.8 million as at 31 December 2019, due to the recognition of provisional goodwill on the acquisition of IT Auction and its subsidiaries. The item also includes the goodwill arising from the SPAXS-Banca Interprovinciale business combination of EUR 21.6 million and IT investments.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 39.5 million as of 30 June 2020, up from the EUR 37 million recognised as of 31 December 2019. Details of the breakdown of tax assets are shown below.

(amounts in thousands of euros)

TAX ASSETS	30/06/2020	31/12/2019	Chg.	Chg. (%)
Current	2,433	5,127	(2,694)	(53%)
Deferred	37,067	31,934	5,133	16%
TOTAL	**39,500**	**37,061**	**2,439**	**7%**

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

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

(amounts in thousands of euros)

Tax liabilities	30/06/2020	31/12/2019	Chg.	Chg. (%)
Current	2,301	53	2,248	>100%
Deferred taxes	886	717	169	24%
TOTAL	**3,187**	**770**	**2,417**	**>100%**

CAPITAL ADEQUACY

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

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

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

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

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

Capital ratios	30/06/2020	31/12/2019
Common Equity Tier 1 (CET1) capital	**466,236**	**461,699**
Additional Tier 1 (AT1) capital		**-**
Tier 2 (T2) capital		**-**
Total own funds	**466,236**	**461,699**
Credit risk	*199,239*	*168,492*
Credit valuation adjustment risk		*-*
Settlement risks		*-*
Market risks	*146*	*65*
Operational risk	*442*	*4,442*
Other calculation factors		*-*
Total minimum requirements	**203,827**	**172,999**
Risk-weighted assets	**2,547,837**	**2,162,485**
Common Equity Tier 1 ratio	**18.30%**	**21.35%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**18.30%**	**21.35%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**18.30%**	**21.35%**
(Total own funds/Risk-weighted assets)		

As of 30 June 2020 the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds, since it is awaiting receipt of authorisation to include it in Common Equity Tier 1 capital from the national and supranational authorities. If special shares had been included in CET1 capital, the CET1 ratio would have been 18.86%.

CHANGES IN SHAREHOLDERS' EQUITY

At 30 June 2020, shareholders' equity, inclusive of the profit for the period, amounted to approximately EUR 563.2 million, up from EUR 544.5 million at the end of 2019, primarily due to the capital increase in May and to profit for the period, offset partly by changes in valuation reserves.

Items/Technical forms	30/06/2020	31/12/2019
1. Share capital	44,007	43,408
2. Share premium reserve	487,373	480,156
3. Reserves	21,237	36,188
4. Equity instruments	-	-
5. (Treasury shares)	(96)	(96)
6. Valuation reserves	(4,199)	939
7. Profit (loss) for the period	14,838	(16,140)
Total shareholders' equity attributable to the Group	**563,160**	**544,455**
Shareholders' equity attributable to non-controlling interest	-	-
Total shareholders' equity	563,160	544,455

Share capital and ownership structure

At 30 June 2020, the Bank's share capital amounted to EUR 45,503,237.77, of which EUR 44,006,566.43 was subscribed and paid up, divided into 66,083,417 ordinary shares and 1,440,000 special shares without par value.

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

TREASURY SHARES

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

On 9 April 2020, the Bank was authorised by the Bank of Italy to buy back CET1 instruments up to EUR 1 million.

PARENT COMPANY RECONCILIATION - CONSOLIDATED

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 30 June 2020:

	Shareholders' equity	Result
illimity Bank S.p.A.	**564,696**	**16,199**
Effect of consolidation of subsidiaries	(375)	-
Results of the consolidated companies	(1,504)	(1,504)
Consolidation adjustments (including PPA effects)	343	143
Dividends	-	-
Effect of valuation at equity method of associates and joint ventures	-	-
Group	**563,160**	**14,838**

FINANCIAL PERFORMANCE

Interest margin

(amounts in thousands of euros)

Items/Technical forms	Loans / Payables	Debt securities	Other transactions	30/06/2020	30/06/2019	Absolute changes	Change %
Interest and similar income							
1. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	N/A
Held for trading	-	-	-	-	-	-	N/A
Designated at FV	-	-	-	-	-	-	N/A
Mandatorily measured at fair value	-	-	-	-	-	-	N/A.
2. Financial assets at FV through other comprehensive income	-	1,257	-	1,257	749	508	68%
3. Financial assets at amortised cost	55,032	8,859	-	63,891	17,592	46,299	>100%
Due from banks	331	-	-	331	161	170	>100%
Loans to customers	54,701	8,859	-	63,560	17,431	46,129	>100%
4. Hedging derivatives	-	-	-	-	-	-	N/A
5. Other assets	-	-	8	8	170	(162)	(95%)
6. Financial liabilities	-	-	-	117	126	(9)	(7%)
Total interest income	**55,032**	**10,116**	**8**	**65,273**	**18,637**	**46,636**	**>100%**
Interest expenses							
1. Financial liabilities at amortised cost	(18,034)	(99)	-	(18,133)	(1,427)	(16,706)	>100%
Amounts due to central banks	(9)	-	-	(9)	(17)	8	(47%)
Amounts due to banks	(3,343)	-	-	(3,343)	(549)	(2,794)	>100%
Amounts due to customers	(14,682)	-	-	(14,682)	(504)	(14,178)	>100%
Securities issued	-	(99)	-	(99)	(357)	258	(72%)
2. Financial liabilities held for trading	-	-	-	-	-	-	N/A
3. Financial liabilities designated at FV	-	-	-	-	-	-	N/A
4. Other liabilities and provisions	-	-	(11)	(11)	(528)	517	(98%)
5. Hedging derivatives	-	-	-	-	-	-	N/A
6. Financial assets	-	-	-	(1,008)	(33)	(975)	>100%
Total interest expenses	**(18,034)**	**(99)**	**(11)**	**(19,152)**	**(1,988)**	**(17,164)**	**>100%**
Interest margin	**36,998**	**10,017**	**(3)**	**46,121**	**16,649**	**29,472**	**>100%**

As of 30 June 2020, the interest margin amounted to approximately EUR 46.1 million, up considerably on the same period of the previous year, when it amounted to approximately EUR 16.6 million.

This change is mainly due to the increase in interest income from loans to customers, due to new transactions taking place in the period and in the second half of the previous year.

Interest income also increased on financial assets measured at fair value through other comprehensive income due to the purchase, in the early months of 2020, of securities assigned to this portfolio.

Interest expense increased by approximately EUR 17.2 million on the period ended 30 June 2020; this increase was mainly due to the rise of EUR 14.2 million in interest expense paid to customers associated with the volumes of direct deposits, associated with the launch of Digital Banking in the second half of 2019. There was also an increase in interest expense paid to banks of approximately EUR 2.8 million as a result of the repurchase agreements entered into by the Bank.

Net fee and commission income

(amounts in thousands of euros)

Items/Technical forms	30/06/2020	30/06/2019	Absolute changes	Change %
Fee and commission income				**-**
a. guarantees given	29	154	(125)	(81%)
c. management, brokerage and advisory services	281	124	157	>100%
d. collection and payment services	94	279	(185)	(66%)
f. factoring services	784	2	782	>100%
i. maintenance and management of current accounts	160	832	(672)	(81%)
j. other services	5,248	2,719	2,529	93%
Total	**6,596**	**4,110**	**2,486**	**60%**
Fee and commission expense				
a. guarantees received	-	(7)	7	N/A
c. management and brokerage services	(66)	(29)	(37)	>100%
d. collection and payment services	(426)	(1,321)	895	(68%)
e. other services	(1,478)	(208)	(1,270)	>100%
Total	**(1,970)**	**(1,565)**	**(405)**	**26%**
Net fee and commission income	**4,626**	**2,545**	**2,081**	**82%**

Net fee and commission income amounted to EUR 4.6 million, up significantly compared to the period ended 30 June 2019.

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

Other operating expenses and income

(amounts in thousands of euros)

Items/Technical forms	30/06/2020	30/06/2019	Absolute changes	Change %
Other operating expenses				
Amortisation of expenses for improvements on third party assets	(42)	-	(42)	N/A
Other operating costs	(968)	(72)	(896)	>100%
Total	**(1,010)**	**(72)**	**(938)**	**>100%**
Other operating income				
Recoveries of expenses from other customers	272	266	6	2%
Other income	1,011	167	844	>100%
Total	**1,283**	**434**	**849**	**>100%**
Other operating expenses and income	**273**	**362**	**(89)**	**(25%)**

Other operating expenses and income of EUR 273 million mainly refers to the recovery of other expenses from customers.

Personnel costs

(amounts in thousands of euros)

Items/Technical forms	30/06/2020	30/06/2019	Absolute changes	Change %
1. Employees	(22,760)	(14,212)	(8,548)	60%
2. Other personnel in service	(807)	(203)	(604)	>100%
3. Directors and statutory auditors	(978)	(666)	(312)	47%
Personnel costs	**(24,545)**	**(15,081)**	**(9,464)**	**63%**

Personnel costs amounted to approximately EUR 24.5 million and consist mainly of employee wages and salaries and the related social security contributions.

The Group had a total of 514 employees as of 30 June 2020, up compared to 31 December 2019 (348) due to the new employees hired over the past 6 months and the inclusion in the illimity Group of IT Auction and its subsidiaries with effect from financial year 2020.

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

Level	30/06/2020			31/12/2019			Changes	
	Average age	No. emp.	No. emp. %	Average age	No. emp.	No. emp. %	Ass.	%
Executives	47	48	9%	46	44	13%	4	9%
Middle managers	37	223	44%	37	191	55%	32	17%
White-collar	33	243	47%	32	113	32%	130	>100%
Employees		**514**	**100%**		**348**	**100%**	**166**	**48%**

Other Administrative costs

(amounts in thousands of euros)

Items/Technical forms	30/06/2020	30/06/2019	Absolute changes	Change %
Rental of premises	(997)	(745)	(252)	34%
Insurance	(687)	(103)	(584)	>100%
Various payments	(3,445)	(2,612)	(833)	32%
Various consulting services	(7,556)	(7,024)	(532)	8%
Membership fees	(149)	(193)	44	(23%)
DGS, SRF contribution and voluntary scheme	(227)	(463)	236	(51%)
Cost of services	(2,845)	(1,358)	(1,487)	>100%
Financial information	(476)	(786)	310	(39%)
Adverts and advertising	(1,503)	(440)	(1,063)	>100%
Recoveries of expenses	473	321	152	47%
Financial statement audit	(310)	(110)	(200)	>100%
Maintenance and repair costs	(194)	(330)	136	(41%)
Business expenses	(13)	(200)	187	(94%)
IT and software expenses	(5,340)	(3,143)	(2,197)	70%
Legal and notary's fees	(3,549)	(2,536)	(1,013)	40%
Postal and stationery expenses	(215)	(139)	(76)	55%
Utilities and services	(985)	(994)	9	(1%)
Other indirect taxes and duties	(1,083)	(584)	(499)	85%
Others	(80)	(489)	(409)	(84%)
Total other administrative costs	**(29,181)**	**(21,928)**	**(7,253)**	**33%**

Other administrative costs amounted to approximately EUR 29.2 million, increasing by EUR 7.3 million on 30 June 2019, and consisted primarily of costs for professional and consultancy services, legal and notary's fees, IT and software expenses and various fees.

During the second quarter, the Bank, in order to cover the expenses incurred in 2019 and following the relevant checks, recognised as income (i) in the amount of EUR 191 thousand, the tax credit for incremental investments in press, radio and TV advertising campaigns (Article 57-*bis* of Italian Decree Law no. 50/2017) and (ii) in the amount of EUR 500 thousand, the tax credit for consultancy costs relating to the listing of SMEs (Article 1, paragraphs 89-92, of Italian Law no. 205/2017). These amounts were deducted from "Other administrative expenses - Other" in the reclassified income statement.

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

(amounts in thousands of euros)

Items/Technical forms	30/06/2020	30/06/2019	Absolute changes	Change %
Net write-downs/write-backs on property and equipment				
Property and equipment with functional use	(1,323)	(898)	(425)	47%
of which: own Property and equipment	(258)	(192)	(66)	34%
of which: Lease rights of use	(1,065)	(706)	(359)	51%
Total	**(1,323)**	**(898)**	**(425)**	**47%**
Net write-downs /write-backs on intangible assets				
Finite useful life	(2,537)	(250)	(2,287)	>100%
Indefinite useful life				N/A
Total	**(2,537)**	**(250)**	**(2,287)**	**>100%**
Net write-downs/write-backs on property and equipment and intangible assets	**(3,860)**	**(1,148)**	**(2,712)**	**>100%**

Net write-downs/write-backs on property and equipment and intangible assets amounted to approximately EUR 3.9 million, compared with EUR 1.1 million as at 30 June of the previous year. The increase was due to amortisation of right-of-use assets acquired through leasing transactions as lessee, in accordance with IFRS 16, and the amortisation of IT investments.

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

(amounts in thousands of euros)

Transaction/Income item	Write-downs (1)			Write-backs (2)		30/06/2020
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three	
		Write-offs	Others			
A. Due from banks	**(133)**	**-**	**-**	**252**	**-**	**119**
- loans	(133)	-	-	252	-	119
- debt securities	-	-	-	-	-	-
of which: purchased or originated credit impaired	-	-	-	-	-	-
B. Loans to customers:	**(3,695)**	**(54)**	**(29,493)**	**274**	**53,288**	**20,320**
- loans	(3,276)	(54)	(29,472)	274	53,288	20,760
- debt securities	(419)	-	(21)	-	-	(440)
of which: purchased or originated credit impaired	-	-	(26,927)	-	51,292	24,365
Total	**(3,828)**	**(54)**	**(29,493)**	**526**	**53,288**	**20,439**

Net write-backs to assets measured at amortised cost amounted to EUR 20.4 million. In particular, write-backs to POCI loans amounted to EUR 24.4 million, as shown in the table above. The sub-item "purchased or originated credit impaired" refers to the amount of write-downs/write-backs of loans classified as purchased or originated credit impaired as a result of collections or revisions of business plans. Write-downs/write-backs to organic loans to customers and debt securities amounted to EUR 3.9 million.

The overall valuation of positions closed during the half yielded a net write-back of EUR 17.0 million.

Income taxes for the period on continuing operations

Income taxes for the period on continuing operations stood at EUR 2.4 million at 30 June 2020.

During the half-year, pursuant to Article 15, paragraph 10, of Italian Decree Law no. 185/2008, the goodwill of EUR 21.6 million resulting from the merger by incorporation of SPAXS into Banca Interprovinciale was redeemed. Specifically, the substitute tax of EUR 3.5 million, corresponding to 16% of the higher goodwill values recorded in the financial statements, was paid. At the same time as the substitute tax was paid and recognised in the financial statements, prepaid taxes (corporate income tax and regional production tax - IRES and IRAP) of EUR 7.2 million were recognised, generating a net tax benefit of EUR 3.7 million. These prepaid taxes will be released in five annual instalments of EUR 1.4 million between 2021 and 2025, simultaneously with lower current taxes.

Basic and diluted earnings (losses) per share

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

(amounts in thousands of euros)

Basic and diluted loss per share	Profit/(Loss) for the period	Average number of shares	Basic and diluted earnings per share
Period ended 30 June 2020	14,838	65,311,441	0.23
Period ended 30 June 2019	(11,358)	59,404,414	(0.19)

QUARTERLY TREND

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

Reclassified Balance Sheet

(amounts in thousands of euros)

Assets	30/06/2020	31/03/2020	31/12/2019	30/09/2019	30/06/2019
Treasury portfolio - Securities at FV	285,731	335,249	125,851	91,806	100,205
Treasury portfolio - Securities at amortised cost	-	-	-	103,259	102,760
Financial instruments mandatorily measured at fair value	7,710	7,505	8,602	9,680	7,178
Loans mandatorily measured at fair value	4,422	-	-	-	-
Due from banks	502,844	566,799	344,858	271,289	122,763
Loans to financial entities	139,959	-	-	-	-
Loans to customers	1,765,923	1,751,714	1,637,864	1,255,037	774,696
Property and equipment and intangible assets	133,946	83,583	66,199	62,208	54,861
Tax assets	39,500	39,043	37,061	35,039	32,121
Other assets	357,821	267,877	804,787	128,151	58,509
Total assets	**3,237,856**	**3,051,770**	**3,025,222**	**1,956,470**	**1,253,093**

(amounts in thousands of euros)

Liabilities	30/06/2020	31/03/2020	31/12/2019	30/09/2019	30/06/2019
Amounts due to banks	582,970	468,190	376,747	397,005	238,779
Amounts due to customers	1,912,996	1,900,957	1,963,237	912,900	384,276
Securities issued	2,254	10,302	15,358	15,393	18,043
Financial liabilities designated at fair value	-	7,719	-	-	-
Tax liabilities	3,187	2,156	770	1,461	693
Other liabilities	173,289	125,207	124,655	86,368	62,486
Shareholders' equity	563,160	537,239	544,455	543,343	548,816
Total liabilities and shareholders' equity	**3,237,856**	**3,051,770**	**3,025,222**	**1,956,470**	**1,253,093**

Reclassified Income Statement

(amounts in thousands of euros)

Income Statement items	2Q2020	1Q2020	4Q2019	3Q2019	2Q2019
Interest margin	24,288	21,833	18,515	14,131	9,209
Net fee and commission income	2,130	2,496	1,513	2,562	1,933
Gains/losses on financial assets and liabilities	(28)	3,696	8,890	115	343
Net write-downs/write-backs on closed positions - HTC Clients	7,924	9,122	9,118	-	-
Other operating expenses and income	227	46	1,632	(75)	85
Total net operating income	**34,541**	**37,193**	**39,668**	**16,733**	**11,570**
Personnel costs	(13,246)	(11,299)	(9,071)	(6,915)	(8,717)
Other administrative costs	(12,899)	(16,282)	(19,040)	(14,222)	(11,649)
Net write-downs/write-backs on property and equipment and intangible assets	(2,027)	(1,833)	(1,117)	(882)	(670)
Operating costs	**(28,172)**	**(29,414)**	**(29,228)**	**(22,019)**	**(21,036)**
Operating profit (loss)	**6,369**	**7,779**	**10,440**	**(5,286)**	**(9,466)**
Net write-downs/write-backs for credit risk - HTC Banks	252	(133)	8	(155)	42
Net write-downs/write-backs for credit risk - HTC Other financial institutions	(25)	(126)	-	-	-
Net write-downs/write-backs for credit risk - HTC Clients	3,352	73	(9,218)	(3,768)	(2,725)
Net write-downs/write-backs for credit risk - HTCS	184	(537)	55	25	161
Net write-downs/write-backs for commitments and guarantees	(137)	141	63	(116)	(398)
Total net write-downs/write-backs	**3,626**	**(582)**	**(9,092)**	**(4,014)**	**(2,920)**
Other net provisions	36	(36)	61	(77)	168
Profit (loss) from operations before taxes	**10,031**	**7,161**	**1,409**	**(9,377)**	**(12,218)**
Income taxes for the period on continuing operations	307	(2,661)	645	2,541	6,798
Profit (loss) for the period	**10,338**	**4,500**	**2,054**	**(6,836)**	**(5,420)**

The interest margin amounted to EUR 24.3 million in the first half of 2020, up on both the previous quarter and the final quarter of 2019. The DCIS Division was able to make a significant contribution to the quarterly result in spite of the challenging market conditions caused by the COVID-19 pandemic.

Net operating income for the second quarter of 2020 was EUR 34.5 million, broadly in line with the previous quarter. In addition to the interest margin, revenues for the period include net fee and commission income of EUR 2.1 million and a positive result of approximately EUR 7.9 million on closed HTC Clients positions.

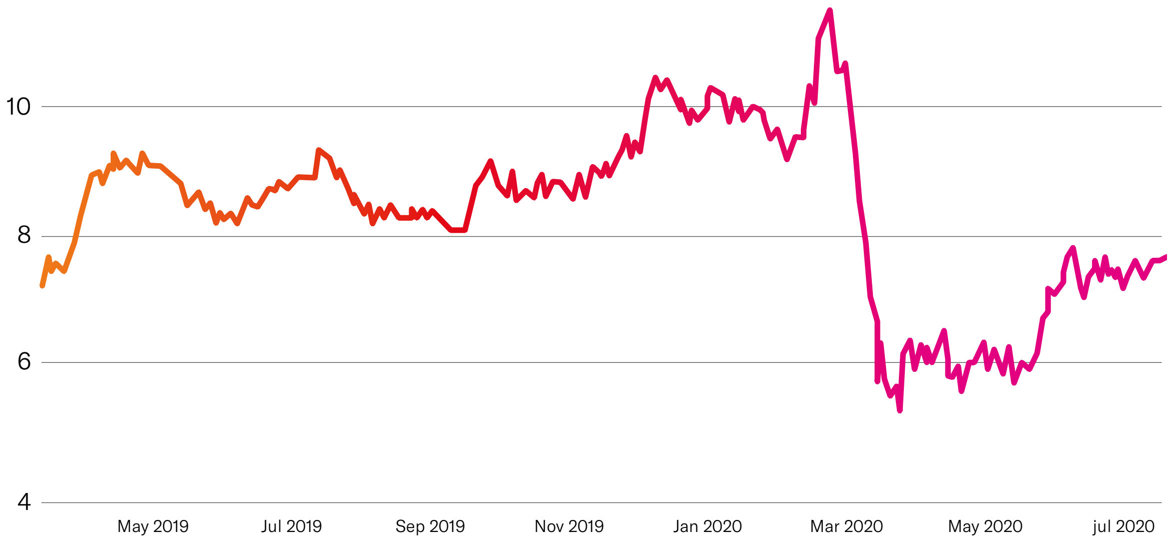
Operating sosts totalled approximately EUR 28.2 million in the second quarter of 2020, broadly in line both with the previous quarter and with the fourth quarter of 2019 (which included non-recurring elements relating to the launch of the digital bank and other specific projects) thanks to careful management of other administrative expenses, despite an increase in personnel expenses, relating mainly to the employee incentive plan.

Net write-backs, relating mainly to the valuation of the HTC Clients portfolio, totalled EUR 3.6 million during the quarter.

As a result of the foregoing trends, the second quarter of 2020 ended with a profit for the period, after taxes on continuing operations, of EUR 10.3 million.

SHARE PERFORMANCE OF ILLIMITY BANK

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



Based on available information, updated on 21 July 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	9.88%	9.88%
TENSILE CAPITAL MANAGEMENT LLC	TENSILE-METIS HOLDINGS SARL	Owned	8.52%	8.52%
Atlas Merchant Capital LLC	AMC METIS SARL	Owned	7.76%	7.76%

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

EVENTS AFTER THE REPORTING DATE

On 9 July 2020, illimity announced the launch of "illimitHER", a diversity and inclusion programme under the STEM in the City digital innovation brand to promote STEM culture and inspire young people, particularly girls, to make different and brave choices in their studies and at work. The programme aims to put youngsters in contact with inspirational individuals, particularly women under 35 who have made their mark both professionally and personally, making the most of their closeness in age to forge closer bonds. The goal is to transfer and share knowledge and skills to prepare a new generation of women who are ready for a future increasingly dominated by the digital transformation.

illimitHER is a partnership with associations and initiatives involved in *diversity and inclusion*: *STEM in the City, SheTech, Young Women Network, Unstoppable Women by StartupItalia* and training the next generation: *Smart Future Academy*, BAM Biblioteca degli Alberi Milano, Scuola di Politiche.

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

BUSINESS OUTLOOK

Management expects to see a gradual pick-up in the economy in the second half of the year.

The selective growth in business volumes originated above all in the last part of the second quarter is backed by a robust pipeline of new potential operations, also in relation to strategic projects whose economic benefits will only be realised in full from 2021. More specifically, the SME Division's contribution to the generation of new business volumes is expected to be particularly significant in the third quarter as the result of the loans – to a large extent with state guarantees - already disbursed in July and currently being worked on, while the DCIS Division's pipeline will above all be concentrated in the fourth quarter of the year, consistent with the seasonality typical of this business.

As a result of these dynamics, interest income is expected to rise in the second half of the year compared to the amount already posted in the first half, even if this will only partially benefit from the forecast increase in volumes expected towards the end of the year.

On the other hand interest expense is only expected to increase slightly over the first half year due to the effect of the benefit arising from the TLTRO-III financing of 185 million euro activated in midJune 2020 and a repositioning of direct funding from customers towards less expensive maturities and mix.

Net fees and commissions, penalised in the first half of the year by the slowdown in activities having a major commissions component, are expected to pick-up again in the second half of the year, supported by increased business volumes and by the restart of Law court activities and the purchase and sale of capital goods and real estate assets, a driving force behind IT Auction's business.

Taken overall, a rise in illimity's total revenues is expected to be seen in the second half of 2020.

Operating expenses are expected to increase in the second half of the year also as a result of investments in new strategic projects, with the first fruits from a number of these already expected to arrive in the fourth quarter of this year. Worthy of mention among the strategic projects is the development of the IT and operating platform that will enable illimity to play an active role in the emerging UTP portfolio investment business.

Given the conservative approach already taken in the first half of the year in the collective loan adjustment policy and the resulting impairments, the Bank does not currently expect loan adjustments in the second half of 2020 to exceed those recognised, in annualised terms, in the first half of 2020. From an analysis of existing portfolios, no significant deterioration in credit quality is foreseen as of today. In addition, it is expected that the adoption of certain recently issued government measures will contribute to the stabilisation of the cost of risk in the second half of the year.

As a whole, management aims to achieve a net profit of around 30 million euro for the current year.

Risk-weighted assets (RWAs) will continue to rise in the second half of the year, although to an extent less than proportional to the increase in loans and investments, also as a result of capital optimisation strategies, including those made available by the recent measures supporting the economy.

In addition, a positive evolution in own funds is expected in the second half year with the generation of profits, together with the inclusion of the special shares (following the completion of the approval process by the EBA) and the benefits arising from the banking package approved by the European Union in June.

Consolidated interim financial report
at 30 June 2020

Condensed consolidated interim financial statements

at 30 June 2020

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets		30/06/2020	31/12/2019
10.	Cash and cash equivalents	311,387	772,125
20.	Financial assets measured at fair value through profit or loss	12,184	8,665
	a) financial assets held for trading	52	63
	b) financial assets at fair value	-	-
	c) other financial assets mandatorily measured at fair value	12,132	8,602
30.	Financial assets measured at fair value through other comprehensive income	285,679	125,788
40.	Financial assets measured at amortised cost	2,408,726	1,982,722
	a) due from banks	502,844	344,858
	b) loans to customers	1,905,882	1,637,864
50.	Hedging derivatives	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	-	-
80.	Technical reinsurance reserves	-	-
90.	Property and equipment	72,058	25,395
100.	Intangible assets	61,888	40,804
	of which:		
	- goodwill	36,224	21,643
110.	Tax assets	39,500	37,061
	a) current	2,433	5,127
	b) deferred	37,067	31,934
120.	Non-current assets held for sale and discontinued operations	-	-
130.	Other assets	46,434	32,662
	Total assets	**3,237,856**	**3,025,222**

(cont'd) CONSOLIDATED BALANCE SHEET

Liability and equity items		30/06/2020	31/12/2019
10.	Financial liabilities measured at amortised cost	2,520,946	2,377,250
	a) due to banks	582,970	376,747
	b) due to customers	1,935,722	1,985,145
	c) Securities issued	2,254	15,358
20.	Financial liabilities held for trading	-	-
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	-	-
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	3,187	770
	a) current	2,301	53
	b) deferred	886	717
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	146,995	100,568
90.	Employee severance pay	2,175	1,097
100.	Allowances for risks and charges	1,393	1,082
	a) commitments and guarantees given	326	598
	b) post-employment benefits and similar obligations	4	-
	c) other provisions for risks and charges	1,063	484
110.	Technical reserves	-	-
120.	Valuation reserves	(4,199)	939
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	21,237	36,188
160.	Share premium reserve	487,373	480,156
170.	Share capital	44,007	43,408
180.	Treasury shares (-)	(96)	(96)
190.	Equity attributable to minority interests (+/-)	-	-
200.	Profit (loss) for the period (+/-)	14,838	(16,140)
	Total liabilities and shareholders' equity	**3,237,856**	**3,025,222**

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CONSOLIDATED INCOME STATEMENT

Items		30/06/2020	30/06/2019
10.	Interest income and similar income	65,273	18,637
	of which: interest income calculated according to the effective interest method	64,032	17,175
20.	Interest expenses and similar charges	(19,948)	(2,515)
30.	**Interest margin**	**45,325**	**16,122**
40.	Fee and commission income	6,596	4,110
50.	Fee and commission expense	(1,970)	(1,565)
60.	**Net fee and commission income**	**4,626**	**2,545**
70.	Dividends and similar income	-	-
80.	Profits (losses) on trading	(531)	(38)
90.	Fair value adjustments in hedge accounting	-	-
100.	Profits (losses) on disposal or repurchase of	5,419	1,304
	a) financial assets measured at amortised cost	-	368
	b) financial assets measured at fair value through other comprehensive income	5,420	936
	c) financial liabilities	(1)	-
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	(1,220)	1
	a) financial liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	(1,220)	1
120.	**Net interest and other banking income**	**53,619**	**19,934**
130.	Net losses/recoveries for credit risks associated with:	20,086	(2,732)
	a) financial assets measured at amortised cost	20,439	(2,657)
	b) financial assets measured at fair value through other comprehensive income	(353)	(76)
140.	Profits (losses) on changes in contracts without derecognition	-	(1)
150.	**Net result from banking activities**	**73,705**	**17,201**
160.	Net premiums	-	-
170.	Balance of other income/charges from insurance management	-	-
180.	**Profits (losses) of banking and insurance management**	**73,705**	**17,201**
190.	Administrative expenses:	(54,095)	(36,798)
	a) personnel expenses	(24,495)	(14,637)
	b) other administrative expenses	(29,600)	(22,161)
200.	Net provisions for risks and charges	4	(471)
	a) commitments and guarantees given	4	(428)
	b) other net provisions	-	(44)
210.	Net write-downs/write-backs on property and equipment	(1,323)	(898)
220.	Net write-downs /write-backs on intangible assets	(2,537)	(250)
230.	Other operating income/expenses	1,438	677
240.	**Operating expenses**	**(56,513)**	**(37,740)**
250.	Profits (losses) on equity investments	-	-
260.	Profits (losses) of fair value valuation of Property and Equipment and intangible assets	-	-
270.	Goodwill impairment	-	-
280.	Profits (losses) on disposal of investments	-	-
290.	**Profit (loss) before tax from continuing operations**	**17,192**	**(20,539)**
300.	Income taxes for the period on continuing operations	(2,354)	9,181
310.	**Profit (loss) after tax from continuing operations**	**14,838**	**(11,358)**
320.	Net income (Loss) (+/-) from discontinued operations after taxes	-	-
330.	**Profit (loss) for the period**	**14,838**	**(11,358)**
340.	Net profit (loss) (+/-) attributable to minority interests	-	-
350.	**Net profit (loss) (+/-) attributable to the parent company**	**14,838**	**(11,358)**

STATEMENT OF THE CONSOLIDATED COMPREHENSIVE INCOME

		30/06/2020	30/06/2019
10.	**Profit (loss) for the period**	**14,838**	**(11,358)**
	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)	2
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(71)	(100)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity:	-	-
	Other comprehensive income, net of taxes, that may be reclassified to the income statement		
100.	Hedging of foreign investments	-	-
110.	Foreign exchange differences	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (undesignated elements)	-	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(5,065)	1,277
150.	Non-current assets held for sale and discontinued operations	-	-
160.	Share of valuation reserves connected with investments carried at equity	-	-
170.	**Total other comprehensive income (net of tax)**	**(5,138)**	**1,179**
180.	**Other comprehensive income (Item 10+170)**	**9,700**	**(10,179)**
190.	Consolidated comprehensive income attributable to minority interests	-	-
200.	**Consolidated comprehensive income attributable to the parent company**	**9,700**	**(10,179)**

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

				Allocation of result for the previous year		Changes in the period										
							Equity transactions									
	Balance as of 31 December 2019	Change in opening balances	Balance on 01 January 2020	Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period	Net equity attributable to the Group at 30/06/2020	Equity attributable to minority interests at 30/06/2020
Share capital:	**43,408**	**-**	**43,408**	**-**	**-**	**-**	**599**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**44,007**	**-**
a) ordinary shares	42,470	-	42,470	-	-	-	599	-	-	-	-	-	-	-	43,069	-
b) other shares	938	-	938	-	-	-	-	-	-	-	-	-	-	-	938	-
Share premium reserve	480,156	-	480,156	-	-	-	7,217	-	-	-	-	-		-	487,373	-
Reserves:	**36,188**	**-**	**36,188**	**(16,140)**	**-**	**(92)**	**-**	**-**	**-**	**-**	**-**	**1,281**	**-**	**-**	**21,237**	**-**
a) retained earnings	12,007	-	12,007	(16,140)	-	(96)	-	-	-	-	-	-	-	-	(4,229)	-
b) other	24,181	-	24,181	-	-	4	-	-	-	-	-	1,281	-	-	25,466	-
Valuation reserves	939	-	939	-	-	-	-	-	-	-	-	-	-	(5,138)	(4,199)	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(96)	-	(96)	-	-	-	-	-	-	-	-	-	-	-	(96)	-
Profit (loss) for the period	**(16,140)**	**-**	**(16,140)**	**16,140**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,838**	**14,838**	**-**
Shareholders' equity	**544,455**	**-**	**544,455**	**-**	**-**	**(92)**	**7,816**	**-**	**-**	**-**	**-**	**1,281**	**-**	**9,700**	**563,160**	**-**

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

	Balance as of 31 December 2018 (SPAXS consolidated financial statements)	Change to opening balances (effects of the merger of SPAXS into Banca Interprovinciale)	Balance on 01 January 2019 (illimity consolidated financial statements	Allocation of result for the previous year		Changes in the period									Net equity attributable to the Group at 30/06/2019	Equity attributable to minority interests at 30/06/2019
							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	-	-	-	-	-	-	-	42,382	-
b) other shares	1,440	(414)	1,026	-	-	-	-	-	-	-	-	-	-	-	1,026	-
Share premium reserve	517,827	-	517,827	-	(23,662)	(14,364)	355	-	-	-	-	-	-	-	480,156	-
Reserves:	**285**	**19,404**	**19,689**	**-**	**-**	**15,624**	**-**	**-**	**-**	**-**	**-**	**189**	**-**	**-**	**35,502**	**-**
a) retained earnings	-	-	-	-	-	12,007	-	-	-	-	-	-	-	-	12,007	-
b) other	285	19,404	19,689	-	-	3,617	-	-	-	-	-	189	-	-	23,495	-
Valuation reserves	13	-	13	-	-	12	-	-	-	-	-	-	-	1,179	1,204	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	(96)	-	-	-	-	-	-	(96)	-
Profit (loss) for the period	**(23,662)**	**-**	**(23,662)**	**-**	**23,662**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,358)**	**(11,358)**	**-**
Shareholders' equity	**557,244**	**-**	**557,244**	**-**	**-**	**1,272**	**386**	**(96)**	**-**	**-**	**-**	**189**	**-**	**(10,179)**	**548,816**	**-**

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

A. OPERATIONS	Amount	
	30/06/2020	30/06/2019
1. Cash flow from operations	**30,641**	**(13,750)**
Profit/(Loss) for the period(+/-)	14,838	(11,358)
Gains/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (-/+)	2,013	-
Profits/losses on hedging activities (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	3,518	6,115
Net value adjustments/write-backs on property and equipment and intangible assets (+/-)	3,859	1,148
Net allocations to allowances for risks and charges and other costs/income (+/-)	-	471
Taxes, duties and unpaid tax credits (+)	(800)	(9,181)
Net value adjustments/write-backs on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	7,213	(945)
2. Cash flow generated/absorbed by financial assets	**(647,252)**	**(25,313)**
Financial assets held for trading	11	19,008
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(4,750)	(7,079)
Financial assets measured at fair value through other comprehensive income	(161,959)	19,876
Financial assets measured at amortised cost	(474,058)	5,610
Other assets	(6,496)	12,102
3. Cash flow generated/absorbed by financial liabilities	**171,540**	**(27,485)**
Financial liabilities measured at amortised cost	126,381	(24,261)
Financial liabilities held for trading	-	-
Financial liabilities measured at fair value	-	-
Other liabilities	45,159	(3,224)
Net cash generated/absorbed by operating activities	**(445,071)**	**(15,922)**

B. INVESTING ACTIVITIES	Amount	
	30/06/2020	30/06/2019
1. Cash flows from	**-**	**-**
Sales of equity investments	-	-
Dividends received on equity investments	-	-
Sales of property and equipment	-	-
Sales of intangible assets	-	-
Sales of subsidiaries and business units	-	-
2. Cash flows used in	**(15,310)**	**(11,323)**
Purchases of equity investments	8,082	-
Purchases of tangible assets	(282)	(2,363)
Purchases of intangible assets	(23,110)	(8,960)
Purchases of subsidiaries and business units	-	-
Net cash generated/absorbed by funding activities	**(15,310)**	**(11,323)**
C. FINANCING ACTIVITIES		
Issues / Purchases of treasury shares	-	(96)
Share capital increases	(358)	1,658
Distribution of dividends and other purposes	-	-
Sale/purchase of third-party control	-	-
Net cash generated/absorbed by financing activities	**(358)**	**1,562**
NET CASH GENERATED/ABSORBED DURING THE PERIOD	**(460,738)**	**(25,683)**

Reconciliation

BALANCE SHEET ITEMS	Amount	
	30/06/2020	30/06/2019
Cash and cash equivalents at the start of the period	**772,125**	**68,088**
Total net cash generated/absorbed during the period	(460,738)	(25,683)
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the period	**311,387**	**42,405**

KEY: (+) generated (–) absorbed

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 GENERAL

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

Section 1 – Declaration of compliance with International Financial Reporting Standards

The consolidated interim financial report has been prepared in accordance with Article 154-*ter*, paragraph 5, of Italian Legislative Decree no. 58 of 24 February 1998, in application of Italian Legislative Decree no. 38 of 28 February 2005. This consolidated interim financial statements has applied the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), as well as the guidance in Bank of Italy Circular No. 262 of 22/12/2005 (sixth revision of 30 November 2018), in accordance with the accounting policies adopted in preparing the consolidated financial statements of illimity Bank S.p.A. for the year ended 31 December 2019.

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

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

Section 2 – General Basis of Preparation

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

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

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

The consolidated interim financial report at 30 June 2020 has been prepared according to principles and policies consistent with those adopted in the consolidated financial statements of illimity Bank S.p.A. for the year ended 31 December 2019, to which the reader is referred for a complete description of the principles and policies adopted, with the exception of the application of the new standards that entered into force with effect from 1 January 2020, the effects of which are described in the paragraph "New documents issued by the IASB and endorsed by the EU to be adopted on a mandatory basis with effect from financial statements for years beginning on or after 1 January 2020".

The consolidated interim financial report at 30 June 2020, approved by the Board of Directors on 3 August 2020, was subject to limited review by the independent auditors KPMG S.p.A. The formats provided in the instructions for preparing financial statements issued by the Bank of Italy in its order of 22 December 2005, concurrent Circular no. 262 and subsequent updates have been adopted.

Section 3 – Consolidation scope and methods

The consolidation policies and principles adopted in preparing the consolidated interim financial report at 30 June 2020 are unchanged with respect to the consolidated financial statements for the year ended 31 December 2019.

The consolidated interim financial report includes the accounting values of illimity and of the companies over which it directly or indirectly exercises control for the half year ended 30 June 2020, encompassing within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments dissimilar to that of the Parent Company.

The scope of consolidation adopted in the consolidated interim financial report at 30 June 2020 has changed with respect to the consolidated financial statements for the year ended 31 December 2019, following the entry of IT Auction and its subsidiaries ITA Gestione and Mado. In addition, the acquisition of the vehicle Core S.r.l. was completed in the second quarter of 2020. The run-off of the Lumen portfolio, already undergoing in the first quarter of 2020, was also completed in the second quarter, resulting in the exclusion of the entity from the Group's scope of consolidation.

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

Name	Operational headquarters	Registered office	Type of relationship (*)	Ownership relationship	
				Held by	Holding %
A Companies					
A.0 illimity Bank S.p.A.	Milan	Milan			
Fully consolidated					
A.1 Aporti S.r.l. (SPV)	Milan	Milan	4	A.0	
A.2 Soperga RE S.r.l.	Milan	Milan	1	A.0	100.0%
A.3 Friuli LeaseCo. S.r.l.	Milan	Milan	1	A.0	100.0%
A.4 Friuli SPV S.r.l. (SPV)	Milan	Milan	4	A.0	
A.5 Doria Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.6 Doria SPV S.r.l. (SPV)	Milan	Milan	4	A.0	
A.7 River Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.8 River SPV S.r.l. (SPV)	Milan	Milan	4	A.0	
A.9 Neprix	Milan	Milan	1	A.0	100.0%
A.10 illimity SGR	Milan	Milan	1	A.0	100.0%
A.11 Pitti Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.12 Pitti SPV S.r.l. (SPV)	Milan	Milan	4	A.0	
A.13 IT Auction S.r.l.	Faenza	Faenza	1	A.9 A.16	70.0% 30.0%
A.14 ITA Gestione Immobili S.r.l.	Faenza	Faenza	1	A.13	100.0%
A.15 Mado S.r.l.	Faenza	Faenza	1	A.13	100.0%
A.16 Core S.r.l.	Faenza	Faenza	1	A.0	100.0%
A.17 SWAN[15]	Conegliano	Conegliano	4	A.0	

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

Section 4 - Events after the reporting date

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

15 The vehicle SWAN SPV S.r.l., formed for the parent company's retained securitisation transaction (Project SWAN).

Section 5 – Other aspects

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

Information on the allocation process (according to IFRS 3, paragraph 45) for the acquisition cost of the equity interest in IT Auction and the accounting treatment of the resulting goodwill in the illimity Bank Group's consolidated interim financial report as at 30 June 2020 is provided below. It should be noted that illimity used the full goodwill method to determine goodwill. With regard to the acquisition price, it should be recalled that:

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

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

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

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

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

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

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

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

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

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

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

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

5.2 - New documents issued by the IASB and endorsed by the EU, adoption of which is mandatory with effect from financial statements for years beginning on or after 1 January 2020.

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Amendments to references to the Framework in IFRSs	March 2018	1 January 2020	29 November 2019	(EU) no. 2019/2075 6 December 2019
Definition of Material - Amendments to IAS 1 and IAS 8	October 2018	1 January 2020	29 November 2019	(EU) no. 2019/2104 10 December 2019
Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	September 2019	1 January 2020	15 January 2020	(EU) no. 2020/34 15 January 2020
Amendments to IFRS 3 *Business Combinations*	October 2018	1 January 2020	21 April 2020	(EU) no. 2020/551 22 April 2020

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

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

Coming into force on 1 January 2020, the following were also endorsed during the first half of 2020:

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

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

According to the IFRS framework, the preparation of the consolidated interim financial report 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.

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 this consolidated interim financial report. The items subject to significant use of estimates and assumptions are indicated below:

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

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

The main accounting issues relating to COVID-19

As described in more detail in the report on consolidated operations (see in particular the sections "The macroeconomic scenario" and "Significant events in the first half of 2020"), owing to the particular seriousness of the events resulting from COVID-19, during the first half of 2020 various European regulators issued a series of measures relating to the accounting consequences of the pandemic, the most significant aspects of which are summarised below.

On 27 March 2020, the IASB published "COVID-19 - *Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic*". This document does not amend the standard IFRS 9; rather, it suggests how the standard should be interpreted in the current pandemic scenario. With regard to classification in particular, the IASB emphasises that in the context of the epidemic the extension of deferrals to customers should not translate automatically into a significant increase in credit risk.

On 24 April 2020, the IASB, in its document "*Exposure Draft ED/2020/2 Covid 19 Related Rent Concessions Proposed amendment to IFRS 16*" also proposed an amendment to IFRS 16 whereby lessees can adopt a *practical expedient* enabling them not to assess whether rent concessions obtained as a direct result of the COVID-19 pandemic represent lease modifications as defined in IFRS 16 and thus to recognise the effect in the income statement as if the concessions were negative variable payments.

In view of the importance of the issue, ESMA also expressed a position on the accounting implications of the pandemic (and in particular on accounting representation and the disclosure to be made to the markets in terms of transparency), publishing the following documents:

- 11 March 2020 - Recommendations on the information that Issuers should provide to the market on the impacts of COVID-19;
- 27 March 2020 - "*Guidance on Financial Reporting Deadlines in light of COVID-19*";
- 25 March 2020 - "*Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9*".

In that last document, ESMA offers guidelines on how to factor in moratoria when applying IFRS 9 requirements on *Modification* and *Derecognition*, *Assessment of significant increase in credit risk* ("SICR") and *Expected Credit Loss estimation*.

Still in relation to managing loans subject to payment moratoria, in a press release published on 25 March 2020, the EBA dealt with aspects relating to (i) identifying *default* (ii) *forbearance* measures and (iii) IFRS 9 *staging*. On these points, the EBA specifies:

- with regard to moratoria, the EBA excludes that positions subject to moratoria may be considered *forborne*, since they are intended as a response to systemic risks and to alleviate potential risks that could affect the broader EU economy in future;
- participation in a moratorium - whether by law or by concession of the bank - is not a *trigger* of *default* and halts the calculation of days past due for the purposes of identifying defaults;
- on the possible classification to Stage 2 of positions subject to moratoria, the EBA clarifies that the application of a public or private moratorium should not on its own be considered a trigger for identifying a significant increase in credit risk, thereby excluding automatic classification to Stage 2.

On 31 March 2020, in the "*EBA Statement on supervisory reporting and Pillar 3 disclosures in light of COVID 19*", the EBA stressed the vital nature of having reliable information on capital, risks and liquidity in order to understand banks' prudential and financial positions during this turbulent period of the financial system.

Within their own remits, the ECB and the European Commission have also acted in response to how coronavirus is affecting the banking sector. In particular:

- 1 April 2020 – "*IFRS 9 in the context of the coronavirus (COVID-19) pandemic*". In order to avoid excessively procyclical assumptions to determine expected credit losses, the ECB urged banks to apply the transitional IFRS 9 provisions foreseen in the CRR;
- 16 April 2020 – "*Waiver – market risk*". The ECB temporarily eased capital requirements for market risk in order to ensure banks could keep issuing liquidity and continue their market-making activities, in response to the extraordinary volatility on the financial markets in this period;
- 28 April 2020 – The European Commission adopted a package of measures for banks to make it easier for them to lend. The measures include: a) adapting the timeline of the application of international accounting standards on banks' capital; b) treating more favourably public guarantees granted during this crisis; c) postponing the date of application of the leverage ratio buffer; and d) modifying the way of excluding certain exposures from the calculation of the leverage ratio.

On 16 July 2020, in its warning notice "COVID 19 - Drawing attention to financial reporting", CONSOB drew the attention of members of management and control bodies and managers responsible for drafting financial documents to the need for complying with the principles that govern the process of producing financial information, in consideration of the impacts that the effects associated with COVID-19 may have with reference, in particular, to the verifications concerning business continuity as well as the evaluations of the assets (impairment tests). CONSOB also drew the attention of those involved in the process of producing financial information to the recommendations provided by ESMA in its public statement "Implications of the COVID-19 outbreak on the half-yearly financial reports" of 20 May 2020.

Finally, with specific regard to the determination of the collective write-down on performing loans, the Bank took account of the suggestions made in recent months by national and international authorities, which requested the adoption of a *top-down* approach to determining the stage transfer according to the *collective assessment* approach (i.e. emphasising the portfolio components that could be most affected by a crisis, but without identifying them separately) and an approach that limits the pro-cyclical effect as much as possible and reduces the variability in the calculation of *expected credit losses* in the current environment of severe uncertainty, while also limiting discretionality by indicating a common foundation of macroeconomic forecasts.

It should also be noted that, in line with the *forward-looking* approach required by IFRS 9, the PD models were updated during the first half in order to reflect the deterioration of the macroeconomic *outlook* and its impact on the prospective risk level of the performing portfolio.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

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

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

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

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

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

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

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

A.4.2 Processes and sensitivity of valuations

The non-observable criteria that can influence the valuation of instruments classified in level 3 are normally represented by the estimates and assumptions underlying the models used to measure investments in equity securities, 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 Group uses the following principles:

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

For securities held at fair value level 2:

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

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*"). 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 at 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 valued at fair value on a recurring basis: breakdown by levels of fair value

Financial assets / liabilities measured at fair value	30/06/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	106	-	12,078	106	-	8,559
a) Financial assets held for trading	7	-	45	7	-	56
b) Financial assets measured at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	99	-	12,033	99	-	8,503
2. Financial assets measured at fair value through other comprehensive income	285,660	-	19	125,773	-	15
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**285,766**	**-**	**12,097**	**125,879**	**-**	**8,574**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

Instruments that are valued to a significant extent on the basis of non-observable parameters (Level 3) constitute a marginal proportion (3.97%) 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 subject to mandatory 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)

There were no changes in the reference period.

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

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

A.4.5.4 Assets and liabilities not valued at fair value or valued 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	30/06/2020				31/12/2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	2,408,726	13,246	12,788	2,344,805	1,982,722	-	-	2,018,466
2. Property and equipment held for investment	-	-	-	-	-	-	-	-
3. Non-current assets and groups of assets held for disposal	-	-	-	-	-	-	-	-
Total	**2,408,726**	**13,246**	**12,788**	**2,344,805**	**1,982,722**	**-**	**-**	**2,018,466**
1. Financial liabilities measured at amortised cost	2,520,946	-	2,240	2,547,701	2,377,250	-	15,381	2,266,256
2. Liabilities linked to assets held for sale	-	-	-	-	-	-	-	-
Total	**2,520,946**	**-**	**2,240**	**2,547,701**	**2,377,250**	**-**	**15,381**	**2,266,256**

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

PART B – INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

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

2.1 Financial assets held for trading: breakdown by type

Items/values	Total 30/06/2020			Total 31/12/2019		
	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	-	45	7	-	56
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**7**	**-**	**45**	**7**	**-**	**56**
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 for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**7**	**-**	**45**	**7**	**-**	**56**

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

Items/values	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**2,670**	**-**	**-**	**2,342**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	2,670	-	-	2,342
2. Equity securities	**-**	**-**	**4,941**	**-**	**-**	**6,161**
3. Units of UCIs	**99**	**-**	**-**	**99**	**-**	**-**
4. Loans	**-**	**-**	**4,422**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	4,422	-	-	-
Total	**99**	**-**	**12,033**	**99**	**-**	**8,503**

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

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

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

Items/values	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**285,660**	**-**	**-**	**125,773**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	285,660	-	-	125,773	-	-
2. Equity securities	**-**	**-**	**19**	**-**	**-**	**15**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**285,660**	**-**	**19**	**125,773**	**-**	**15**

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

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

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

Type of operations/ Values	Total 30/06/2020						Total 31/12/2019					
	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	**502,844**	**-**	**-**	**-**	**-**	**502,844**	**344,858**	**-**	**-**	**-**	**-**	**344,831**
1. Loans	502,844	-	-	-	-	502,844	344,858	-	-	-	-	344,831
1.1 Current accounts and on demand deposits	9,686	-	-	X	X	X	9,791	-	-	X	X	X
1.2. Time deposits	61,519	-	-	X	X	X	59,042	-	-	X	X	X
1.3. Other loans:	431,638	-	-	X	X	X	276,025	-	-	X	X	X
- Repurchase agreements - receivable	419,631	-	-	X	X	X	276,025	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	12,008	-	-	X	X	X	-	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**502,844**	**-**	**-**	**-**	**-**	**502,844**	**344,858**	**-**	**-**	**-**	**-**	**344,831**

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

Type of operations/ Values	Total 30/06/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
1. Loans	**743,131**	**812,944**	**756,838**	**-**	**-**	**1,556,076**	**563,233**	**724,879**	**705,421**	**-**	**-**	**1,323,882**
1.1. Current accounts	53,852	19,247	13,476	-	-	-	39,122	17,998	13,725	-	-	-
1.2. Reverse Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	415,396	376,190	335,011	X	X	X	369,117	357,165	347,407	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	766	647	567	X	X	X	961	995	957	X	X	X
1.5 Loans for leasing	-	100,955	100,955	X	X	X	-	89,517	89,517	X	X	X
1.6. Factoring	112,251	6,946	-	X	X	X	126,561	45	-	X	X	X
1.7. Other loans	160,866	308,959	306,829	X	X	X	27,472	259,159	253,815	X	X	X
2. Debt securities	**298,616**	**51,191**	**51,191**	**13,246**	**12,788**	**285,885**	**299,390**	**50,363**	**50,363**	**-**	**-**	**349,753**
2.1. Structured securities	4,196	-	-	4,414	-	-	-	50,363	50,363	-	-	50,363
2.2. Other debt securities	294,420	51,191	51,191	8,832	12,788	285,885	299,390	-	-	-	-	299,390
Total	**1,041,747**	**864,135**	**8,508,029**	**13,246**	**12,788**	**1,841,961**	**862,622**	**775,242**	**755,784**	**-**	**-**	**1,673,635**

Section 9 – Property and equipment – Item 90

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

Assets/Values	Total 30/06/2020	Total 31/12/2019
1. Proprietary assets	**2,743**	**2,583**
a) land	-	-
b) buildings	969	994
c) furniture and fittings	729	667
d) electronic systems	831	828
e) others	214	94
2. Rights of use acquired through leases	**20,552**	**20,489**
a) land	-	-
b) buildings	19,456	19,333
c) furniture and fittings	-	1
d) electronic systems	-	8
e) others	1,096	1,147
Total	**23,295**	**23,072**
of which: obtained by enforcement of guarantees received	-	-

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

Assets/Values	Total 30/06/2020	Total 31/12/2019
1. Inventories of assets obtained by the enforcement of guarantees received	**48,763**	**2,322**
a) land	-	-
b) buildings	48,763	2,322
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	-	-
2. Other assets inventories	**-**	**-**
Total	**48,763**	**2,322**
of which: measured at fair value net of costs to sell	-	-

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown by type

Assets/Values	Total 30/06/2020		Total 31/12/2019	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**36,224**	**X**	**21,643**
A.1.1 attributable to the group	X	36,224	X	21,643
A.1.2 attributable to minorities	X	-	X	-
A.2 Other intangible assets	**25,664**	**-**	**19,161**	**-**
A.2.1 Assets measured at cost:	25,664	-	19,161	-
a) internally generated intangible assets	474	-	2,947	-
b) other assets	25,190	-	16,214	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**25,664**	**36,224**	**19,161**	**21,643**

Purchase price allocation

The goodwill of EUR 36.2 million recognised in the Bank's financial statements has been estimated, in compliance IFRS 3 accounting methods, and includes:

a) the PPA goodwill booked upon the purchase of Banca Interprovinciale by SPAXS, the company merged into illimity on 5 March 2019;

b) the goodwill booked for the purchase of the equity investment in IT Auction (see Section 5 – Other Aspects, in Part A).

Explanatory note on *impairment testing*

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.

With this in mind, remember that on 16 July 2020, in its Warning notice no. 8/20 on financial reporting following the Communication dated 9 April, CONSOB drew the attention of members of management and control bodies and managers responsible for drafting financial documents to the need for complying with the principles that govern the process of producing financial information, in consideration of the impacts that the effects associated with COVID-19 may have with reference, in particular, to the verifications concerning business continuity as well as the evaluations of the assets (impairment tests). In so doing, CONSOB felt the need to once again draw attention to the recommendations provided by ESMA in its *Public Statement "Implications of the COVID-19 outbreak on the half-yearly financial reports"* of 20 May 2020.

Accordingly, as required by IAS 36, it has been deemed that the current economic and operating environment can provide sufficient evidence as to the presence of internal and external indicators necessitating an update of the goodwill *impairment* test carried out at the end of 2019. This update was performed in accordance with the methodology set out in the impairment testing policy approved by the Board of Directors on 11 February 2019, which, makes provision, among other things, for use of the *Excess Capital* variant of the *Discounted Dividend Model* when determining value in use.

Accordingly, for impairment purposes in the consolidated interim financial report at 30 June 2020, the 2020 budget updated based on the final result at 30 June 2020 was used.

In view of a reduction in RWA in the *2020 Revised Budget* compared with the original *Business Plan*, while awaiting a review of the plan, it was assumed that this effect will be extended to prospective RWA across the entire plan horizon. In addition, profits have been restated assuming retention of the profit/RWA ratio set out in the original plan. Lastly, for prudential purposes, a g factor of 0% has been assumed.

With regard to the prudential supervision provisions, when preparing the volumes of business for the various divisions, the Bank confirmed the capitalisation used when drawing up the *Business Plan*.

The Ke discounting rate used was 9.94% (10.7% at 31 December 2019). The reduction was due in part to the change in the alpha coefficient. This coefficient, which expresses a share's aptitude to vary regardless of the market (specific risk), unlike for previous years' financial statements, has been set, for prudential purposes and to take into account the recent completion of the Bank's startup phase, at 1% (lower than the coefficient used at 31 December 2019). Moreover, the coefficient has been retained for prudential purposes, albeit to a lesser extent, in spite of the guidance in the Italian Valuation Standard Setter's (OIV) document from 25 June 2020 entitled "Impairment testing after the effects of the COVID-19 pandemic (Draft for *Referees*)", which does not require the use of an alpha coefficient to reflect the effects of COVID-19 insofar as such effects, where they are persistent, should already be reflected in the main parameters (rf, beta).

As at 30 June 2020, the book value of the CGU corresponds to the recognised net equity; in particular, it corresponds to the net equity value in the consolidated interim report at 30 June 2020, i.e. EUR 563.2 million (compared with EUR 544.5 million in the consolidated financial statements at 31 December 2019).

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 for the purposes of the consolidated interim report 30 June 2020 was necessary.

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.

Development of sensitivity analysis assuming changes in the g and Ke factors both individually and combined, construction of a matrix of "reliable" values, selection of information developed in line with exercise carried out for impairment test purposes on the 2019 financial statements. The table shows the percentage change in the value in use for the "selected value" upon changes in the assumptions used:

		Ke				
g		-0.50%	-0.25%	9.94%	+0.25%	+0.50%
	- 0.25%	+ 4.2%	+ 0.7%	- 2.7%	- 5.9%	- 9.0%
	0%	+ 6.2%	+ 2.5%	Selected value	- 4.3%	- 7.4%
	+ 0.25%	+ 8.3%	+ 4.4%	+ 0.8%	- 2.6%	- 5.9%

None of the g and Ke change scenarios considered for the purpose of the sensitivity analysis displayed in the table above shows a change in value in use that might bring about a potential *impairment loss*.

Also for *stress test* purposes, analysis was carried out to reveal the limit of the value in use in a *stress* scenario of 20% of the cash flow used as an input to determine the *terminal value*. Even in this extreme scenario (-20% / g = 0) there was no potential *impairment loss.*

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

11.1 Advance tax assets: breakdown

Main deductible temporary differences: IRES	30/06/2020	31/12/2019
Depreciation of loans and receivables with customers	1,573	1,622
Tax losses	18,634	23,692
ACE	4,442	3,429
Write-down of HTCS securities	1,808	108
Goodwill	5,952	-
Others	2,569	2,477
Total	**34,978**	**31,328**

Main deductible temporary differences: IRAP	30/06/2020	31/12/2019
Depreciation of loans and receivables with customers	194	200
Write-down of HTCS securities	366	22
Goodwill	1,206	-
Others	323	384
Total	**2,089**	**606**

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

In support of the reasonable certainty of the future recovery of the prepaid tax assets that justifies their recognition in the financial statements pursuant to IAS 12, also in light of the profit for the period, Management found no trigger events such as to vitiate the ability to recover deductible temporary differences and tax losses accrued at the reporting date using future taxable income.

11.2 Deferred tax liabilities: breakdown

Main taxable temporary differences: IRES	30/06/2020	31/12/2019
Gains by instalments	-	-
Revaluation of HTCS securities	10	488
Others	746	119
Total	**756**	**607**

Main taxable temporary differences: IRAP	30/06/2020	31/12/2019
Revaluation of HTCS securities	2	99
Others	128	11
Total	**130**	**110**

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

11.8 Other information

Current taxes for the 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.

Type of operations/Values	30/06/2020	31/12/2019
Advances paid to tax authority	1,784	4,237
Withholding taxes	193	193
Other receivables from the Treasury	456	697
Total	**2,433**	**5,127**

Current fiscal liabilities: breakdown

Main taxable temporary differences: IRAP	30/06/2020	31/12/2019
Balance for the previous year		-
Provision for taxes	2,301	53
Withdrawals to pay taxes		-
Other changes		-
Total	**2,301**	**53**

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 30/06/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**185,210**	**X**	**X**	**X**	**52,409**	**X**	**X**	**X**
2. Amounts due to banks	**397,760**	**X**	**X**	**X**	**324,338**	**X**	**X**	**X**
2.1 Current accounts and on demand deposits	5	X	X	X	5	X	X	X
2.2 Time deposits	10,559	X	X	X	25,556	X	X	X
2.3 Loans	370,642	X	X	X	283,091	X	X	X
2.3.1 Repurchase agreements - payable	365,412	X	X	X	279,091	X	X	X
2.3.2 Others	5,230	X	X	X	4,000	X	X	X
2.4 Debts for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	16,554	X	X	X	15,686	X	X	X
Total	**582,970**	**-**	**-**	**582,970**	**376,747**	**-**	**-**	**376,747**

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

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

Type of operations/Values	Total 30/06/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	398,028	X	X	X	391,011	X	X	X
2. Time deposits	1,501,542	X	X	X	1,384,394	X	X	X
3. Loans	11,224	X	X	X	149,625	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	11,224	X	X	X	149,625	X	X	X
4. Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X	-	X	X	X
5. Payables for leasing	22,726	X	X	X	21,690	X	X	X
6. Other payables	2,202	X	X	X	38,425	X	X	X
Total	**1,935,722**	**-**	**-**	**1,964,731**	**1,985,145**	**-**	**-**	**1,889,509**

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

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

Type of securities/Values	Total 30/06/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	2,254	-	2,240	-	15,358	-	15,381	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	2,254	-	2,240	-	15,358	-	15,381	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**2,254**	**-**	**2,240**	**-**	**15,358**	**-**	**15,381**	**-**

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

Section 10 – Allowances for risks and charges – Item 100

10.1 Provisions for risks and charges: composition

Items/Components	Total 30/06/2020	Total 31/12/2019
1. Allowances for credit risk relating to commitments and financial guarantees given	326	598
2. Allowances for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	4	-
4. Other allowances for risks and charges	1,063	484
4.1 legal and tax disputes	81	70
4.2. Personnel cost	581	295
4.3 others	401	119
Total	**1,393**	**1,082**

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 30/06/2020	Total 30/06/2019
1. Financial assets measured at fair value through profit or loss:	**-**	**-**	**-**	**-**	**-**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured fair value measurement	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	**1,257**	**-**	**X**	**1,257**	**749**
3. Financial assets measured at amortised cost:	**8,859**	**55,032**	**X**	**63,891**	**17,592**
3.1 Due from banks	-	331	X	331	161
3.2 Loans to customers	8,859	54,701	X	63,560	17,431
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**8**	**8**	**170**
6. Financial liabilities	**X**	**X**	**X**	**117**	**126**
Total	**10,116**	**55,032**	**8**	**65,273**	**18,637**
of which: interest income on impaired assets	3,066	44,745	-	47,811	9,785
of which: interest income on finance leasing	-	-	-	-	170

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debt	Securities	Other transactions	Total 30/06/2020	Total 30/06/2019
1. Financial liabilities measured at amortised cost	**(18,830)**	**(99)**	**X**	**(18,929)**	**(2,481)**
1.1 Amounts due to central banks	(9)	X	X	(9)	(17)
1.2 Amounts due to banks	(3,343)	X	X	(3,343)	(549)
1.3 Amounts due to customers	(15,478)	X	X	(15,478)	(1,558)
1.4. Securities issued	X	(99)	X	(99)	(357)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**(11)**	**(11)**	**(1)**
5. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
6. Financial assets	**X**	**X**	**X**	**(1,008)**	**(33)**
Total	**(18,830)**	**(99)**	**(11)**	**(19,948)**	**(2,515)**
of which: interest expense relative to leasing liabilities	(796)	-	-	(796)	527

Section 2 - Commission - items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 30/06/2020	Total 30/06/2019
a) guarantees given	29	154
b) credit derivatives	-	-
c) management, brokerage and advisory services:	281	124
1. securities trading	-	-
2. currency trading	12	3
3. portfolio management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	1	2
5. custodian bank	-	-
6. placement of securities	5	107
7. reception and transmission of orders	-	12
8. advisory services	-	-
8.1. related to investments	-	-
8.2. related to financial structure	-	-
9. distribution of third party services	263	-
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	256	-
9.3. other products	7	-
d) collection and payment services	94	279
e) services for securitisation transactions	-	-
f) services for factoring transactions	784	2
g) tax collection and treasury services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	160	832
j) other services	5,248	2,719
Total	**6,596**	**4,110**

2.2 Fee and commission expense: breakdown

Service/Amount	Total 30/06/2020	Total 30/06/2019
a) guarantees received	-	(7)
b) credit derivatives	-	-
c) management and brokerage services:	(66)	(29)
1. trading in financial instruments	-	(2)
2. currency trading	-	-
3. portfolio management:	-	-
3.1. proprietary	-	-
3.2. delegated to third parties	-	-
4. custody and administration of securities	(66)	(27)
5. placement of financial instruments	-	-
6. off-site distribution of financial instruments, products and services	-	-
d) collection and payment services	(426)	(1,321)
e) other services	(1,478)	(208)
Total	**(1,970)**	**(1,565)**

Section 4 - Profits (losses) on trading - item 80

4.1 Profits (losses) on trading: breakdown

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	**-**	**-**	**(12)**	**(577)**	**(589)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 Units of UCIs	-	-	(12)	(577)	(589)
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: exchange differences	**X**	**X**	**X**	**X**	**58**
4. Derivatives	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
- On debt securities and interest rates	-	-	-	-	-
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	-
Total	**-**	**-**	**(12)**	**(577)**	**(531)**

Section 6 - Profits (losses) on disposals/repurchases – item 100

6.1 Profits (Losses) on disposals/repurchases: breakdown

Item/Income item	Total 30/06/2020			Total 30/06/2019		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortised cost	-	-	-	369	(1)	368
1.1 Due from Banks	-	-	-	-	-	-
1.2 Loans to customers	-	-	-	369	(1)	368
2. Financial assets measured at fair value through other comprehensive income	6,185	(765)	5,420	1,020	(84)	936
2.1 Debt securities	6,185	(765)	5,420	1,020	(84)	936
2.2 Loans	-	-	-	-	-	-
Total assets (A)	6,185	(765)	5,420	1,389	(85)	1,304
Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Amounts due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	-	(1)	(1)	-	-	-
Total liabilities (B)	**-**	**(1)**	**(1)**	**-**	**-**	**-**

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

8.1 Net write-downs for credit risk relating to financial assets measured at amortised cost: breakdown

Transaction/Income item	Write-downs (1)			Write-backs (2)		Total 30/06/2020	Total 30/06/2019
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Due from banks	**(133)**	**-**	**-**	**252**	**-**	**119**	**(42)**
- Loans	(133)	-	-	252	-	119	(42)
- Debt securities	-	-	-	-	-	-	-
of which: purchased or originated credit impaired	-	-	-	-	-	-	-
B. Loans to customers	**(3,695)**	**(54)**	**(29,493)**	**274**	**53,288**	**20,320**	**(2,615)**
- Loans	(3,276)	(54)	(29,472)	274	53,288	20,760	(2,372)
- Debt securities	(419)	-	(21)	-	-	(440)	(243)
of which: purchased or originated credit impaired	-	-	(26,927)	-	51,292	24,365	1,414
Total	**(3,828)**	**(54)**	**(29,493)**	**526**	**53,288**	**20,439**	**(2,657)**

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

Transaction/Income items	Write-downs (1)			Write-backs (2)		Total 30/06/2020	Total 30/06/2019
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A.Debt securities	(736)	-	-	383	-	(353)	(76)
B. Loans	-	-	-	-	-	-	-
- With customers	-	-	-	-	-	-	-
- With banks	-	-	-	-	-	-	-
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
Total	**(736)**	**-**	**-**	**383**	**-**	**(353)**	**(76)**

Section 12 - Administrative expenses- item 190

12.1 Personnel expenses: breakdown

Type of expense/Amount	Total 30/06/2020	Total 30/06/2019
1) Employees	(22,710)	(13,768)
a) wages and salaries	(13,850)	(7,999)
b) social security contributions	(3,803)	(2,461)
c) provision for employee severance pay	-	-
d) pension costs	(338)	-
e) allocation for employee severance pay provision	(493)	(154)
f) provision for retirements and similar provisions:	(332)	(269)
- defined contribution	(332)	(269)
- defined benefits	-	-
g) payments to external complementary pension funds	-	-
- defined contribution	-	-
- defined benefits	-	-
h) costs related to share-based payments	(114)	-
i) other employee benefits	(3,780)	(2,885)
2) Other personnel in service	(807)	(203)
3) Directors and statutory auditors	(978)	(666)
4) Early retirement costs	-	-
Total	**(24,495)**	**(14,637)**

12.5 Other administrative expenses: breakdown

Items/Technical forms	30/06/2020
Rental of premises	(201)
Insurance	(687)
Various payments	(3,445)
Various consulting services	(7,556)
Membership fees	(149)
DGS, SRF contribution and voluntary scheme	(227)
Cost of services	(2,845)
Financial information	(476)
Adverts and advertising	(1,503)
Recoveries of expenses	(287)
Financial statement audit	(310)
Maintenance and repair costs	(194)
Business expenses	(13)
IT and software expenses	(5,340)
Legal and notary's fees	(3,549)
Postal and stationery expenses	(215)
Utilities and services	(985)
Other indirect taxes and duties	(1,083)
Others	(822)
Total other administrative expenses	**(29,600)**
Total 30/06/2019	**(22,161)**

Section 14 – Net write-downs/write-backs on property and equipment - Item 210

14.1. Net value adjustments to property and equipment: breakdown

Asset/Income items	Amortisation (a)	Value adjustments for impairment (b)	Value write-backs (c)	Net profit/ loss (a + b - c)
A. Property and equipment				
1 For business use	(1,323)	-	-	(1,323)
- Owned	(258)	-	-	(258)
- Rights of use acquired through leasing	(1,065)	-	-	(1,065)
2 Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through leasing	-	-	-	-
3 Inventories	X	-	-	-
Total	**(1,323)**	**-**	**-**	**(1,323)**

Section 15 - Net write-downs /write-backs on intangible assets – Item 220

15.1 Net write-downs/write-backs on intangible assets: composition

Asset/Income item	Amortisation (a)	Value adjustments for impairment (b)	Value write-backs (c)	Net profit/ loss (a + b - c)
A. Intangible assets				
A.1 Owned	(2,537)	-	-	(2,537)
- Generated internally by the company	(58)	-	-	(58)
- Other	(2,479)	-	-	(2,479)
A.2 Lease rights of use	-	-	-	-
Total	**(2,537)**	**-**	**-**	**(2,537)**

Section 21 - Income taxes for the period on continuing operations - Item 300

At 30 June 2020, income taxes for the period on continuing operations stood at EUR 2.4 million.

During the half-year, pursuant to Article 15, paragraph 10, of Italian Decree Law no. 185/2008, the goodwill of EUR 21.6 million resulting from the merger by incorporation of SPAXS into Banca Interprovinciale was redeemed. Specifically, the substitute tax of EUR 3.5 million, corresponding to 16% of the higher goodwill values recorded in the financial statements, was paid. At the same time as the substitute tax was paid and recognised in the financial statements, prepaid taxes (corporate income tax and regional production tax - IRES and IRAP) of EUR 7.2 million were recognised, generating a net tax benefit of EUR 3.7 million. These prepaid taxes will be released in five annual instalments of EUR 1.4 million between 2021 and 2025, simultaneously with lower current taxes.

21.2 Reconciliation of theoretical tax charge to actual tax charge

The theoretical tax charge was 33.07% (27.5% ordinary and additional IRES and 5.57% IRAP). The effective tax rate in the first half of 2020 was 13.69%. The tax rate used reflects the positive effects of the redemption for tax purposes of the goodwill recognised following SPAXS' merger into Banca Interprovinciale and the reintroduction of rules on the economic growth scheme (ACE).

Section 25 - Earnings (loss) per share

25.1 Average number of ordinary shares with diluted capital

Basic and diluted earnings per share	Profit/ (Loss) for the period (in thousands of euros)	Average number of shares	Earnings (loss) per share
Period ended 30 June 2020	14,838	65,311,441	0.23
Period ended 30 June 2019	(11,358)	59,404,414	(0.19)

25.2 Other information

There is no other information as of the reporting date.

PART E - INFORMATION ON RISKS AND HEDGING POLICIES

Risk Management Process and Internal Control System

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

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

The Board of Directors of the Parent Company plays a fundamental role in risk control. It sets the strategic guidelines, approves the risk management policies and assesses the level of efficiency and adequacy of the Internal Control System. The Board of Directors relies on the Risks Committee and the Management Committee to carry out the preparatory and advisory work relating to internal control and the monitoring of business risks. In collaboration with the Managing Director, it oversees the implementation of strategic guidelines, the 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 Italian Legislative Decree no. 231/01 is the body, identified by the Group in the Board of Statutory Auditors as being responsible for supervising the operation and compliance with the Organisation, Management and Control Model that the Group has adopted and, precisely, verifying the efficiency, effectiveness, as well as the adequacy of the model itself with respect to the prevention of the commission of the crimes provided for by the decree itself.

The 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 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 contribute to the efficient and effective function of the Risk Management Process with regard to all existing or potential risks, in accordance with regulatory requirements, the Group has implemented a system of risk limits and objectives (RAF), the process of self-assessment of the adequate capital (so called ICAAP), a process for the self-assessment of the liquidity profile (so-called ILAAP) and a process for the ex ante assessment of Major Transactions (OMR), with a prior opinion on their 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 Third pillar of Basel 2 – “Pillar 3”), a separate report in addition to the information given in this financial report. The report is published in accordance with the rules laid down by the Bank of Italy on its website at www.illlimity.com (Investor Relations section).

The Group has defined 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.

Specific information regarding the risk profiles indicated below, and the related management, control and hedging policies implemented by the Group is as follows:

- 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 exposures granted to subjects in conflict of interest pursuant to Article 2391 of the Italian Civil Code, bankruptcy proceedings, as well as stricter limits than the regulations for the individual borrower or connected group.

SECTION 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, utilisation, overrun/availability of credit and 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*, *Turnaround*, *Factoring* and *Business Operations & Credit Support* Areas for exposures stemming from ex Banca Interprovinciale), which have direct contact with the market and adequate knowledge of the customer in question. The control of the loan performance, which is overseen by individual Areas and centrally by the *Business Operations & Credit Support* Area of the Division, is intended to control the management of positions that show irregularities, even if of minor importance. The Division uses a computerised procedure that uses specific parameters and indicators to identify accounts that have various irregularities (by identifying overruns and past, adverse entries, CPC - *Credit Position*

Control, reports from the Central risks register, deterioration in the internal rating, forborne exposures, and any reported financial difficulties, etc.).

The *Organic NPE & Credit Monitoring* 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. *Non-performing* loans are evaluated in detail, for each position, at the time of inclusion among impaired loans, to ensure adequate levels of coverage of expected losses.

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

The *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-backs deduced from the trend in receipts and from the ordinary portfolio management activities. The updating of the *business plan* covers both the estimated receipt times and the estimated cash flows based on the type of *collateral*available, and the recovery measures currently in progress.

During the first half of 2020, the Group completed the acquisition of IT Auction S.r.l., 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 *servicing* process. The activity carried out by this company is instrumental to the illimity Group both to improve NPL recovery performance, increasing the effectiveness of the disposals of capital and/or real estate assets to guarantee NPLs, 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).

Quantitative information

A. Credit quality

A.1.4 Prudential consolidation – On-balance sheet 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
	Non-performing	Performing		
A. On-Balance-sheet exposures				
a) bad loans	-	X	-	-
b) Unlikely-to-pay exposures	-	X	-	-
c) Past-due non-performing exposures	-	X	-	-
d) Past due performing exposures	-	224	1	223
e) Other performing exposures	-	603,150	309	602,841
Total (A)	**-**	**603,374**	**310**	**603,064**
B. Off-Balance Sheet exposures				
a) Non-performing	-	-	-	-
b) Performing	X	-	-	-
Total (B)	**-**	**-**	**-**	**-**
Total (A+B)	**-**	**603,374**	**310**	**603,064**

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 adjustments/ recoveries and total provisions	Net exposure
	Non-performing	Performing		
A. On-Balance-sheet exposures				
a) bad loans	608,752	X	12,503	596,249
b) Unlikely-to-pay exposures	270,771	X	5,593	265,178
c) Past-due non-performing exposures	4,310	X	329	3,981
d) Past due performing exposures	X	156,550	502	156,048
e) Other performing exposures	X	1,086,333	9,375	1,076,958
Total (A)	**883,833**	**1,242,883**	**28,302**	**2,098,414**
B. Off-Balance Sheet exposures				
a) non-performing	27,972	X	3	27,969
b) performing	X	89,044	323	88,721
Total (B)	**27,972**	**89,044**	**326**	**116,690**
Total (A+B)	**911,805**	**1,331,927**	**28,628**	**2,215,104**

1.2 Market risk

Qualitative information

General aspects

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

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

The measurement 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. VAR measures are used together with other indicators such as *sensitivities* and greeks, as well as position measures, that form the basis of level two and *early warning*limits.

1.3 – Interest rate risk (banking book)

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

Qualitative information

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*).

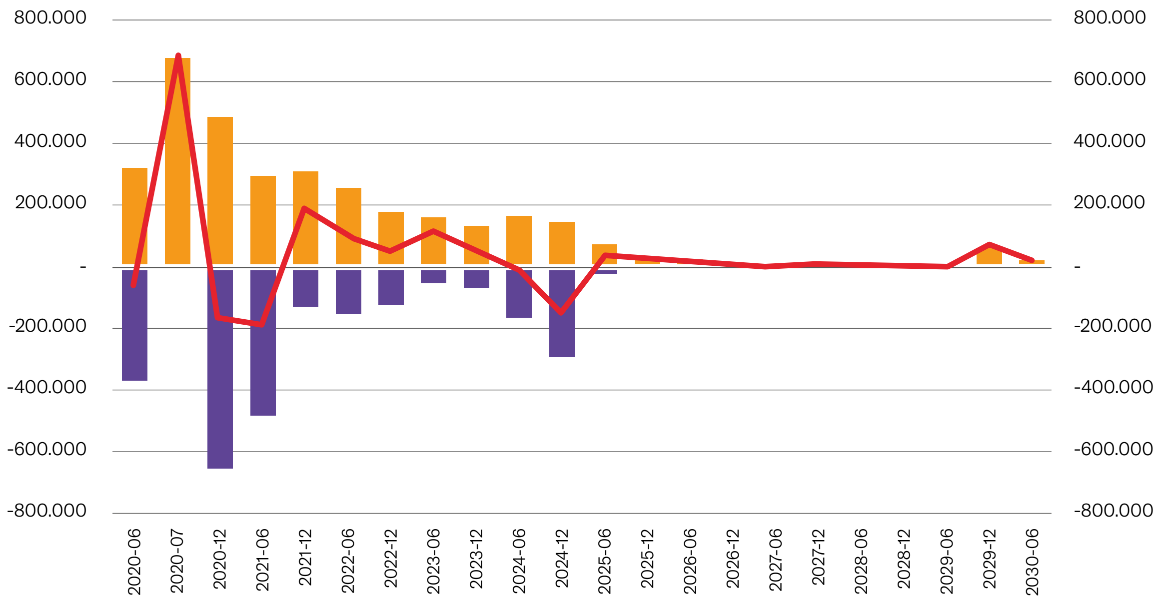
Interest rate risk management is intended to limit the impact of adverse changes to the rates curve, both in financial terms and in terms of the cash flow generated by the balance sheet items, and is achieved primarily through the indexing of assets and liabilities to money market benchmarks, typically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

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 shift 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 as of 30 June 2020, based on which the exposure to the interest rate risk was estimated.

(in thousands of euro)



On the reporting date, the measurements indicated a decrease in the value of equity equal to approximately EUR 35 million in relation to a parallel shock of the interest rates curve of 200 basis points; banking book exposure to interest rate risk is, therefore, marginal in terms of the ratio compared to the value of own funds, amounting to a minor level of approximately 7.6%.

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 +100 bps, the change in the margin would amount to approximately EUR 5.4 million, while in the negative shock scenario of -100 bps with the restriction of non-negativity, the estimated change would be nil.

1.4 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 departments 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 flows and the counterbalancing capacity for each time band quantifies the liquidity risk, evaluated in different stress scenarios.

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

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

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

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

The monitoring of structural balance is also pursued through the daily measurement and monitoring of the *Net Stable Funding Ratio* (NSFR) structural requirement, which 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.

1.5 Operational risks

Qualitative information

Operational risk is the risk of incurring losses due to inadequate or malfunctioning procedures, human resources or internal systems, or due to exogenous events. The definition of operational risk 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.

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, contractual non-fulfilment, 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, natural disasters and other external events.

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; such a loss is defined as all the adverse economic effects resulting from operations, recorded on the company's accounts, and impacting the income statement.

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 the 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, firstly, insurance policies that offer broad coverage against various types of adverse event. In this regard, the Group has taken out 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 non-performing loans, risk of disregard for advanced electronic signatures and graphometrics), which are subject to continuous assessment and adjustment also due to the progressive operational and structural evolution of the Group.

The management of critical information technology risks include the *disaster recovery* plan, which sets out the technical and organisational measures necessary to deal with events that would cause the unavailability of the IT systems and structures. The aim of the plan is to enable the functioning of key IT procedures at alternative sites to those of production, and forms an integral part of the business continuity plan, and ensures the 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.

Proper management of operational risk is also based on certain key processes: the collection of operational loss data (*Loss Data Collection*, hereinafter LDC) and the prospective self-assessment of operational risk exposure (*Risk Self Assessment*, or RSA).

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 to every unit of the Banking Group, also involving the subsidiaries for which illimity carries out risk management activities as *an outsourcer*. The Loss Data Collection is a significant step towards integrating the IT and operating risk control systems of the Group’s related companies (Neprix and IT Auction, and in future illimity SGR) into the single risk management of the Parent Company.

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.

As mentioned earlier, in the first half of 2020 the operational risk data collection process benefited from the active contribution of the Parent Company and the subsidiaries Neprix and IT Auction.

Operating loss data for the first half of the year show that losses have been considerably affected by the economic impacts of the recent spread of COVID-19, which particularly concerned the Bank's core NPL portfolio management business.

This event, which by its external and not directly controllable nature is classed as an operational risk (ET5 ‘Damage from external events’), brought about a change to the expected collection schedule for the Bank’s portfolios owing to the suspension of court activity, leading to either spot write-downs of individual loans or prudential collective write-downs. These losses account for the biggest share of the total losses recorded during the period under review.

However, during the same period there were no operational losses relating to internal (ET1) and external (ET2) fraud, or to employment practices and workplace safety (ET3).

PART F -INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated shareholders' equity

A - Qualitative information

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	44,007	-	-	-	44,007
2. Share premium reserve	487,373	-	-	-	487,373
3. Reserves	21,237	-	-	-	21,237
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(96)	-	-	-	(96)
6. Valuation reserves:	(4,199)	-	-	-	(4,199)
- Equities measured at fair value through other comprehensive income:	5	-	-	-	5
– Hedging of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	(4,015)	-	-	-	(4,015)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging of foreign investments	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
– Hedging instruments [not designated 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	(189)	-	-	-	(189)
– 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	14,838	-	-	-	14,838
Total	**563,160**	**-**	**-**	**-**	**563,160**

Section 2 – Own funds and regulatory ratios

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

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

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

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

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

Capital ratios	30/06/2020	31/12/2019
Common Equity Tier 1 (CET1) capital	**466,236**	**461,699**
Additional Tier 1 (AT1) capital		**-**
Tier 2 (T2) capital		**-**
Total own funds	**466,236**	**461,699**
Credit risk	199,239	168,492
Credit valuation adjustment risk		-
Settlement risks		-
Market risks	146	65
Operational risk	442	4,442
Other calculation factors		-
Total minimum requirements	**203,827**	**172,999**
Risk-weighted assets	**2,547,837**	**2,162,485**
Common Equity Tier 1 ratio	**18.30%**	**21.35%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**18.30%**	**21.35%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**18.30%**	**21.35%**
(Total own funds/Risk-weighted assets)		

as of 30 June 2020 the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds, since it is awaiting receipt of authorisation to include it in Common Equity Tier 1 capital from the national and supranational authorities. If special shares had been included in CET1 capital, the CET1 ratio would have been 18.86%.

PART G – BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

Section 1 - Transactions completed during the year

Description of the transaction

Following the agreements reached during 2019, the acquisition by illimity of 70% of the share capital of IT Auction, for EUR 10.5 million, by Neprix, an illimity Group company in which all the bank's *distressed* credit management activities are concentrated, was completed on 9 January 2020. On 5 March 2020, illimity's Board of Directors therefore approved an extraordinary transaction to acquire the remaining 30% of the company through Core. On 27 May 2020, illimity announced that on said date it had entered into an assignment agreement concerning the purchase of the entire share capital of Core; this brought about the consolidation of Core and the purchase of 100% of the equity interest in IT Auction and its subsidiaries.

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. More information about the reasons for the transaction can be found in the Report on Operations ("*Significant events in the first half of 2020*").

As required by IFRS 3 disclosure B64, the individual subsidiaries contributed to the revenues and the income on the Group's combined financial statements, from the acquisition date until the reporting date of 30 June 2020, in the following way:

- Core: Net interest and other banking income EUR 0; Loss for the period EUR 2 thousand;
- IT Auction: Net interest and other banking income EUR 2,067 thousand; Loss for the period EUR 1,396 thousand;
- ITA Gestioni: Net interest and other banking income EUR 534 thousand; Profit for the period EUR 271.7 thousand;
- Mado: Net interest and other banking income EUR 1,104 thousand; Profit for the period EUR 39.6 thousand.

Accounting of the transaction

Information on the allocation process (according to IFRS 3, paragraph 45) for the acquisition cost of the equity interest in IT Auction and the accounting treatment of the resulting goodwill in the illimity Bank Group's consolidated interim financial report as at 30 June 2020 is provided below. It should be noted that illimity used the full goodwill method to determine goodwill.

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

On the basis of an analysis of the acquisition contract and IT Auction's business model, configuration and operational structure, total intangible assets not recognised in the acquisition situation of EUR 2.0 million were identified, attributable to contracts in force, the *backlog* and *software*. Taking into account the fact that after the purchase price allocation process no potential liabilities were identified, goodwill was recognised in the amount of EUR 14.6 million. Further information about the accounting policies used can be found in Part A - Section 5 – Other Aspects - 5.1 – Accounting standards of reference for the accounting treatment of the *Purchase Price Allocation* (PPA) for the acquisition of IT Auction and its subsidiaries.

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

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

Section 2 – Transactions after the closing of the period

There were no business combinations after the end of the first half of 2020.

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 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.

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 the first half of 2020, 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 no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This legislation therefore supplements the provisions of the CONSOB Regulation, which is also being updated by CONSOB.

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 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 the reporting date) could give rise to doubts about the fairness or completeness of the information about the financial report, 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 pertaining to the financial year to directors, statutory auditors and other directors with strategic responsibilities is EUR 3,337 thousand.

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 thousands of euros:

TOTAL a + b + c + d	**3,337**
a) short term benefits to employees	2,259
b) post-employment benefits	81
c) share-based payments	101
d) compensation of members of the Board of Directors and the Board of Statutory Auditors	896

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.

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

Under the terms of CONSOB Communication no. 6064293 of 28 July 2006, the effects on the consolidated interim financial report, 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**	**1,905,882**	**218**	**0.01%**
	To parties subject to significant influence			
	To directors with strategic responsibilities		218	
	To other related parties			
Liabilities		**Book value**	**of which with related parties**	**Impact of related parties**
10. b)	**Amounts due to customers**	**1,935,722**	**1,894**	**0.10%**
	To parties subject to significant influence			
	To directors with strategic responsibilities		1,894	
	To other related parties			
80.	**Other Liabilities**	**146,995**	**525**	**0.36%**
	To parties subject to significant influence			
	To directors with strategic responsibilities		525	
	To other related parties			
90.	**Employee severance pay**	**2,175**	**108**	**4.99%**
	To parties subject to significant influence			
	To directors with strategic responsibilities		108	
	To other related parties			

INCOME STATEMENT				
Assets		**Book value**	**of which with related parties**	**Impact of related parties**
160	**Administrative expenses:**	**(54,095)**	**(3,337)**	**6.17%**
	a) personnel expenses	*(24,495)*	*(3,337)*	*13.62%*
	b) other administrative expenses	*(29,600)*	-	

PART I – PAYMENT AGREEMENTS BASED ON OWN SHARES

Qualitative information

As to the variable component, the Bank's 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

Items/Number of options and exercise prices	30/06/2020			31/12/2019		
	Number of options	Average exercise prices	Average maturity	Number of options	Average exercise prices	Average maturity
A. Opening balances	**-**	**-**	-	**-**	**-**	-
B. Increases			X			X
B.1 New issues	1,606,506	7.17	30/04/2024	1,530,837	7.13	30/04/2024
B.2 Other changes			X			X
C. Decreases			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	**1,606,506**	**7.17**	30/04/2024	**1,530,837**	**7.13**	30/04/2024
E. Options exercised as at the end of the financial year	**-**	**-**	X	**-**	**-**	X

Other information

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

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

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

a) the reaching of so-called *gate* objectives linked to, among other things, the maintenance of certain capital and liquidity ratios, earnings, and the absence of any individual violations of laws or regulations;

b) the attainment of performance targets linked to, among other things, the profitability of the Bank and the maintenance of certain financial ratios (*Cost/Income Ratio, ROE* – ratio between net profits for the period and average net 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 named by 31 December 2020.

2. “Employee Stock Option Plan” (hereinafter also “ESOP”)

The ESOP provides for the free allocation of up to 700,000 Ordinary Shares, which will be issued in execution of the decision article 2443 of the Italian Civil Code for the free increase of share capital, Article 2349, paragraph1, of the Italian Civil Code up to a maximum of EUR 498,890, authorised by the Meeting on 18 January 2019. The Ordinary Shares will be allocated in five annual cycles.

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

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

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

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

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

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

Each allocation is related to performance conditions relative to the financial statements of the previous year being attained at the allocation date. Therefore, each annual 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.

A total of 147,327 shares were allocated during 2020 with a combined value of EUR 903.9 thousand.

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

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

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

Certification and other reports

at 30 June 2020

CERTIFICATE OF THE CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-*BIS* OF ITALIAN 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 Italian Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in relation to the characteristics of the enterprise and
   - the effective application of the administrative and accounting procedures used to prepare the consolidated interim financial report, during the first half of 2020.
2. The adequacy of the administrative and accounting procedures used in the formation of the consolidated interim financial report at 30 June 2020 is checked according to an internal model which refers to the principles of the "Internal Control - Integrated Framework" (CoSO) and the "Control Objective for IT and related Technologies" (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.
3. We can also certify that:

   3.1 the consolidated interim financial report:

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

   b) is consistent with the entries in the accounting books and records;

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

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

Milan, 03 August 2020

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

REPORT ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

Report on review of condensed interim consolidated financial statements

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

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the illimity Bank Group, comprising the consolidated balance sheet as at 30 June 2020, the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended and notes thereto. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

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

illimity Bank Group
Report on review of condensed interim consolidated financial statements
30 June 2020

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the illimity Bank Group as at and for the six months ended 30 June 2020 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 6 August 2020

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

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	Values at 30/06/2020
Treasury portfolio - Securities at FV	**285,731**
Item 20. a) Financial assets held for trading	52
Item 30. Financial assets measured at fair value through other comprehensive income	285,679
Financial instruments mandatorily measured at fair value	**7,710**
Item 20. c) Other financial assets mandatorily measured at fair value	12,132
To be deducted:	
Loans mandatorily measured at fair value	*(4,422)*
Loans mandatorily measured at fair value	**4,422**
Item 20. c) Other financial assets mandatorily measured at fair value	12,132
To be deducted:	
Financial instruments mandatorily measured at fair value	*(7,710)*
Due from banks	**502,844**
Item 40. a) Due from banks	502,844
Loans to financial entities	**139,959**
Loans to financial entities	*139,959*
Loans to customers	**1,416,116**
Item 40. b) Loans to customers	1,905,882
To be deducted:	
Loans to financial entities	*(139,959)*
Loans to customers - Securities	*(349,807)*
Securities at amortised cost - SME	**64,116**
Item 40. b) Loans to customers	1,905,882
To be deducted:	
Loans to customers and to financial entities	*(1,556,075)*
Securities at amortised cost - Senior Financing	*(285,691)*
Securities at amortised cost - Senior Financing	**285,691**
Item 40. b) Loans to customers	1,905,882
To be deducted:	
Loans to customers and to financial entities	*(1,556,075)*
Securities at amortised cost - SME	*(64,116)*
Property and equipment and intangible assets	**133,946**
Item 90. Property and equipment	72,058
Item 100. Intangible assets	61,888
Tax assets	**39,500**
Item 110. Tax assets	39,500
Other assets	**357,821**
Item 10. Cash and cash equivalents	311,387
Item 130. Other assets	46,434
Total assets	**3,237,856**

Liability and equity items	Values at 30/06/2020
Amounts due to banks	**582,970**
Item 10. a) Due to banks	582,970
Amounts due to customers	**1,912,996**
Item 10. b) Due to customers	1,935,722
To be deducted:	
Lease Liability (IFRS 16)	*(22,726)*
Securities issued	**2,254**
Item 10. c) Securities issued	2,254
Tax liabilities	**3,187**
Item 60. Tax liabilities	3,187
Other liabilities	**173,289**
Item 80. Other Liabilities	146,995
Increase:	
Lease Liability (IFRS 16)	*22,726*
Item 90. Employee severance pay	2,175
Item 100. Allowances for risks and charges	1,393
Shareholders' equity	**563,160**
Capital and reserves	
Item 120. Valuation reserves	(4,199)
Item 150. Reserves	21,237
Item 160. Share premium reserves	487,373
Item 170. Share capital	44,007
Item 180. Treasury shares (-)	(96)
Item 200. Profit (loss) for the period	14,838
Total liabilities and shareholders' equity	**3,237,856**

Income Statement items	Values at 30/06/2020
Interest margin	**46,121**
Item 10. Interest income and similar income	65,273
Item 20. Interest expenses and similar charges	(19,948)
To be deducted:	
IFRS 16 interest expenses	*796*
Net fee and commission income	**4,626**
Item 40. Fee and commission income	6,596
Item 50. Fee and commission expense	(1,970)
Gains/losses on financial assets and liabilities	**3,668**
Item 80. Profits (losses) on trading	(531)
Item 100. Profits (losses) from disposal or repurchase	5,419
Item 110. Profits (loss) on other financial assets and liabilities measured at fair value through profit or loss	(1,220)
Net write-downs/write-backs on closed positions - HTC Clients	**17,046**
of which: Net write-downs/write-backs on closed positions - HTC Clients	*17,046*
Other operating expenses and income	**273**
Item 140. Profits (losses) on changes in contracts without derecognition	-
Item 230. Other operating income/expenses	1,438
To be deducted:	
Reclassification of recovery of other operating charges/income to Other administrative expenses	*(1,165)*
Item 280. Profits (losses) from disposal of investments	-
Total net operating income	**71,734**
Personnel costs	**(24,545)**
Item 190. Administrative expenses: a) Personnel expenses	(24,495)
To be deducted:	
Reclassification of HR expenses from other administrative expenses	*(50)*
Other administrative costs	**(29,181)**
Item 190. Administrative expenses: b) Other administrative expenses	(29,600)
Reclassification of IFRS 16 interest expenses	*(796)*
Reclassification of HR expenses to personnel expenses	*50*
Reclassification of recovery of other operating charges/income to Other administrative expenses	*1,165*
Net write-downs/write-backs on property and equipment and intangible assets	**(3,860)**
Item 210. Net write-downs/write-backs on property and equipment	(1,323)
Item 220. Net write-downs /write-backs on intangible assets	(2,537)
Operating costs	**(57,586)**
Operating profit (loss)	**14,148**
Net write-downs/write-backs for credit risk - HTC Banks	**119**
Net write-downs/write-backs for credit risk - HTC Other financial institutions	**(151)**

Income Statement items	Values at 30/06/2020
Net write-downs/write-backs for credit risk - HTC Clients	**3,425**
Item 130. Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost	20,439
To be deducted:	
Net write-downs/write-backs for credit risk - HTC Financial entities	*151*
Net write-downs/write-backs on closed positions - HTC Clients	*(17,046)*
Net write-downs/write-backs for credit risk - HTCS	**(353)**
Item 130. Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through other comprehensive income	(353)
Net write-downs/write-backs for commitments and guarantees	**4**
Item 200. Net provisions for risks and charges: a) commitments and guarantees given	4
Total net write-downs/write-backs	**3,044**
Other net provisions	**-**
Item 200. Net provisions for risks and charges: b) other net provisions	-
Profit (loss) from operations before taxes	**17,192**
Income taxes for the period on continuing operations	**(2,354)**
Item 300. Income taxes for the period on continuing operations	(2,354)
Profit (loss) (+/-) for the period	**14,838**

illimity Bank S.p.A.
Head office: Via Soperga, 9 - 20127 Milan
Share capital: EUR 45,503,237.77 (of which EUR 44,006,566.43 subscribed and paid in)

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Registered in the Register of Banks at no. 5710

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